CHALLENGING THE STATUS QUO:
Philadelphia’s Exploration of Pay for Success
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When I took the oath of office as Mayor of Philadelphia on January 7, 2008, I pledged that I would lower crime; increase high school and college graduation rates; make Philadelphia the greenest city in America; attract new businesses and new residents; and ensure city government conducts its business ethically and with transparency. I am proud of Philadelphia’s accomplishments on all of these fronts and, yet, there remains much more to be done.

Enhancing the well-being of residents, including our most vulnerable citizens, requires a steadfast commitment to continuously improving government services. In order to achieve meaningful continuous improvement, policymakers must use data and evidence to drive decision-making. As importantly, policymakers must be open to exploring new ideas that disrupt the status quo.

It is for these reasons that I directed my staff to explore the feasibility of using Pay for Success (PFS) as a tool to improve the lives of Philadelphians in need. Pay for Success presents government an opportunity to scale evidence-based programs delivered by results-oriented organizations while minimizing the financial risk to taxpayers.

At its core, PFS is a public-private partnership which provides up-front private financing for city services that measurably improve social outcomes, using a performance-based contract between government and service providers. If, following a rigorous evaluation, the program is successful in reaching pre-determined social outcomes, then government repays the original investment. Pay for Success projects, therefore, enable government to partner with evidence-based service providers to improve social outcomes while tapping private investments to cover the risk and costs of potentially ineffective programs.
In the winter of 2014, Philadelphia commissioned a feasibility study to help answer some important questions. Can Pay for Success improve outcomes in certain policy areas for Philadelphia? Who might be the right partners in pursuing PFS, within Philadelphia and beyond? What are common or context-specific challenges that we should anticipate in Philadelphia?

In addition to answering these specific questions about Pay for Success, a feasibility study also helped us answer broader questions. What are the best evidence-based interventions in the country that are applicable to some of Philadelphia’s most pressing challenges? Which of these programs could be scaled up or, if the program does not exist locally, which programs could be brought to Philadelphia with PFS or another approach?

We cannot be satisfied with the status quo in Philadelphia or in any of our cities across the United States. We can and should do better. And to do that, we need to look for innovative, disruptive approaches to achieve better results for citizens. Exploring Pay for Success helped accomplish my goal of ensuring that Philadelphia is at the forefront of thinking about new approaches to addressing long-standing challenges.

MAYOR MICHAEL A. NUTTER, CITY OF PHILADELPHIA
(Mayor, 2008 -2016)
IN THE WINTER OF 2014, THE CITY OF PHILADELPHIA ENGAGED SOCIAL FINANCE TO ASSESS THE FEASIBILITY OF IMPLEMENTING A PAY FOR SUCCESS (PFS) PROJECT. In particular, the city was focused on using PFS to reduce recidivism rates of citizens returning from jail or prison and to limit out-of-county placements of system-involved youth. The study sought to understand the potential for PFS financing to complement ongoing efforts by driving public resources toward evidence-based, outcomes-driven programs.

The city had a number of questions: What programs have proven efficacy in improving criminal justice and child welfare outcomes nationally? Is PFS financing the right tool to effect change in these issue areas? What is the value of these programs to the city?

Over four months, Social Finance conducted an in-depth analysis of the opportunity for Philadelphia to improve outcomes for its most vulnerable citizens—interviewing city and state staff, reviewing evidence-based programs, analyzing administrative data, and performing economic analyses. This was done through a two-part process to assess feasibility—an initial screening process called a landscape assessment and a second, deeper analysis called a feasibility assessment. More information about this process can be found in “Our Approach: Social Finance Feasibility Framework” on page 45.

Cities, counties, and states considering PFS financing face similar questions about how PFS works, including its strengths and limitations. This paper explains how we answered these questions in Philadelphia and provides a roadmap for other jurisdictions thinking about PFS.
THE PAPER IS ORGANIZED AROUND FIVE KEY THEMES:

1. **DEFINING VALUE:**
   What are the societal and fiscal benefits created for the city by the proposed PFS project?

2. **UNDERSTANDING GOVERNMENT FUNDING STREAMS:**
   Which city agencies benefit from the proposed PFS project?

3. **DATA, DATA, DATA:**
   What information does the city need to estimate and, ultimately, evaluate the impact of the proposed PFS project?

4. **A NEW KIND OF CONTRACT:**
   How are PFS contracts different from other social services contracts and how can the city set them up for success?

5. **BEYOND THE ECONOMICS:**
   How will PFS fit within existing initiatives and what new resources will the city need to support a PFS project?

It is critical for governments—when addressing the full range of human service programs—to consider these questions as they pursue outcomes for their most vulnerable populations.

In Philadelphia, the funding mechanism may have been Pay for Success, but the tools themselves are useful beyond projects financed with private capital. Governments focused on outcomes are increasingly employing the tools of Pay for Success to build outcomes-oriented contracts that clearly define and measure success; build in deep, data-driven program design; and invest seriously in active performance management.

We hope this feasibility study can serve as a guide for governments pursuing outcomes-based approaches to improve their communities.
BY EARLY 2014, PHILADELPHIA HAD WEATHERED THE RECESSION AND WAS FOCUSED ON RECOVERY. There was progress across the city—increasing investments in new jobs and public education, record low crime rates, and new residents moving into the city. Despite this progress, there was still a lot to be done. Philadelphia suffered from among the highest rates of poverty and incarceration of any large U.S. city. Cities across the country, including Philadelphia, were grappling with increasing inequality, high rates of youth unemployment, and depressed wages. It was clear that the status quo was not good enough.

