

# PAY FOR SUCCESS AS A POLICY TOOL

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MAYOR BEN MCADAMS  
WITH JEREMY KEELE AND FRASER NELSON

As mayor of Salt Lake County, a job in which I represent the 1.1 million people who live in the Greater Salt Lake metro area, my job is to ask, What are we spending our money on? What is working for our residents—or not? What programs should be tweaked or stopped altogether? How can we do better? And how will we know if our efforts are working?

While Utah has one of the nation's booming economies, year after year Salt Lake County's budget is essentially flat. Without additional resources, using taxpayer dollars effectively and efficiently is not only ideal, it's a necessity. However, as is often the case, state and local governments are reactive—paying for things that often go wrong, such as our prisons and homeless shelters, which provide only limited treatment for people with criminogenic risk factors or behavioral health disorders. Treatment services are inadequately funded to ensure long-term benefits, and even though we know prevention can create savings for years into the future, we rarely invest adequately in the prevention side of the equation. But whether we are paying for a safety net or prevention, the county government has a difficult time justifying the time and cost of evaluating the value of those investments for the people we serve.

Government has a disincentive to understand the impact of its investments. I often wonder how qualified the county's elected leaders, with our diverse qualifica-

tions and backgrounds, are to assess the complex behavioral health programs we so often are asked to fund.<sup>1</sup> A grant application, a site visit, a public hearing—these are the usual ways the county determines how to deploy most of its discretionary dollars. Furthermore, once programs are funded, there is no political incentive to ask which had a measurable impact, as ending an ongoing program is very difficult.

The central challenge of our local government is to shape the future of the Salt Lake metro area in ways that we carefully choose. As mayor of Salt Lake County, the future I envision is one where our \$1 billion budget goes primarily to programs that deliver on their promises, where the partisan divide playing out on the national level contrasts starkly with the competence of our local government, where citizens can trust that federal, state, and local tax dollars are working for them, and that their government delivers on its promises—in short, a future where the government pays for success.

Here is an example. In the late 1980s, Salt Lake County sought to end the digital divide. We opened ten technology labs in low-income neighborhoods, which provided community access to computers. We hired staff to help residents learn how to use a computer, draft a resume, and apply for jobs online. Thirty years later, while a digital divide does remain, Utah's population is the nation's most Internet-connected, our libraries are full of computers, and the socioeconomic makeup of many neighborhoods has changed dramatically.

That is the good news. The bad is that, while four of the original technology labs remained when I took office, the classes were typically attracting just 3.3 people per class and the computers sat idle 76 percent of the time. It was clear that the \$273,000 it was taking to operate this outdated, underutilized program each year would be far better spent on more targeted efforts that were measurably effective. I had pledged to abandon projects that no longer met the needs of our residents, and

the labs seemed an obvious choice.

But cutting this program was not so easy. Rather than looking at the impact and context of the desired outcome of directing funds where the need and impact were greatest, we were swayed by a few passionate proponents of the labs (including lab staff), and by the fact that 500 of the country's one million residents still had active lab accounts. The outputs—a few people served—won over the impact, and the program continued through the fiscal year.

It is easy for government to make decisions based on the number of people served, rather than on the number of lives changed. The Great Recession exacerbated this bias. The solution to increased need is often an increase in funding, without first asking if the increased need may be due to the fact that the program is not effective. We often fail to articulate the results we want, much less how we will measure those results. In other words, we do not define the future we

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#### ABOUT THE AUTHORS

Ben McAdams is Mayor of Salt Lake County, Utah. Jeremy Keele is the CEO and President of Sorenson Impact. Fraser Nelson is the Managing Director of Sorenson Impact, and the former Director of Data and Innovation for Salt Lake County.

From conception to implementation, each author has played instrumental roles in advancing innovation in government. Mayor McAdams, in prioritizing data-driven policymaking, has implemented Pay for Success elements throughout Salt Lake County government. Jeremy Keele, who served as Senior Advisor to the Mayor building stakeholder coalitions and writing key enabling legislation, now serves as CEO and President of Sorenson Impact, a Pay for Success Intermediary. Fraser Nelson entered Salt Lake County government as the Mayor's Director of Data and Innovation—leading subsequent Pay for Success initiatives for the County—after Jeremy Keele's transition to Sorenson Impact; Fraser now serves as Managing Director of Strategic Partnerships for Sorenson Impact.

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choose, we respond to the future that is barreling toward us.

