August 14, 2018

John Thomas Tambornino, PhD
Senior Advisor
Evidence Team, Office of Economic Policy
White House Office of Management and Budget

William Girardo
Policy Advisor
Office of Consumer Policy
U.S. Department of Treasury

Dear Mr. Tambornino and Mr. Girardo:

On behalf of a collective group of Pay For Success intermediary organizations, we are pleased to see the passage of the Social Impact Partnership to Pay for Results Act (SIPPRA) legislation as a part of the Bipartisan Budget Agreement (February 2018). We would like to offer comments with respect to program implementation given our experience with Pay for Success.

About Our Organizations:

Corporation for Supportive Housing: As a recipient of two major Pay for Success (PFS) funding awards from the Corporation for National and Community Service and one combined PFS grant from the U.S. Departments of Housing and Urban Development and Justice, CSH has led the charge to scale supportive housing with PFS financing tools. CSH has worked in more than twenty jurisdictions to advance PFS and is uniquely positioned to play a number of roles in transactions. CSH provides feasibility technical assistance, transaction structuring, ongoing project management and implementation support, and also invests directly in PFS transactions. We work with communities to use data to identify a target population that could benefit from supportive housing, create cost benefit analyses and financial models, define outcomes and metrics, design a quality supportive housing intervention and monitor performance. We are involved in all four implemented PFS projects in the country where supportive housing is the specific intervention. To date, these projects have collectively housed more than a thousand individuals.

Green and Healthy Homes Initiative: GHHI's Policy & Innovation team helps organizations explore and develop models that leverage private capital to fund public health interventions based on outcomes they produce. Through our support, organizations can assess the value of different models, including Pay for Success financing, direct performance-based contracting, and hybrid approaches to scale interventions that work. The main categories of technical assistance support include feasibility assessment, capacity building and pilot design, and innovative finance structuring.

Institute for Child Success: Over the past few years, the Institute for Child Success has led 13 PFS feasibility studies (11 federally supported) that have centered on programming to improve early childhood outcomes. These ICS-led studies have focused on home visiting, preschool, child welfare, parenting supports, and prenatal and maternal health. Multigenerational programs continue to offer great support for improving early childhood outcomes as stable homes where caregivers are healthy, supported, and self-reliant are homes in which children are more apt to flourish. Triple P (formerly the Positive Parenting Program), and the Family Drug Treatment Court (FDTC) model are a couple examples of effective multigenerational programs that have been part of ICS' PFS portfolio. ICS feasibility studies have yielded notable impact including the state-wide expansion of Nurse-Family Partnership (NFP) in South Carolina to more than 3,000 first-time moms, the development of a continuum of services for children and families in Spartanburg, South Carolina, and the expansion of high-quality preschool in Tempe, Arizona via direct funding from the City. The first two South Carolina examples prove that PFS can indeed be an effective tool for improvement, while the latter example in Tempe demonstrates that success from the rigorous analysis required for PFS financing can lead to direct appropriations by a jurisdiction.

Local Initiatives Support Corporation: In early May 2016, the Corporation for National and Community Service (CNCS) announced LISC as a Social Innovation Fund (SIF) PFS grant recipient. Over two years, a $1.3 million award will be used by LISC to provide transaction structuring support to three to four PFS projects. LISC's program will connect government funding to preventive programs in the health, youth and employment arena in an effort to demonstrate positive outcomes for people who access these services. By helping social service providers design programs, raise private capital and produce the metrics needed to demonstrate results, we will be continuing our work in revitalizing neighborhoods and improving outcomes for its low-income families.

National Council on Crime and Delinquency: NCCD received funding from the Corporation for National and Community Service's Social Innovation Fund to engage in PFS feasibility studies in child welfare and juvenile justice. The ultimate goal of their proposed project is to create positive outcomes for system-involved children and young people and supporting the capacity of systems to implement evidence-based practices. Most recently, NCCD is a key partner in a the Los Angeles Just in Reach Pay for Success project aimed at reducing recidivism and to help end homelessness among those who cycle in and out of the Los Angeles Jail system.