Perhaps, no one felt this more than Philadelphia Mayor Michael Nutter who had prioritized these issues since his first days in office, focusing on reducing the rates of incarceration of young men and women, improving community safety, and increasing economic opportunity. Throughout his administration, he explored innovative, data-driven solutions that could move the needle on these entrenched issues. He pursued innovative solutions with a dedicated team, appointing the city’s first Chief Innovation Officer, Chief Data Officer, and Director of Civic Technology, and worked to develop an infrastructure of innovation, establishing the Mayor’s Office of New Urban Mechanics, opening an Innovation Lab, and launching StartupPHL.

Philadelphia’s exploration of Pay for Success fit within Mayor Nutter’s city-wide focus on innovative, data-driven solutions to the city’s toughest social issues. The mayor and his team identified two agencies as having the highest potential for a PFS feasibility study: the Philadelphia Prison System (PPS) and the Department of Human Services (DHS).

The Philadelphia Prison System (PPS) is actually a complex of jails, despite its name. It housed approximately 8,300 individuals in the winter of 2015, and was bursting at the seams to accommodate high incarceration rates. While the recidivism rate had fallen below the national average in recent years, it was still troublingly high: 40% of individuals returned to PPS within one year of release and close to 60% returned to PPS or prison within three years.¹ ²

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Reducing recidivism was an important piece of Mayor Nutter’s agenda to make Philadelphia safer and to improve the well-being of all citizens. City government had made significant strides by scaling education and employment programs within PPS, increasing data collection to better understand the inmates’ needs, and developing initiatives outside of PPS, such as the Mayor’s Office of Reintegration Services and cognitive therapy classes available through the Adult Probation and Parole Department (APPD). *Could Pay for Success be part of this integrated effort to reduce recidivism rates?*

The Department of Human Services (DHS) was also eager to explore Pay for Success. For years, the agency had focused on reducing the use of congregate care, recognizing widespread evidence that children in family settings have better long-term outcomes than those in group or institutional settings. DHS established Improving Outcomes for Children, a system-wide reform to a community-based model of service delivery. As part of this initiative, DHS streamlined case management and expanded evidence-based services in the community, shuttered emergency shelters, and introduced initiatives such as expedited permanency meetings and commissioner approval processes to avoid misuse of congregate care. The results were striking: the population of Philadelphia youth in congregate care shrank from 22.6% of DHS-involved youth in 2013 to 14.5% in May 2015.3

DHS now wanted to reduce congregate care placements outside of Philadelphia, where children’s outcomes were worst and costs to the system were highest. Every year, hundreds of Philadelphia youth were being separated from families, communities, and schools and sent to other parts of the state for treatment and services. *DHS had significantly reduced congregate care placements, but could Pay for Success help reduce out-of-county placements?*

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3 Interview with senior Philadelphia Department of Human Services official, 2014.
In late 2014, Social Finance was selected through a competitive process to conduct a four-month study to assess the feasibility of implementing a PFS project to reduce recidivism for Philadelphians returning from PPS and to reduce out-of-county congregate care placements for system-involved youth.

This paper describes Social Finance's approach to assessing PFS feasibility for a jurisdiction, and highlights common questions that arise as governments explore Pay for Success. The report details the analysis, research, and collaboration required to answer these questions and inform a successful PFS project.
PAY FOR SUCCESS (PFS) IS A PUBLIC-PRIVATE PARTNERSHIP which funds effective social services through a performance-based contract. Pay for Success projects enable federal, state, and local governments to partner with high-performing service providers by using private investments to expand effective programs. If, following measurement and evaluation, the program achieves predetermined outcomes and performance metrics, then government repays the original investment. However, if the program does not achieve its expected results, government pays only for the results that were achieved.

**WHAT IS PAY FOR SUCCESS?**

**PAY FOR SUCCESS** is an innovative public-private partnership that drives resources toward effective social programs that measurably improve lives.
Five Themes in Pay for Success Exploration

PFS CAN BE A POWERFUL TOOL FOR jurisdictions to use in addressing entrenched social issues. But PFS itself requires a shift from the status quo in how services are funded, delivered and evaluated, and often brings up challenging questions across the jurisdiction. While the answers to these questions vary by community, in the section below we describe our approach in Philadelphia which we hope will serve as a helpful roadmap for jurisdictions considering PFS.
Recidivism outcomes also had to satisfy essential criteria for PFS—meaningful impact on the target population, proven by programmatic data or evaluations, and measurable benefits within the project timeframe.
WHILE PHILADELPHIA WAS CLEAR ON ITS CRIMINAL JUSTICE policy priority—to reduce recidivism—there were many considerations for understanding the value of this outcome. Social Finance quantified the value of reducing recidivism in terms of direct economic savings to the city (such as reduced bed days at PPS), direct economic savings to the state (such as reduced bed days at the state prisons), and societal benefits for the community (such as improved public safety). These recidivism outcomes also had to satisfy essential criteria for PFS—meaningful impact on the target population, proven by programmatic data or evaluations, and measurable benefits within the project timeframe.