### **OUR FIRST PAY FOR SUCCESS INITIATIVE: HIGH-QUALITY EARLY EDUCATION**

In 2011, while serving on the board of the United Way of Salt Lake (UWSL), I learned about the joint research being conducted on innovative interventions to improve early childhood learning by UWSL, Voices for Utah Children, and the Granite School District to measure the impact high-quality preschool has on some of our county's most at-risk children. Previous studies had shown that these children were entering kindergarten with vocabularies that averaged 500-600 fewer words than their peers (Hart & Risley, 1995), which put them at a significant disadvantage socially and cognitively. As a result, they often were placed in remedial education programs. Data showed that, once on that track, these kids had virtually no chance of catching up and leaving special education. However, some national studies and the rigorous evaluation of the local preschool program confirmed the positive impact access to high-quality preschool could have for these at-risk kids, including giving them a chance to avoid a lifelong opportunity gap.

Meanwhile, the UWSL and Voices for Utah Children had developed a new way to fund innovative, high-impact preschool programs, which today are known as social impact bonds, or Pay for Success (PFS). The local or state government promised to use private resources in the form of loans or philanthropy to launch programs with clearly defined outcomes. The government agreed to repay the loans if and when the agreed upon outcomes were achieved.

Around the same time, an innovative educator in the Granite School District was changing the odds for vulnerable children. Brenda Van Gorder's high-quality preschool had been independently evaluated, by Dr. Mark Innocenti at the Utah State University, and the results were more than promising—they were proven. The UWSL estimated that more than 36 percent of the state's three- and four-year-olds needed what Brenda was delivering. However, the barriers to providing a program proven to have long-term social and financial benefits for these children, their families, and taxpayers were the same we encountered for so many issues. It boiled down to money and politics.

First, the money. UWSL had commitments from Chicago-based philanthropist and early education advocate J. B. Pritzker, Goldman Sachs, and local philanthropists to provide funding for the nation's first Pay for Success initiative to support early childhood education. These private partners had agreed to provide \$4.6 million in a senior loan and a subordinate loan of up to \$2.4 million to the UWSL. These funds allowed the school district to serve an additional cohort of 595 low-income three- and four-year-olds for the 2013-2014 school year. UWSL agreed to oversee the initiative and manage the repayment of these loans, with interest, should the program prove successful.

The success of the program was to be measured in a straightforward way: at the end of each school year, the children in the cohort deemed most at risk by independent experts would be enrolled in either remedial or mainstream classes. The Utah government would save \$2,607 every year for each child in the cohort who advanced with their peers on schedule. Because the state would benefit from each success, we were hopeful it would serve as the successful outcomes payor—paying back the loans to the original

investors. UWSL and other stakeholders approached the state legislature to support our Pay for Success proposal. What we know—and was confirmed through this process—is that government innovation is tough and challenging, but the results are often worth the effort, especially when we are able to bring different views into consensus.

Now, the politics. Although Utah is a red state, I was elected mayor of Salt Lake County as a Democrat and had recently retired as a state senator to assume my new duties. My Republican colleague Senator Aaron Osmond (yes, of the singing Osmond family) agreed to sponsor our Pay for Success legislation. As Senator Osmond explained, “We have to start talking about solving long-term problems with long-term solutions. We’re tying performance to the financing. We’re bringing the private industry to the table to support the expansion of these programs.”

But proposing that the state fund preschools created a controversy. One state senator characterized the program as allowing “parents to simply relinquish their responsibilities in raising their own children.” Our local conservative Eagle Forum president led the grassroots opposition, saying that “the solution is not to throw more money at government programs that don’t work. Instead we need to promote marriage and family. A better solution would be to stop giving low-income mothers handouts that encourage them to have more babies outside of marriage.”

The debate about this program was not only about children but about the financing model itself. Pay for Success was, in Senator Osmond’s words, “so innovative that many of my colleagues are confused by it.” And, indeed, some were. The complexity of the financing structure, the evaluation associated with making payments based on success, and using private

funds for a public purpose in the social sector was a hard sell. Some of my colleagues on the Democratic side of the aisle were uncomfortable with lenders being paid back with interest, arguing that the bill was making rich people richer on the backs of low-income children.

In the end the bill failed. However, the debate made it clear to me that bringing the rigor of the private sector to funding a social service would offer government a truly revolutionary way to invest in its programs. It would divorce both the program design and the decision about whether the program was successful from the politicians. I was determined to use Pay for Success to deliver evidence-based services to the people who need them most, and as a broader policy tool.