Other organizations that received grants from CNCS include: the Harvard Kennedy School Government Performance Lab, Nonprofit Finance Fund (NFF), Social Finance, Inc., The Sorenson Impact Center at the University of Utah, Third Second Capital Partners, Inc. and the Urban Institute.

<u>Recommendations:</u>

As you are aware, the federal government has undertaken Pay for Success, or Social Impact Bond (SIB), models of financing social programs through the Department of Labor, Department of Health and Human Services (HHS), Department of Housing and Urban Development (HUD), and many others. With the passage of SIPPRA, and the creation of Federal Interagency Council on Social Partnerships and the Commission of Social Impact Partnerships, the Federal government is coordinating the efforts of social impact partnerships while encouraging private investment to pay the upfront cost of providing social services. To this end, we are offering several recommendations we believe will help to ensure SIPPRA benefits needy populations while also simplifying program design and implementation for governments, service providers, intermediaries and other parties.

Recommendation 1: Provide guidance prior to release of Request for Proposal (RFP)

The SIPPRA fund addresses the appropriations risk by guaranteeing success payments, but in order to ensure thorough understanding of the program, all parties (intermediaries, service providers, local government agencies, investors, etc.) must be aware of requirements and expectations prior to embarking on a partnership. One of the concerns from SIF's PFS grantees was on the compliance part of the funding awards.

From our experience with SIF, reporting requirements became burdensome from the compliance perspective. SIF awards were made to intermediary organizations, which then made awards to "subgrantees" to implement service models. Grant funding spanned a period up to 5 years, where federal grant dollars are matched 1-to-1 at the intermediary and subgrantee levels. During this 5 period term, CNCS grantees were also required maintain documentation of match source funding and criminal history background checks. In order to decrease administrative burden, we would recommend the federal agency waive audit requirements for match sources for cost-reimbursement based grants. The current cost-reimbursement grant structure requires programs to maintain documentation of match source funding that is auditable based on expenditure. The requirement represents unnecessary financial complexity, creates audit risk, and limits alternate sources of funds.

The legislation, in awarding social impact partnership agreements, states, "The Secretary shall pay the State or local government only if the independent evaluator describe in section 2055 determines that the social impact partnership project has met the requirements specified in the agreement and achieved an outcome as a result of the intervention, as specified in the agreement and validated by independent evaluation." This implies that projects need to be fully formed prior to application. We are educating our service delivery partners and some local governments on the opportunity of Pay for Success, but gaps in data infrastructure and knowledge still exist.

Guidance prior to a Request for Proposal will help inform intermediaries, governments and services providers and better prepare unconventional investors for the risks associated with project implementation. From our collective experience, it takes a lot of technical assistance to get service providers ready for a PFS transaction. We would also appreciate guidance on how SIPPRA funding may be used and how much would be available to assist service providers for PFS transactions. In a Government Accountability Office (GAO) study of Tiered Evidence Grants, four agencies (Labor, CNCS, HHS and Education) provided evaluation technical assistance from the design stage to the analysis and reporting stages of evaluations to help ensure rigorous evaluations.[1] These four agencies provided assistance to grantees before awarding grants to help potential grantees understand the evidence and evaluation requirements to complete the application. From our experience, we have also seen delays in funding put service providers at programmatic risk. If the timeline for a PFS transaction drags, service providers may not have the funding in place to maintain key programmatic staff that will be key to implementation.

Recommendation 2: Consider Tiers of Evidence Based Programs

The legislation emphasizes strong evidence under methodologies to be used, which may not be possible due to the shallow history of research for certain interventions. Legislation states, "The evaluation used to determine whether a State or local government will receive outcome payments under this subtitle shall use experimental designs using random assignment or other reliable, evidence-based research methodologies, as certified by the Federal Interagency Council on Social Impact Partnerships, what allow for the strongest possible causal inference when random assignment is not feasible." We urge the Interagency Council to consider the use of tiered evidence for this growing research body.

For example, the SIF program uses a three part level of evidence: Preliminary, Moderate, and Strong. The GAO also reviewed tiered evidence grants within the Department of Labor (Workforce Innovation Fund), Department of Health and Human Services (Teen Pregnancy Prevention Program and Federal Home Visiting Program), and Department of Education (Investing in Innovation).