Social Finance reviewed over 50 criminal justice programs and shortlisted three interventions that had evidence of impact on recidivism rates, including a program that places people recently released from prison into transitional jobs and eventually full-time jobs. This intervention had demonstrated impact on a range of outcomes that were important to the city: reduction in jail and prison bed days, increased employment earnings, improved public safety, and reduced policing and justice-system costs. Each of these outcomes creates fiscal and societal benefits for the city. To estimate these benefits, we compiled administrative data from PPS, the State Department of Corrections (DOC), the Adult Probation and Parole Department (APPD), and public reports to better understand the costs averted by each outcome.

What is the value of fewer bed days in PPS, for example? PPS staff evaluated two approaches to answering this question. First, the average cost of a bed day—the total PPS budget divided by the number of inmates and days in jail—includes fixed costs such as building maintenance, salaries and administration, in addition to marginal costs, such as food, clothing and medical care. Alternatively, the marginal cost includes only the latter costs, or the variable costs associated with each incremental bed day. There is a significant difference between the average and marginal cost of a day in incarceration: DOC estimated that the average
daily cost per inmate was $116 while the marginal daily cost per inmate was only $15. Marginal costs are consistent while average costs change as a step function—such as when PPS can close a wing or avoid building a new wing. There is no “correct” way to estimate the value created by reducing incarceration but often the best way is to blend marginal and average costs for prison and jail days.

Different jurisdictions have used different approaches to estimate the value of a bed day for a PFS project. For example, New York State’s PFS project to reduce recidivism—Increasing Employment and Improving Public Safety in New York State—blends marginal and average costs for both prison and jail days given that individuals often spend time in jails (pre-trial) and prisons (after sentencing). The resulting savings estimate of $56 per day is significantly below the average daily cost of $170 per day in a New York prison and likely above the marginal daily cost.

In Philadelphia, however, there was a straightforward approach to blending marginal and average costs. Due to limited capacity, PPS pays neighboring counties approximately $60 per day to house an overflow population of nearly 600 inmates, based on a contract that can be renegotiated annually. If a program reduced recidivism rates, it would reduce the overflow population, saving PPS $60 per inmate per day in the next year’s contract. In addition to the savings at the city level, the

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5 Interview with Pennsylvania Department of Corrections official, 2015.
7 Ibid.
FIGURE 1
Illustrative step function of prison cost savings

REDUCED NUMBER OF BEDS
AVERAGE COST PER BED DAY

REDUCED SINGLE BED(S): $15/day
CLOSING A BLOC: $30/day
CLOSING A UNIT: $65/day
CLOSING AN ENTIRE PRISON FACILITY: $100/day

0 100 200 300 400 500 600 700 800 900 1000 1100 1200
$0 $10 $20 $30 $40 $50 $60 $70 $80 $90 $100

REduced number of beds
state prisons would benefit from reduced bed days if recidivism rates declined given that many people would be sentenced to serve time at a DOC facility. Therefore, in our analysis, we blended the costs of a bed day at DOC and PPS to calculate the cost of a bed day in incarceration.

In addition to bed days, Social Finance calculated the value of the program’s impact on employment and public safety. We estimated the direct economic losses suffered by victims, such as medical costs, non-prison criminal justice costs to the courts and police, and the cost of victimization through property damage and psychological pain and suffering.\(^8\) We also calculated public sector benefits of increased employment based on expected increased tax revenues and reduced public assistance.\(^9\) Finally, we estimated the value of a transitional job as the wages paid by the city for that position.

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8 Social Finance cited a 2010 cost-of-illness study by Kathryn McCollister to approximate the average per-incident victimization cost in Philadelphia and then estimated the expected reduction from a transitional employment intervention.

9 Social Finance leveraged a study by the Economy League of Greater Philadelphia estimating the average annual earnings of former PPS inmates. We extrapolated this figure over a ten-year span, accounting for attrition, and applied a 30% effective marginal tax rate to calculate tax revenues and reduced public assistance. We then estimated the expected increase in employment from a transitional employment intervention.
WHAT IS PAY FOR SUCCESS?

Pay for Success is about measurably improving the lives of people most in need by driving resources toward better, more effective programs.

At its core, PFS is a public-private partnership that expands funding for high-quality social services through a performance-based contract. PFS projects enable federal, state, and municipal governments to partner with high-performing service providers by tapping private investments to cover the up-front costs of programs. If, following a third-party evaluation, the program is successful in reaching pre-determined outcomes, then government repays the original investment. If the program exceeds those outcomes, the government pays a small return on the investment. If the program does not achieve its target results, government pays nothing.

In this way, PFS ensures that taxpayer dollars are being spent only on programs that actually work—expanding access to quality services for those who need them the most.

ESTIMATING THE COST-BENEFIT PROFILE OF AN intervention is at the heart of any PFS contract—directly informing the price of each outcome for the jurisdiction and funders. There is no simple answer for estimating the value created by an intervention, but there are a few considerations to help guide the process:

• **SELECT OUTCOMES DIRECTLY RELATED TO THE PRIMARY POLICY GOAL.** These outcomes should have meaningful impact on recipients, and have measurable benefits within the project timeframe and beyond.

• **OUTCOMES SHOULD BE EVIDENCE-BASED,** meaning that rigorous evaluation has shown that the intervention consistently achieves positive impact.