I proposed that Salt Lake County join with the UWSL donors who were ready to step in to the “pay for success” role originally proposed for the State of Utah. This meant that the county and donors would put up \$350,000 and \$1 million, respectively, for the first cohort of students. We did, and with great results. The preschool program enrolled 590 kids in the fall of 2013. Of the 110 four-year-olds independently predicted to have the highest risk of falling into a starkly measurable achievement gap and being placed in special education without intervention, only one actually needed special education services after one year in preschool.

Even more significantly, the county’s investment had tremendous influence on the political debate. In March 2014, the Utah state legislature passed the Utah School Readiness Initiative, led by the governor’s Office of Management and Budget, with support from the Utah Department of Workforce Services and Office of Education. This legislation established the school readiness board, which was committed to advancing early childhood education in a state with historic antipathy toward the idea of chil-

dren leaving the home before kindergarten. Most importantly, early support from J. B. Pritzker and the other investors allowed more than 3,000 children to receive early education over the course of the program. Last year Utah invested \$10 million directly in early childhood education—a true policy breakthrough. In fact, the state has not only begun to value investing in its youngest residents, it has expanded its Pay for Success vision to include a criminal justice pilot.

### **DRIVING POLICY IN SALT LAKE COUNTY: PFS PROJECTS FOR RECIDIVISM AND HOMELESSNESS**

Driving policy change using PFS programs requires engaging multiple stakeholders, and when I became mayor, I went all in for Pay for Success. Salt Lake County spent a full year working with Third Sector Capital Partners, a Boston-based intermediary, to identify areas where a strategic investment could yield the results we wanted. Three issues rose to the top: early maternal and child health, homelessness, and recidivism. We spent the next 18 months constructing two projects that launched in the winter of 2016. These two PFS projects are focused on addressing high rates of recidivism and the growing number of people experiencing homelessness. As with our early childhood initiative, we have found that resources and politics are the critical barriers.

**These Pay for Success transactions are incredibly complex.** They involve countless hours of research and debate, and making hard choices that involve many players. They cause us to ask tough questions about what we are doing and why. They expose flaws in our thinking, disrupt long-held assumptions, and can strain relationships. Because they take years to construct, implement, and evaluate, changes in policy may shift the foun-

dation on which a program is built, thus potentially changing the impact and economics of the project. Pay for Success is not for the faint of heart, but transformative work rarely is. Here is some of what we have learned so far.

**Pay for Success takes up-front resources.** It takes an investment of both time and money to understand the issues, data, and evidence underlying our current systems. We must establish clear, measurable outcomes and find consensus on how much we will pay to achieve them. Finally, we must work with myriad partners to design, evaluate, and fund the program, and it is important to balance the partners' interests as the projects are constructed. For example, the service providers (usually nonprofits) must propose interventions that have enough chance of success to attract lenders but are ambitious enough to meet the lofty expectations of elected officials. Before we even started, we raised \$1 million in outside capital, including grants through the national Social Innovation Fund, and appropriated an additional \$250,000 in county dollars into a development fund to support project construction. These funds only partly paid for the work of the intermediary, the evaluator, the "special purpose vehicle" created to hold the contracts made with providers and funders, and our legal counsel. We made small grants of \$25,000 each to our two chosen nonprofit service providers, The Road Home and First Step House, both of which had been receiving PFS capacity-building services from Sorenson Impact prior to their selection.

**Pay for Success takes time,** but the process of discovery it affords is well worth it. One of our analyses determined the relation between those incarcerated in our jails and those living in our shelters. County policy did not previously distinguish between individuals who were persistently homeless, those who were cycling in and out of our jails, and those

who were released from jail only to end up in a shelter or on the streets. We analyzed two years of individual data and made a rather startling (though in retrospect, obvious) discovery: our jail was serving as the region's largest homeless shelter, and our homeless shelter was providing many former inmates with permanent housing. These facts have driven policy to reform our county criminal justice and homeless services systems, independent of the PFS projects.

As we dove more deeply into the PFS project construction phase, we learned that a pattern of arrest for "homeless" infractions, such as public intoxication, was very high among people who had spent on average between 30 and 364 days in a shelter each year. These persistently homeless individuals had high arrest rates for DUI and drug possession, but just 5 percent had received a substance abuse assessment. Moreover, despite the known correlation between homelessness and mental health disorders, only 10 percent had received an assessment for mental health services. A retrospective analysis found that 42 percent of these persistently homeless individuals became chronically homeless within two years—a terrible outcome. They clearly needed a different approach, a realization that resulted in Homes Not Jail, a Pay for Success project that provides rapid rehousing and intensive support services.