In the case of CNCS:

- "Preliminary" level of evidence must, at a minimum, have a study based on a reasonable hypothesis and that has yielded promising results for either the program or a similar program.
- "Moderate" level of evidence includes intervention which has to have evidence from studies whose designs can support causal conclusions, but have limited generalizability, or studies with high external validity, but moderate internal validity.
- A "strong" level of evidence would have conducted either one large, multisite randomized control trials (RCT) or Quasi-experimental Design (QED) study or several smaller RCT or QED studies either in different locations or with different populations.

Small awards are used to test new and innovative service models; larger awards are used to scale service models with strong evidence. The goal of having tiered-evidence programs help identify evidence-based service models that can be replicated and assists emerging interventions by evaluating the proposed intervention model while also expanding the research on this particular population and/or geographic region.

Due to the interagency nature of this legislation, we recommend guidelines on how tiers of evidence-based programs will be defined as part of the selection process. It also may be possible to identify a list of pre-approved strong evidence models before the announcement of a grant opportunity. Various federal

[1] https://www.gao.gov/products/GAO-16-818

agencies house “what works” clearinghouses to help them synthesize evaluation finds and what service models are ready of replication or expansion. The legislation authorizes the Secretary of Treasury to transfer authority to another Federal agency and any funds necessary to exercise authority of SIPPRA. This delegation of authority should maintain certain level of uniformity in evaluating potential projects, especially for agencies who have not piloted evidence-based grant competitions.

Recommendation 3: Consider partners’ capabilities for providing services and data collection

Understanding service provider capacity to take on funding of this level is key; organizations need to have the infrastructure in place including data, risk and financial management to make sure they will be able to succeed once the project is launched. To some degree, if an organization has undergone a rigorous evaluation, they will have many of these pieces in place. For example, LISC has worked with Latin American Youth Center, and they had various systems in place, such as data collection, prior to be selected to participate in LISC’s Social Innovation Fund (SIF) grant.

Service provider capacity also requires that frontline staff is properly trained in service delivery as well as data collection. Data collection is an integral component of evaluation, and those administering the treatment to the experimental groups should understand why interventions are applied to specific groups. On the service provider side, frontline staff need to be hired, properly trained and retained for the lifecycle of the program to maintain a level of fidelity. Training grantees to use program performance data not as a reporting requirement, but as a tool for adapting the service model to improve effectiveness without comprising core components of the model is important to ensure program success.

Before the release of the RFP, a facilitated discussion with potential service providers should help determine a community’s fit for selecting an evidence-based model. It appears that Treasury and the Commission on Social Impact Partnerships will be looking for local governments that are fully equipped to implement an evidence-based model to take advantage of SIPPRA funding. Four agencies (Labor, CNCS, HHS and Education) provided assistance to grantees, in each of their respective programs, before awarding grants to help potential grantees understand the evidence and evaluation requirements to complete the application.

Recommendation 4: Timing Horizon from Project Feasibility to Program Evaluation

We hope that Treasury is cognizant that the length of each program will vary depending on the treatment and what outcomes will be measured. The SIPPRA legislation offers outcomes that may result in social benefit and Federal, state or local savings.

The time frame of project development is long, partially due to funding timelines of local jurisdictions and number of parties involved in structuring the transaction. Ensuring leadership from multiple government agencies may take some time, especially during periods of administration turnover or lack of staff. Assigning a staff member from these agencies to operationalize the project along with the evaluator, transaction structurers and service provider is critical to meet project deadlines. This is especially true during the program design and implementation periods where there are regular meetings of stakeholder working groups. Frequency of stakeholder engagement spans from every 1-2 weeks to monthly meetings.

Guidance around unanticipated project delays can help project parties, including service providers plan for delays in funding availability. This will make sure organizations can maintain key staff prior to project launch.

Another consideration could be launching a rolling application, subject to funding availability to allow for projects who may have a timing mismatch between when the RFP is launched and when their project is ready to apply for funds. This will ensure high-quality applications are set forth.

Recommendation 5: Multigenerational Impacts

The SIPPRA legislation offers that 50% of outcomes are aimed at children or young adults. Treasury needs to provide guidance over how multigenerational outcomes count towards the 50% limit.