• **THINK BEYOND DIRECT ECONOMIC SAVINGS** (such as, in Philadelphia, reduced bed days at PPS) to include the value generated to other parts of the jurisdiction or state (such as reduced bed days at state prisons) and to society (such as improved public safety).

• **BE THOUGHTFUL ABOUT CONSIDERING MARGINAL COST OR AVERAGE COST** in estimating the value of outcomes. The right balance will vary by context, intervention, and policy objectives.

• **REMEMBER THAT DATA ARE ONLY ONE INPUT** to defining and valuing outcomes. A reasonable cost-benefit analysis will rely on assumptions, compromises, and inputs from a range of stakeholders.

LESSONS LEARNED
2
UNDERSTANDING GOVERNMENT FUNDING STREAMS

ASSESSING THE VALUE CREATED BY AN INTERVENTION IS only the first step of a Pay for Success cost-benefit analysis. The next step is understanding what value accrues to which parts of society, whether taxpayers, government agencies, or the community broadly, to identify a potential outcomes payor for a PFS project. While some of the value, such as increased wages or lower crime rates, goes directly to individuals and communities, a portion accrues to government budgets, such as reduced bed days at PPS. Since social services are typically financed through a complex web of local, state, and federal funding sources, understanding which agency budget benefits from avoided service costs can be complicated.

DHS wanted to use PFS to reduce the percentage of system-involved youth placed in out-of-county residential facilities. After reviewing dozens of programs which focus on reducing out-of-home placements, Social Finance prioritized Functional Family Therapy (FFT). FFT is an intensive, family-driven therapy intervention that can be used as an alternative to incarceration or out-of-home placement. DHS already offered FFT to a small number of Philadelphia youth, but PFS could expand access to FFT, which had demonstrated impact on improved educational attainment and reduced days spent in foster care, congregate care, and detention centers. After estimating a value for these outcomes, we attempted to identify where this value would accrue. For each averted out-of-home placement, which government entities benefit?

Consider a hypothetical teenager, Sam, who is removed from her home. Sam is arrested by the police for school truancy, processed by the courts, and sent to a juvenile detention facility. After a few days at the detention facility, Sam is seen by a judge who sends her to a group home in Allegheny County. Sam receives educational and
behavioral health services while at the group home for six months before returning home to Philadelphia. Sam has interacted with four to six agencies—and that’s just one potential pathway.

The flow of costs between agencies in such a complex system is, of course, complex. Police costs for Sam’s arrest are borne by the Philadelphia Police Department. Adjudication costs are borne by the court system. Juvenile detention costs are split between the state and city Departments of Health. The group home costs are split among the federal government (which covers 53.5%), state DHS (which covers 37.1%) and city DHS (which covers 9.30%). Educational services at the group home are paid for by the School District of Philadelphia, and behavioral health services are borne by the city’s Department of Behavioral Health and Intellectual Disability Services and Community Behavioral Health—which, for its part, is reimbursed by Medicaid dollars, split between the state and federal government according to the Federal Medical Assistance Percentage for Pennsylvania.

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**FIGURE 3**
The interagency costs of out-of-county placement

<table>
<thead>
<tr>
<th>AGENCY</th>
<th>SERVICE</th>
<th>EXAMPLE RESIDENTIAL SERVICE COST PER DAY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of Behavioral Health and Intellectual Disability Services / Community Behavioral Health</td>
<td>Behavioral Health Treatment</td>
<td>$261–$588</td>
</tr>
<tr>
<td>Department of Human Services</td>
<td>Social Services, Room &amp; Board, Misc.</td>
<td>$3–$158</td>
</tr>
<tr>
<td>School District of Philadelphia</td>
<td>Regular Education</td>
<td>$43–$73</td>
</tr>
<tr>
<td></td>
<td>Special Education</td>
<td>$167–$200</td>
</tr>
</tbody>
</table>

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10 Social Finance referenced costs cited in a 2013 School District of Philadelphia report on outside educational institutions for this figure.
11 Community Behavioral Health (CBH) is a not-for-profit 501c (3) corporation contracted by the City of Philadelphia to provide mental health and substance abuse services for Philadelphia County Medicaid recipients.
12 This assumes the group home is covered by Pennsylvania’s Title IV-E Waiver Demonstration Project, which allows the state more flexible use of federal funds in order to test new approaches to service delivery and financing structures.
Five Themes in Pay for Success Exploration

After interviewing budget officers and reviewing administrative data, and with a few assumptions about how children typically move through the system, Social Finance was able to estimate the value of positive child welfare outcomes to different city entities. 

_Ultimately, our payor analysis of FFT suggested that the value of its services flows primarily to the state, rather than to the city—suggesting that it is not a strong candidate for a Philadelphia-based PFS project. In some cases, however, it may be possible to overcome these kinds of “wrong pockets” problems, in which one level of government invests and another benefits. For example, in the South Carolina Nurse-Family Partnership Pay for Success project, the Department of Health & Human Services applied for a waiver to allow federal Medicaid to fund Nurse-Family Partnership services which would otherwise not have been eligible for Medicaid reimbursement and would have to be paid for by the state._

In other cases, the pure economic rationale may matter less if elected officials already have a strong mandate to make progress on a particular issue, and therefore have more flexibility to act as a payor. For example, we have seen cities or counties that have a compelling need to reduce chronic homelessness and use PFS as a way to gain transparency and accountability in their efforts. While the economic benefits clearly support the efforts, they are not the primary driver for PFS.