Our analysis of the population that cycles in and out of our jails for more serious criminal charges was also revealing. While risk/need assessments take place at various points in the arrest, booking, and sentencing process, they are rarely considered when assigning individuals to probation programs. Probation programs primarily address behavioral disorders, are relatively short term, and place high-risk offenders in programs alongside lower risk individuals. Our data revealed that this high-risk/high-need population of offenders had been arrested on average

2.8 times in the course of four years and had spent nearly a year in jail. These individuals clearly needed a different approach, which led to the creation of Recovery, Engagement, Assessment, Career Development and Housing, or REACH, a comprehensive community-based treatment program specifically designed to meet the needs of high-risk offenders in Salt Lake County.

**Pay for Success needs partnerships.** Building these two new PFS projects required us to call on the good will and leadership of many community partners. The complex and highly confidential nature of the data analysis required data-sharing or referral agreements with the Utah Division of Workforce Services, the state Adult Probation and Parole Office, the county jail, the county's Criminal Justice Services and Behavioral Health departments, and the service providers, First Step House and The Road Home. Figuring out who could receive raw data and match individuals across systems and programs involved the cooperation of these partners, as well as hours of uncompensated work. Each PFS project has a steering committee of local experts who meet monthly, as well as a working committee comprised of our staff, the intermediary, the evaluators, and the non-profit providers, who met weekly for over a year. We estimate that 10,000 person-hours were put into these projects from conception to launch.

**Pay for Success needs a reliable source of repayment to attract lenders.** To avoid the risk that future elected officials might not honor the commitment to repay those who invested in our projects, the funds needed to make the "success payments" (in our case, \$11.5 million) were held in an escrow account set up solely for this purpose. In a time of flat budgets and a growing population, setting up an escrow account required the county to either reallocate funds or find an additional source of revenue. We proposed

that we continue the revenue that had been directed toward a bond debt service dating to construction of a county jail 20 years earlier. The bond was due to roll off in December 2015, and we were able to direct this revenue to capitalize our Pay for Success escrow incrementally over a three-year period, while also increasing funding for criminal justice programs.

The issue of the source of repayment illustrates that Pay for Success is a policy initiative and, as such, a political enterprise. It also is a great example of a policy with bipartisan appeal. As mayor, I proposed a budget to the county council, which has a 5-4 Republican majority. My Republican colleagues like this policy tool because it engages the private sector. My Democratic colleagues like the fact that it brings new resources to social issues. And, both like the fact that it requires clear outcomes and uses a rigorous evaluation to measure success. But these benefits, among others, did not guarantee smooth sailing.

Criminal justice reform has long been a priority of Salt Lake County. Over the past decade, the council, together with the sheriff, district attorney, and my predecessor, Mayor Peter Corroon, funded new tools for collecting and analyzing data, and to make decisions based on those data. We benefitted from assessments of our system by consultants, the Pew Charitable Trusts, and the Council of State Governments, and developed new programs, including a nationally recognized intercept model, to reduce incarceration. Despite these efforts, we still had an increasing crime rate and a stubborn recidivism rate. We were agreed that, in addition to implementing evidence-based interventions, we needed to set measurable outcomes and evaluate our efforts more rigorously. When the source of funding was identified for PFS, a policy debate ensued.

The influx of new revenue related to the

jail bond provided an opportunity to address other pressing unmet needs in the offices of the sheriff and district attorney, the behavioral health department, and the Salt Lake Legal Defenders Association, particularly staffing. I had also proposed a fourth PFS initiative designed to address the needs of high-risk mothers and their young children through home visits. However, although the impact of these programs on the long-term success of at-risk children is clear, the link between this very early intervention and later avoidance of the criminal justice system was too much of a stretch for a majority of our council members. It became clear that the council wanted the jail bond funds to be used only for programs related to criminal justice. The homelessness project came under fire as well, but because we had data that showed a direct overlap between the shelter and the jails, the council ultimately agreed to move forward on both the homelessness and recidivism reduction PFS programs.

The public also had several opportunities to voice their opinion. A county ordinance requires a study and public hearing to determine the value the county will receive for funds appropriated “in aid of a private enterprise project.” Because the PFS model requires the repayment of loans (plus interest) to private enterprises, the county needed to define the tangible and intangible benefits of this transaction in a public report. The 20-page report described expenditures saved, expenses forgone, and other “comforts or conveniences.” It also enabled us to describe to the public the benefits of the two programs, and to reach consensus on those benefits between the mayor and other elected officials.