From our experience, conditions that exacerbate poverty are multigenerational. For example, a program aimed at reducing substance use disorders (SUD) may serve an adult target population but the effects of SUD are felt by the whole family. Studies of families with SUD reveal patterns that significantly influence child development and the likelihood that a child will struggle with emotional, behavioral or substance use problems[2]. Similarly, some of the most effective interventions that target young children do so primarily by interacting with parents, as the primary caretakers of young children, and often have powerfully positive outcomes for the parents as well as the children. One example is the suite of Home Visiting services supported by Materials, Infant, and Early Childhood Home Visiting (MIECHV), which improve birth and health outcomes for young children, but also improve employment and health outcomes for caretakers.

Recommendation 6: Provide Flexibility in Funding

Due to the multitude of funding streams for a single PFS project, we have outlined two recommendations:

- Simplified Payment Structures: We have seen investors and intermediaries look for ways to lower costs of projects, including using rate cards or other methodologies tied to payment other than a randomized controlled trial or quasi-experimental design, especially in cases where the existing evidence-base is strong. We recommend looking at either simplified payment structures like a rate card or hybrid approach to help facilitate the ease of transactions as well as increase the investment appetite. For projects with a strong evidence base interim outputs that can proxy outcomes is a way to simplify the payment structure which can also reduce transaction and interest costs.

- Clarify Project Administration Costs: The sooner Treasury can provide guidance, the better. Without funding in place, fewer service providers and governments will have the resources to prepare projects to the stage where they will be eligible for SIPPRA funds. In many cases, service providers are put in a vulnerable funding situation as they negotiate a PFS transaction. If funds are not secured in a timely manner, they may have issues retaining key program staff that will be key to their program expansion. In the guidance, it will be helpful to understand what pieces of the federal funding can be used for intermediary costs, financing costs, and government costs that will be incurred as part of project administration. PFS projects can also be expensive, and would help if there were allowance for costs not associated with outcomes in order to facilitate the transaction. Some PFS project may fall victim to timing mismatch because of the lack of project readiness or lining up key staff to take on service delivery. We would like to use this time, before a RFP is officially released, to anticipate potential funding sources and/or sources of repayment.

Additional Concerns:

SIPPRA legislation states the application addresses the "Projected Federal, State, and local government savings and other savings, including an estimate of the savings to the Federal Government, on a program-by-program basis and in the aggregate, if the project is implemented and the outcomes are achieved as a result of the intervention." Most projects in development are focused on state and local savings. If demonstrating Federal savings is an absolute requirement for application, Treasury should understand the lead time needed for projects in realizing the impact across city, county, state and federal programs. The application suggests that applicants should incorporate Federal savings in their analysis in order to take advantage of SIPPRA. The PFS field relies on the accurate valuation of outcomes, and thus also relies on local data systems which may or may not be able to convert their local or state savings to what Federal savings will be incurred. Additionally, many projects to-date have backed out Federal savings since it was not key to the transaction. We foresee some challenges in accurately calculating federal savings considering the local nature of existing and prospective PFS projects, as well as some needed guidance as to what level of Federal savings will be needed to be eligible for SIPPRA funding. Additionally, we encourage flexibility to allow projects to apply that move beyond cashable savings and incorporate aspects

[2] https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3725219/

around government efficiency and innovation. We welcome technical assistance and programmatic support in assessing these savings over time and over various jurisdictions prior to launch of the RFP.

Thank you for the opportunity to share our collective experience on Pay for Success. We would be happy to provide clarification of any of the points raised in this letter. Please do not hesitate to reach out to Anna Smukowski, Public-Private Partnerships Program Manager, at asmukowski@lisc.org, or Abigail Santos, Policy Officer, at asantos@lisc.org if you would like to discuss our comments further.

Sincerely,

Erin Hanusa, National Council on Crime and Delinquency

Adam Halper, Green and Healthy Homes Initiative

Bryan Burroughs, Institute for Child Success

Ryan Moser, Corporation for Supportive Housing

Anna Smukowski, Local Initiatives Support Corporation