**FIGURE 4** The pathway to placement for one youth

1. **Sam is picked up by the police**
   - Philadelphia Police Department

2. **Sent to juvenile detention facility**
   - State DHS
   - City DHS
   - City Courts

3. **Sent to a group home in Allegheny County**
   - Federal Government
   - State DHS
   - City DHS

4. **Receives education services while at group home**
   - Philadelphia Department of Behavioral Health
   - State Medicaid
   - Federal Medicaid

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4
UNDERSTANDING THE FUNDING FLOWS IS ESSENTIAL FOR identifying a potential government payor for a PFS project. The value of interventions often extends beyond a single agency or level of government. This is particularly true when service costs are split between federal, state, and local levels. However, there is no question that PFS contracting is simpler when costs are concentrated within a single agency or level of government. While there is great potential to use PFS to align incentives across levels of government and to capture benefits across many agencies, it adds complexity and time to engage multiple agencies and levels of government.

For this reason, it is essential to understand how each dollar of the budget for a given social service is funded—by which agency and under what cost-sharing agreements. If substantial benefits are spread across multiple levels or entities of government, it is important to involve members of those agencies/jurisdictions when assessing the feasibility of a PFS project.

While the value generated for a government payor’s budget is a piece of the puzzle, it is important to remember that PFS interventions often generate significant value beyond this which can motivate an entity to act as payor, such as by moving the needle on an important policy priority or providing value to taxpayers and the community more broadly.
The ability to track individuals through different agencies—rather than making assumptions based on aggregate-level data—strengthens PFS projects.
IN THE FIRST WEEKS OF THE FEASIBILITY STUDY, SOCIAL FINANCE sat with the data team at PPS to answer two questions: Who would a PFS project serve, and what would be the impact of a successful PFS project for PPS?

PPS provided three data sets on the previous year’s inmate population. The first described the demographic characteristics—age, gender, race, educational attainment—of the jail population, aggregated by Philadelphia zip code. It also included the average number of PPS encounters for each demographic subgroup. The second data set included an inventory of all PPS programs and services offered within their jails, the total number of participants in each service, and their average one-, two-, and three-year recidivism rates upon release. Finally, the third contained a list of all vendor contracts including vocational training, education and re-entry services, and their associated costs to PPS.

In a PFS project, we are often unable to access all of the data we would like, due to issues with privacy concerns, availability, accuracy, data integration, or government capacity to run the data. For instance, PPS does not track inmates’ employment or housing status upon release, because its responsibility ends with release. Data sharing restrictions limit PPS, and many other agencies, from reporting inmates’ path to incarceration (i.e., pre-trial, probation, parole, or sentenced) or charge type (i.e., property, person, drugs, weapons, vehicle or other). These data points would help us to better understand the target population, assess their service needs upon release, and refine the assumptions underlying our cost-benefit analysis. Where local historical data was not accessible, we relied on group-level data or PPS’ expertise on the target population, as well as state and national cost data.

Beyond understanding how individuals flow in and out of PPS, we also focused on interactions with other agencies—Adult Probation and Parole Department, the Philadelphia Police Department, the Department of Behavioral Health, the Office of Supportive Housing,
and the emergency medical systems. Ideally, we would be able to track an individual through each of these systems but like many jurisdictions, Philadelphia does not have an integrated data system to track individuals. To mitigate that, Social Finance worked with other agencies to estimate the number of active parolees from PPS, as well as their service needs around substance use, mental health, and homelessness. Combined with PPS data, this gave us a more holistic understanding of the target population.

The ability to track individuals through different agencies—rather than making assumptions based on aggregate-level data—strengthens PFS projects. Integrating data systems across agencies requires significant commitment from senior government officials and dedicated resources to implement. Other jurisdictions have leveraged resources, such as local academic research centers or quasi-governmental state longitudinal databases, to decrease the costs of aggregating data.

Even if an agency has the requested data, sharing data can be challenging too. Integrated data sets present privacy concerns. For example, Pennsylvania’s Criminal History Records Information Act limits access to individual-level criminal history data and sharing, even between government agencies. Beyond the feasibility study, individual-level data is essential for the implementation of a PFS project. Data on individuals’ experiences are important to track their specific outcomes and for active performance management to course correct and improve operations.

As part of our recommendation, we advised the city to pursue legal avenues for increasing data sharing among agencies. For example, it may be possible for PPS to share data with a nonprofit service provider as long as they are considered an extension of the criminal justice system. Another avenue may be to request approval from the Pennsylvania Attorney General’s office allowing the instance of data sharing.
DATA ARE ESSENTIAL TO IDENTIFY OUTCOMES, CALCULATE their value, and track the target population. Focusing on, and requiring, high-quality, real-time data to better understand a jurisdiction’s vulnerable population and their outcomes is valuable for a jurisdiction long beyond the life of a PFS contract.

- **ACCESS TO DATA OFTEN CAUSES THE GREATEST DELAYS IN THE FEASIBILITY PROCESS.** Jurisdictions considering PFS should consider their ability to collect, share, and integrate data on the relevant populations as early in the process as possible.