A second opportunity for public input came during the budget hearing process. Although our residents had been paying the tax levy to fund the jail for decades and the proposal had bipartisan support, some characterized continuing the bond

debt service as a tax increase. This caught the attention of outside groups like Americans For Prosperity. For the first time in as long as anyone could remember, passage of the budget was delayed to allow sufficient debate on the PFS model, the two projects, and the retiring jail bond. In the end, county council members were resolute in their effort to continue to reform the county criminal justice system and to add PFS as a policy tool.

### **WHAT MAKES THE DIFFERENCE**

PFS is so compelling to me as a policy-maker that I was surprised by the intense debate about nearly every aspect of the project and the complexity of implementing a new model in government. From how to structure the procurement and develop a new kind of contract to negotiations with funders, PFS has been anything but easy, but a few early decisions made a clear difference in our ability to move past obstacles.

**Political will is key.** I am passionate about the promise of PFS to transform how we govern and to improve the outcomes we provide for residents and taxpayers alike. Recognizing this distinction is important, as not all residents are taxpayers: many of our residents are children, are of low-income households, do not yet hold U.S. citizenship—and I consider it a big part of my job to ensure that all voices are heard and respected.

I prioritized innovation in Salt Lake County government and focused on data and evidence to achieve better outcomes. Pay for Success is a tangible policy tool that requires us to deliver on this promise. The complexity and rigor of the Pay for Success program did test our resolve, but meaningful change requires leadership and commitment, and the potential benefits were simply too great to give up.

Of course, I do not spend all my time on PFS. A critical piece of our success is due to the dedication of the county's lead staff member, Fraser Nelson, my former director of data and innovation, and the critical services provided by our project manager, Sorenson Impact Center, and the intermediary, Third Sector Capital Partners, led by Jeremy Keele and John Grossman, respectively. Their staff members needed to think far outside the box, speak to potential funders and clients, work closely with nonprofits and philanthropists, and build complex economic models that they then translated for elected officials. They had to overcome dozens of hurdles, large and small, and be able to discern when an issue was significant enough to involve the mayor.

A key early decision was to procure the Community Foundation of Utah as the legal and financial intermediary for the effort. The foundation established the special purpose vehicle mentioned above that enables us to engage banks in lending without a potential pay-to-play conflict. The foundation also held a competitive request for proposal process, which led to the selection of the Sorenson Impact Center and the Utah Criminal Justice Center, both at the University of Utah, and the law firm of Dorsey & Whitney. Each partner plays a vital role in the dozen or more contracts that will steer the projects through the next six years.

The county's rigorous procurement process, which included outside experts as well as the district attorney and sheriff, assured the public and potential funders that our providers understood the complexity and transparent nature of the PFS model. Potential providers were required to submit a written application and conduct an interview. The resulting contracts covered just the project construction phase, so either side could back out if funders did not commit, the intervention was not what we wanted, outcomes were not significant enough, or the economic



model was not sustainable. This proved important when our proposed home-visiting Pay for Success program for at risk infants and their mothers had to be abandoned for lack of support from the county council.

As noted, the two providers selected for the program were The Road Home, a nationally recognized shelter and permanent supportive housing provider, and First Step House, a residential and outpatient treatment provider with a long history in our community. These organizations are taking a risk right along with us. Finding organizations so dedicated to the mission that they are able and willing to open themselves to close scrutiny and a most rigorous evaluation could set a high bar for performance, but that is the cornerstone of any PFS project.

Although I was initially unsure of the need for a randomized control trial (RCT), building a gold standard of evaluation into the projects has been beneficial. Our evaluation team, led by Dr. Rob Butters, analyzed reams of data from multiple state and county sources to identify the high-cost, high-need populations that could benefit from a new way of providing service. The RCT, which was designed (and redesigned) for both projects, provides policymakers, funders, and taxpayers with a critical, independent assessment, one that enables them to understand if and how the intervention delivers on outcomes and improves lives. While it was an additional expense, the RCT model created public and political support for both the interventions and the PFS model, and it has been key to attracting funders.

## **THE BENEFITS OF PFS**

Since launching these three PFS projects in the Salt Lake metro area, we have come to see the potential benefits of using this policy tool across the county.

PFS enables our nonprofit partners to access exceptional capacity-building resources. Paramount is the practical application of research in developing new models of care that target specific groups. Hours have been spent on the economic model, which helps in building multiyear budgets that allow the programs to scale, or to wind down if they are not successful. The fact that these partners and our experts, not politicians or bureaucrats, design programs to achieve the outcomes the government established has been liberating. We used to reward programs for their outputs (heads in beds, people in treatment, etc.), but now we are asking for independent proof of outcomes—a much scarier thing. The upside is that, rather than the uncertainty of raising money each year, the programs have our commitment for an annual appropriation based on what we both agree are the results they need to deliver. They no longer have to guess the amount they are likely to be awarded. Our providers are deeply dedicated to their mission and want to make a long-term difference. Pay for Success will let them know for certain that they are making a difference and enable them to share their success with other funders and the community. While these projects are risky, we are extremely grateful for our providers' willingness to participate in the rigor of an RCT and to stake their reputation on meeting ambitious outcomes.

PFS gives our funding partners an opportunity to invest in new programs that show promise and to know if those investments are providing the promised returns. The unique capacity-building, economic modeling, and evaluation built into the intervention enable philanthropists to leverage their giving tenfold, and if the programs they invest in are successful they can recover their funds to use for another philanthropic purpose. Our lending partners will be able to see their investment qualify as Community

## **Policy Benefits of Pay for Success**

Pay for Success has the potential to

- Measurably improve the lives of people most in need;
- Develop a more rigorous, outcomes-focused, and sustainable way to address social challenges in our communities;
- Support scaling of evidence-based practices by the public and nonprofit sectors; and
- Increase government accountability by directing resources and funding toward effective programs that actually improve lives.

Pay for Success helps provide

- Underserved individuals with the highest-quality supports they need to thrive;
- Social service organizations with the stability of up-front, flexible funding that enables them to scale and focus on delivering proven, outcomes-focused services;
- Governments with the flexibility to support preventive services that lead to reduced costs and better long-term outcomes;
- Taxpayers with the security of knowing that government resources are directed toward programs that produce demonstrated results for society; and
- Funders with the opportunity to put their capital to work in service of society.

Reinvestment Act credit or Program Related Investment. What we learn from these two projects will help frame other giving in the areas of homelessness and criminal justice.

Salt Lake County residents benefit from PFS because it allows government officials to identify programs that have been proven to effect the positive change we seek for our community, to increase our investment in those programs, and to stop programs that are not effective. Currently, 76 percent of the county's general fund resources are consumed by criminal and social justice services: the jail, the district attorney's operations, the Salt Lake Legal Defender Association, mental and substance abuse treatment programs, and providing emergency shelter to those who otherwise would live on the streets. We can now validate two innovative programs that we hope will reduce the ever-growing impact these services have on our budget. Taxpayers are well-served when their investments provide the outcomes we need—not the

results we hope for.

Most importantly, we hope these initiatives will truly improve the lives of those we serve. It is one thing to use taxpayer dollars unwisely on a program we never evaluate and cannot say makes a definite difference, but it is far more wasteful, and harmful, when we hold out the promise that a housing voucher or a treatment program will help someone change his or her life and then fail to deliver. If we fail, we fail not only the individual but their family and, ultimately, our community. Homelessness and recidivism are difficult issues. We spend tens of millions of dollars on related programs each year and we ask (or mandate) that thousands of people take part in these programs, so obviously we want them to be effective. PFS is helping us reach that goal.

As PFS expert Eileen Neely suggests in her blog, "Is Pay For Success Collective Impact?" our PFS contracts are a "forcing mechanism" to bring together disparate parties at all levels of government with

## Taxpayer Benefits of Pay for Success

At target levels, the two projects will deliver the following community impact:

Tangible benefits to the county include the creation of at least ten new jobs. The services these jobs provide will have a multiplier effect. Successful interventions have a strong employment outcome for the service recipients. The goals for individuals who successfully complete the PFS programs include that they will obtain jobs, pay taxes, and increase the local demand for goods and services. No longer will they add to the demand for more jail beds, emergency shelters and ancillary costs associated with arrests, bookings, detox, and emergency room services. Nor will they add to the societal cost to those harmed by others' criminality. These programs will not immediately lower the expenditures for jail beds or homeless shelters. Instead, successful PFS programs will reduce the demand for additional jail beds, homeless shelters, and social services. Successful PFS programs will allow the county to finance validated programs with evidenced-based effectiveness and reduce future funding levels for programs that do not produce validated results.