- Ensure the relevant data teams **EXPLORE AND UNDERSTAND THE LEGAL AVENUES FOR SHARING DATA** between agencies and with external parties.
PAY FOR SUCCESS CONTRACTS LOOK DIFFERENT FROM other contracts; they procure for outcomes, not for services. PFS builds on typical procurement, contracting, and legislative norms. Philadelphia’s legal team spent time thinking through the details of implementing a PFS project, asking and answering hard questions, and considering the legislative context.

Where Philadelphia would ordinarily contract with a nonprofit to provide a specified service—transitional jobs for reentering citizens, for example—in a PFS contract, the city simply agrees to pay for outcomes—such as attributable increases in employment or reductions in recidivism. The PFS agreement gives the service provider more latitude as to how outcomes are achieved. In this respect, PFS asks government to think about procuring services differently, and in return, government only pays if outcomes are achieved.

The city was particularly focused on ensuring sufficient oversight of a potential PFS project service provider. The potential risk of harm to a child added urgency to the question. By providing government with rigorous data, evaluation, and ongoing performance management, PFS governance structures can often provide more, not less, government oversight than a typical services contract. For instance, in Increasing Employment and Improving Public Safety in New York State, the state receives bi-weekly updates on individuals enrolled in the program, and their progress through it—a much higher level of transparency than similar non-PFS contracts. Similarly, in the South Carolina Nurse-Family Partnership Pay for Success Project, an executive committee which includes senior staff from the Department of Health and Law Department meets quarterly to review summary reports tracking progress toward referral and enrollment targets, graduation and attrition rates, project impacts, and other relevant operational metrics.
As more jurisdictions launch PFS projects, they have taken different approaches to ensure appropriations for future outcomes payments.

**FULL FAITH AND CREDIT** In Massachusetts, the legislature agreed to back outcome payment obligations up to $50 million with the full faith and credit of the Commonwealth. This provides the highest degree of security possible for investors, but typically requires approval from the legislature, governor and, in some cases, voters.

**SINKING FUNDS** Other PFS projects, such as Chicago’s Child-Parent Center Pay for Success Initiative, have set up sinking funds or escrow accounts which include a contractual obligation for the jurisdiction to make one-time or annual appropriations based on the expected outcome payments. This approach reduces appropriations risk for the investor but can still involve annual appropriations. As is the case in Massachusetts, establishing a fund may also require the government to secure budgetary approval.

**DEFAULT PROVISIONS** A third option to guard against appropriations risk can be to establish provisions in the PFS contract itself. A PFS contract could require that, in the event of government default, investors must be paid back principal with additional interest and penalties.
Ultimately the contracting mechanism is determined after the feasibility study, once a jurisdiction proceeds with a Pay for Success project. For Philadelphia, these contract conversations helped highlight possible legal constraints and concerns.

In addition to concerns around government oversight, the mayor’s legal team had questions about committing to pay for outcomes. When Social Finance began this project, Mayor Nutter was in his final year as mayor, and the city was looking towards a primary election later in the spring. A key question was: how can a jurisdiction commit to paying for outcomes beyond the term of a given administration?

There are various mechanisms that jurisdictions have used to meet future obligations to make outcomes payments. In many ways, this process is no different than a multi-year services contract or a municipal bond issuance, which obligate governments to make payments beyond the length of the current administration. The difference, in this case, is that government is investing in positive social outcomes rather than brick and mortar infrastructure.

In Philadelphia, a PFS contract would likely require the support of the City Council. In addition to appropriating funds through legislation, Philadelphia law requires an authorizing ordinance from City Council in order to enter into any contract exceeding four years—a typical timeframe for many PFS projects. Building support from multiple areas of government can be challenging, but can also make PFS contracts more powerful once enacted. As the result of multiple briefings and conversations during the feasibility study, Philadelphia City Council became familiar with PFS concepts, which will prepare them for considering PFS legislation if needed in the future.
PFS CONTRACTS ARE NOT BUSINESS AS USUAL; THEY require significant adjustments to standard terms and conditions. This often requires commitment and creativity from a jurisdiction’s counsel to meet the needs of the government, investors, and service providers.

• **PFS CONTRACTS FOR OUTCOMES, NOT SERVICES.** However, ongoing measurement and governance structures can ultimately **GIVE GOVERNMENT GREATER TRANSPARENCY** than typical contracts for services.

• **THE APPROPRIATIONS MECHANISM TO PAY FOR OUTCOMES** must be defined in advance. Other publicly available PFS contracts can provide guidance on how to maintain continuity beyond an administration change.

• **LEGISLATIVE SUPPORT IS OFTEN NECESSARY TO SECURE MULTI-YEAR APPROPRIATIONS.** A PFS project that has executive and legislative support is more likely to be successful through administrative transitions.
Significant government capacity—from the executive champion and relevant agencies—is needed to develop and manage a successful PFS project.
IN ORDER TO ASSESS FEASIBILITY IN PHILADELPHIA, SOCIAL Finance had to go beyond our economic analysis to consider the local context, capacity, and resources. As we have learned in other projects, significant government capacity—from the executive champion and relevant agencies—is needed to develop and manage a successful PFS project.

The Connecticut Department of Children and Families (DCF), for example, was closely involved in the development of the Connecticut Family Stability Pay for Success project to provide Family-Based Recovery services to families struggling with substance use. DCF representatives with operational, programmatic, legal, and finance experience served on various working groups with the project intermediary, service provider, and evaluator. This ensures decisions around program operations, outcome prices, payment mechanisms, and contractual structures reflect all stakeholder demands.