Intangible benefits to the county are public health and safety externalities that are difficult to quantify. They include the never-ending social services workload generated by individuals who are repeatedly arrested for behaviors related to their mental health, substance abuse, and/or homelessness—such as public nuisance charges; mothers, fathers, and young adults who spend time in jail rather than receiving the behavioral health services that can help stabilize their lives and help them become productive members of society; and the children of those who cycle in and out of the jail—as well as the quality-of-life costs borne by the residents and businesses in areas where crime and homelessness impede safety, peace, and order.

*Source:* "Measuring the Net Value Received by the County for Money or Resources Appropriated to These Private Enterprise Projects" (report required by the county ordinance).

private and public sources of capital. Some of the PFS cornerstones (adherence to data, targeting interventions to specific populations, clear outcomes) have already informed other Salt Lake County efforts. For example, our steering committee, Collective Impact on the Homelessness, has established 14 outcomes that, when implemented, will reform and realign our homeless services system. The ability of PFS projects to bring together a multitude of key stakeholders cannot be overstated. More than 30 stakeholders, ranging from business owners and homeless service providers to the governments and philanthropists that support their work, agreed to these outcomes. This collective approach to what was fast becoming a

contentious public issue helped drive an unprecedented \$27 million in new state resources to create alternatives to our current shelter system, and to support homeless prevention and diversion programs. Similar initiatives now under way in my administration are focused on criminal justice, aging, economic development, and early education.

PFS goes hand in hand with other county efforts to direct resources toward what works. We have invested in additional evidence-based programs, and we now have a higher expectation that we will have clear and measurable outcomes that include supporting data. Our open data portal, our partnership with Code for America, and a new requirement for data-

based outcomes and indicators that are tied to the budget have all been influenced by what we have learned from PFS. The data-sharing agreements we have created will help expand our current criminal justice data warehouse to other critical datasets, including homelessness, employment, behavioral health, and emergency services. Salt Lake County is part of the White House Data-Driven Justice Initiative and is working with the University of Chicago's Data Science in the Social Good program to identify "super-utilizers" (individuals who use a range of human and criminal justice services repeatedly) and predict what services we can provide to change the trajectory of their need. PFS offers a concrete example of a strategic mind-shift that identifies outcomes and reallocates resources to where they can make the biggest difference.

We hope that successful collaborative partnerships like that between Salt Lake County and the Sorenson Impact Center will help advance other efforts around the nation to reduce recidivism and homelessness. We believe this is the first RCT to look at the use of rapid rehousing among single adults. Our REACH program, which combines individualized criminogenic behavior interventions with intensive and comprehensive wrap-around, such as housing and job training services, will confirm whether a combination of evidence-based interventions can change someone's recidivism over the long term.

Our PFS partnership has designed services for the highest risk people in our community, and we look forward to learning whether our efforts have informed other communities' policy decisions affecting their most vulnerable populations.

## **THE FUTURE OF PAY FOR SUCCESS**

I often remind our staff and my counterparts in other communities that we are paying for success, not savings. The original social impact bond model was primarily focused on savings, and in some cases—like the Utah preschool project—early and sustained savings are possible. But savings in our two current PFS projects are far in the future. Our jails are full; every time a new inmate arrives, the sheriff is forced to release someone. Our homeless shelters are at capacity. Standing behind every individual who succeeds due to our Pay for Success efforts is a long line of residents desperately in need of similar treatment. I believe our Pay for Success programs will have measurable and invaluable human benefits to the people we serve, and we are cautiously optimistic that they will help move the needle.

I cannot say that these programs will have an immediate positive impact on the county's bottom line by reducing demand for effective treatments. However, if successful, they will reduce or prevent costs over time. Fewer people will be arrested, and fewer will cycle in and out of jail, the shelters, or be on the streets. Fewer people will continue to live lives of addiction, and fewer will die of an overdose or avoidable disease. Families will be reunited, jobs will be found and retained, and income and stable housing will increase. People's lives will improve. There are hard costs associated with these outcomes but, more importantly, there is true societal benefit in having a healthier, more equitable community. I want to pay for that long-term success. That is the future I choose for Salt Lake County.

I and the partners in Salt Lake County's PFS efforts believe that Pay for Success has helped us learn important lessons and gain critical insights into two complex and intertwined problems. Without PFS,

## Outcomes

At target levels, the two projects will deliver the following community impact:

- 1,500 more months of stable housing, or 125 years
- 26,800 fewer days in jail or prison, or 73 years
- 225 fewer arrests
- 252 graduations to permanent housing

some policy decisions may never have been reached; at the same time, PFS can effectively institutionalize some processes, like rigorous evaluation in new issue areas or for government-funded services. For PFS to become a standard way of funding innovation, we agree that several things need to happen:

- **The cost of the program development and transaction must decrease.** The county spent \$1,250,000 during the program-development phase, and those costs do not reflect the true cost of people's time, the deep discounts given by our service partners, or the pro bono assistance of our legal counsel. This is not sustainable. We need standard legal and financial tools, and project intermediaries are exploring how and where efficiencies can be realized without sacrificing project quality and appropriate safeguards.
- **The time to develop and fund a program must be shorter.** Both projects took two years from conception to launch, and the need for interventions is simply too great to wait so long.
- **We need standard data-sharing agreements and access to the "big data."** Access to administrative data needs to be streamlined to help break down the silos of county, state, and local governments, and their programs. We need to understand the complex nature of our residents who are failing to succeed so we can provide them with the services they need, evaluate the results of our

efforts, and redirect resources toward what works and away from programs that do not make enough of a difference. Local governments need to hire data scientists and get rid of antiquated equipment, thinking, and systems. For example, Sorenson Impact brought together a data team, funded in part by the Social Innovation Fund, to advance the administrative data pilot that supports PFS projects across the nation.

- **Alternatives to randomized control trials are needed.** While an independent and rigorous evaluation was critical, our RCT, even discounted, cost \$500,000 above the cost of the services. This is beyond the reach of most governments, and while greatly beneficial, it presents a barrier. Rapid evaluations that allow government to modify programs based on evidence are a critical next step. At the same time, understanding how this shifts risk back to the service providers must also be taken into account.
- **We need the federal government to participate as a payor for success.** Too many of the financial benefits of PFS programs—the true savings—go to the federal government through programs like Medicaid, Temporary Assistance for Needy Families, and veterans services. Solving the "wrong pockets" problem—the benefits of a program not reaching the community it is intended to serve—will encourage more jurisdictions to use PFS as a tool, thereby

increasing innovation and resources in the social sector.

- **We need Congress to support legislation that will encourage social impact financing.** The Social Impact Partnership Act passed the House unanimously in July 2016. H.R. 576 was introduced during the 2017 session. This legislation would enhance greatly public-private partnership models providing social services by enabling the federal government to become a payor in pay-for-performance programs. Through the creation of up to a \$300 million fund within the U.S. Department of the Treasury, state and local governments would submit proposals clearly defining how high-quality, rigorously measured programs are achieving measurable social benefits. While much has yet to be worked out, the bill offers clear guidance on 21 issue areas where quality programs could result in monetizable benefits that accrue at the federal level: for example, increasing employment for individuals currently receiving federal disability benefits, reducing the utilization of emergency and other high-cost care for low-income families and individuals, reducing the number of children returning to foster care, etc. A crucial thing to understand about this bill is that it's not intended to reduce eligibility; quite the opposite, in fact—it's intended to enable state and local governments to implement and scale programs that fit the needs of those most at risk in their communities. In Salt Lake County, we did just that, and it is encouraging to see this potential on the horizon.
- **The president should encourage community-led social innovation by building on the work of the Office of Social Innovation and Civic Engagement.** The Social Innovation

Fund, one of the initiatives from this office that helped advance evidence-based programs in at-risk and low-income communities across the nation, has generated more than \$1 billion in public-private partnerships since its inception. Only a third of that is in federal dollars, which was matched by local public, philanthropic, and private-sector capital.

- **We need to aggregate funders to spread the hard work of due diligence across similarly motivated lenders.** Maycomb Capital—a new impact investing platform—is putting together the Community Outcomes Fund, a diversified outcomes-based pool of capital that seeks to finance projects that address community issues, primarily in the U.S. We can encourage more community development financial institutions to fund through PFS, which could catalyze investments, including in smaller communities.

The focus of PFS efforts is often on the project; however, the innovation really exists in the fundamental way these efforts change how government, nonprofits, and the private sector engage collectively to solve seemingly intractable problems. Ultimately this will enable us to direct resources to those most in need in our communities, and we will get to do so in a way that delivers on society's social contract.

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<sup>1</sup> Salt Lake County's elected officials include an attorney (me), an art dealer, an Italian food importer, a nonprofit director, police and fire chiefs, a real estate professional, and the owner of a local travel agency. We have a balance of Republicans and Democrats who work together collaboratively and with purpose.