Even after services are launched, government continues to play a central role in ongoing data collection and performance management. In Increasing Employment and Improving Public Safety in New York State, senior leadership from the Departments of Labor, Corrections and Community Supervision, and the Governor’s office function as program champions. Senior staff are responsible for project management and oversight, leading committee calls to monitor project progress, and recommending course corrections as needed. Regional directors and parole chiefs manage the referral process. Meanwhile, the state data team has allocated resources for ongoing reporting and analysis.

In order to develop a PFS project to expand FFT, DHS would need to commit significant resources to the effort: over an anticipated 12-month contract development period, DHS would play an integral role in collecting data, defining and negotiating key elements of the program design, and reviewing the contract. Once the contract
was signed and services were launched, DHS would be central to the process of collecting and sharing data to inform ongoing performance management.

We were conscious of the fast-changing landscape of the city’s child welfare system. In the past two years, the rate of congregate care placements in Philadelphia had fallen more than eight percentage points, dropping below the national average. This was likely due to a wide range of ongoing initiatives set in motion in 2011 specifically aimed at reducing overuse of congregate care. A PFS project to expand FFT would have to complement existing efforts to improve outcomes for this population and would take significant DHS capacity to implement.

**FIGURE 5** Decline in Philadelphia’s congregate care placement rates
A FEASIBILITY STUDY IS NOT JUST ABOUT THE INTERVENTION, PROVIDER AND ECONOMICS; it also has to consider the context and capacity of the jurisdiction itself to implement a PFS project alongside its other existing priorities and programs. These practical considerations are just as important as the analysis of data, evidence, and economics in assessing the potential of PFS for a jurisdiction.

- PFS projects require **GOVERNMENT CAPACITY TO CHAMPION AND DEVELOP**, including expertise in program operations, law, and finance.

- Dedicated **RESOURCES ARE REQUIRED OVER THE PROJECT** lifetime to gather data, generate reports, oversee operations, and course correct, as needed.
Conclusions and Recommendations

Conclusions

AND

Recommendations
ULTIMATELY, WE RECOMMENDED THAT PHILADELPHIA SHOULD PURSUE PAY FOR SUCCESS, BUT ONLY IN PARTNERSHIP WITH THE STATE GIVEN THE BENEFITS GENERATED ACROSS THE CITY AND STATE LEVELS.

In particular, the city chose to prioritize the expansion of transitional job reentry programming to reduce recidivism. The intervention provided a vulnerable population with greatly needed services; high-quality local service providers had capacity to scale operations in the city; the program created significant positive benefits well above the costs; and PPS demonstrated the capacity and data infrastructure to support the program. While PFS could potentially be used as a tool by DHS, given the progress already made, the capacity constraints of DHS given ongoing efforts, and our findings that much of the direct economic benefit accrued to the state, the city chose not to pursue PFS to expand FFT.

Before pursuing a PFS project, the most important next step for the city was to engage with the state. While the city would benefit from lower crime rates and fewer citizens jailed, a large percentage of those who recidivate would be sentenced to serve time in state prisons. Philadelphians would benefit from increased economic opportunity and improved public safety, but substantial value would also be generated for the state. A PFS project would be most cost-effective if it was jointly pursued by Philadelphia and Pennsylvania.

The Commonwealth of Pennsylvania has continued to explore PFS to tackle chronic social issues. In the spring of 2015, the state released a Request for Information exploring PFS and was subsequently awarded full-time technical assistance from a Harvard Kennedy School Government Performance Lab Fellow. Just a few months after Social Finance delivered feasibility findings to the city, Pennsylvania released their own Request for Proposals in the summer of 2015 and competitively selected Social Finance as an intermediary to develop two Pay for Success projects in the criminal justice space. These projects are currently in development and will likely deliver services to adults and juveniles to reduce recidivism across Pennsylvania.

Pay for Success feasibility studies are complex, but their benefits extend beyond simply assessing readiness for PFS financing. They support more evidence-based, outcomes-focused funding decisions. A clearer understanding of the jurisdiction’s baseline costs and the value created through high-quality services enables forward-thinking policymakers to make more informed decisions.
about where to invest government resources. Addressing legal and institutional hurdles to PFS removes barriers to outcomes-based funding more broadly. Aligning and integrating data systems allows preventative services to be targeted at those for whom they are most effective. Strong data systems allow government to move beyond audit and compliance, and manage contracts with service providers for positive outcomes and improved lives.

We hope government agencies can use this in-depth analysis to strengthen their understanding of Pay for Success and high-quality interventions, to expand their thinking around the benefits generated by programs, and to drive their jurisdiction towards collaborative and data-driven decision-making. We are optimistic that the lessons learned in Philadelphia will help other jurisdictions in their pursuit of proven programs, delivering positive results for their communities.
Conclusions and Recommendations

Challenging the Status Quo: Philadelphia’s Exploration of Pay for Success explored some of the specific themes that surfaced during Social Finance’s feasibility study in Philadelphia. In this section, we provide a broader overview of the processes, diligence and in-depth analysis that comprise a landscape and feasibility assessment.

In Philadelphia, Social Finance adapted its proprietary framework for assessing the feasibility of PFS for a jurisdiction. We approach feasibility using a two-part process:

- An initial screening process which we call a landscape assessment, to identify community needs and potential solutions, and assess their fit with PFS against a set of criteria. This process yields an initial list of high-quality programs and potential PFS opportunities. In Philadelphia, this allowed us to dig deeper into the target population, their service gaps and needs, and to screen potential interventions for strong evidence.

- A second, deeper analysis—a feasibility assessment—to dive into each element of a selected program’s evidence, provider capacity, and impact to determine if there is sufficient value for society to support PFS financing. In Philadelphia, we conducted a detailed feasibility assessment of the top four interventions identified in the landscape assessment, including calculating a robust cost-benefit analysis for the City of Philadelphia.
Conclusions and Recommendations

Phase I: Landscape Assessment (January to February 2015)

A landscape assessment is often initiated when local stakeholders identify key challenges facing their community, such as high rates of congregate care placement or recidivism rates for young men of color. Our role is to better understand the target population and underlying causes of the challenges and to assess the broader ecosystem of high-quality local and national programs. This allows decision-makers to decide if PFS could play a role in solving one or more of the challenges.

The first stage of this work involves identifying and segmenting vulnerable populations most in need. Working with community stakeholders and drawing on local data, we explore key challenges, understanding their prevalence and demographics.

In Philadelphia, we wanted to better understand and define the populations driving the city's high rates of recidivism. We spoke with dozens of local experts within the government and in the community and reviewed publicly available data as well as data from PPS and APPD to identify hotspot zip codes, demographic pockets and types of criminal behavior for those with the highest rates of recidivism. We identified two sub-populations driving the city's high rates of recidivism: 1) frequent users of jail or prison systems who had been convicted of non-violent crimes, often related to challenges with mental illness, substance use or chronic homelessness; and 2) young men being held pre-trial at PPS for serious offenses.

Once target sub-populations are identified, we look for the best programs nationally that have demonstrated impact on the specified outcomes. This pulls from our internal knowledge of interventions and draws on local and national expertise. We then assess these interventions for PFS feasibility according to five criteria: 1) service provision to the identified target population; 2) services fill an unmet need for the target population; 3) rigorous evidence base for treating a directly similar population; 4) proven impact on relevant outcomes (e.g. congregate care reduction and recidivism reduction); and 5) provision, or potential for provision, by local service providers with the capacity to scale operations. This screen helps narrow the landscape of interventions to the highest potential interventions for deeper feasibility assessment. In Philadelphia, this narrowed the landscape to 12 potential interventions.
FIGURE 6  Landscape assessment overview

**ISSUE AREA SCAN**

- Identify key priorities within government, community
- Review potential interventions from Social Finance database and other sources

**COMMUNITY NEED DIAGNOSTIC**

- Size the issue by number affected; compare to similar geographies
- Prioritize issues according to size and fit with community priorities

**INTERVENTION & PROVIDER REVIEW**

- Develop set of interventions, outcomes, and supporting evidence
- Assess timeframe to achieve and measure outcomes
- Recommend issue area(s) for feasibility study
Phase II: Feasibility Assessment (March to April 2015)

Social Finance worked closely with the Mayor’s Office, PPS and DHS to review the dozen potential interventions identified as high potential in the landscape assessment and to choose four interventions for detailed feasibility assessment in Phase II. This short-list included three interventions to reduce recidivism—a transitional jobs reentry program, a cognitive behavioral therapy program targeting criminogenic behavior, and a permanent supportive housing program—and one intervention to reduce out-of-home placements—Functional Family Therapy.\(^\text{13}\)

For these selected programs, we performed a deeper analysis of their evidence base, evaluated the capacity of local or national providers with potential to expand in Philadelphia, and estimated the cost-benefit profile of a PFS project. We conducted a Philadelphia-specific cost-benefit analysis for each intervention and further refined assumptions about target population, local service provision, legislative requirements, and investor landscape. Reasonable analysis can generate different returns on investment based on underlying assumptions and definition of benefits generated. Our analysis included effect sizes based on rigorous evaluations of interventions and costs from city administrative data. The return on investment analyses included calculations of costs averted and broader social value generated.

Roadmap to Pay for Success

Over the four months we spent assessing the feasibility of PFS in Philadelphia, we held more than 50 structured interviews with local and national experts, reviewed roughly 100 potential interventions, and calculated four detailed cost-benefit analyses. We also evaluated the broader context of Philadelphia for PFS—the upcoming mayoral election and political transition, the necessary role of the state, the legislative support, and the investor landscape—to inform our recommendations. Our final product was a roadmap to PFS for Philadelphia with a set of detailed recommendations on next steps.

\(^{13}\) Social Finance was directed to evaluate interventions rather than specific service providers, to ensure the feasibility assessment did not jeopardize the city’s ability to fairly and competitively procure a provider if they decided to move forward with a PFS project.
FIGURE 7 Feasibility assessment overview

**LANDSCAPE**

- Identify Target Population
- Assess Service Providers
- Determine Interventions

**REVIEW EVIDENCE**
- Formal evaluations
- Program data
- Similar interventions

**DEFINE METRICS & ANALYZE ECONOMICS**
- Cost-benefit analysis
- High-level financial model

**ASSESS PUBLIC SUPPORT**
- Public/payor support
- Administrative data availability

**EVALUATE ORGANIZATIONAL CAPACITY**
- Data performance and measurement
- Growth strategy and planning
- Financial management
- Market landscape and competitive analysis