

Social Impact Perspectives

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Insights and Opportunities for Social Impact Financing

The Results Act: Federal Funding Available to Tackle Social Challenges

Pension shortfalls. Crumbling infrastructure. Wage pressures. These are only a few of the budgetary pressures facing state and local governments. It's no surprise that, with so many demands on limited tax dollars, funds needed to address social problems are being diverted.

In addition to the human toll, failing to address social problems also has substantial economic impact. For example, homelessness of vulnerable citizens has a financial impact at all levels of government. Chronically homeless individuals are heavy users of hospital emergency departments, often including expensive crisis services due to disabling medical or behavioral health conditions. And homelessness and incarceration (costs of which are significant) are intimately linked. In addition, lack of a stable address can present a barrier to employment, which leads to lost income tax revenue. According to the National Alliance to End Homelessness, a chronically homeless person costs the American taxpayer an average of \$35,578 per year.

In its 2018 annual homeless assessment report to Congress, the U.S. Department of Housing and Urban Development estimated that 552,830 people in the United States (that's 17 in every 10,000 citizens) were experiencing homelessness in any given night in 2018. Of those citizens, 33% are people in families with children, and one-fifth of people experiencing homelessness on a single night in 2018 were children. Homelessness is a problem with both a societal and financial impact. But, with limited government funds available, creative funding options to solve this, and other social problems, are needed. As a result, an increasing number of governments have turned to innovative financing to tackle social issues—most notably, the U.S. Department of Treasury has allocated \$100 million to support state and local governments implementing Pay for Success projects.

The Pay for Success Toolkit

Pay for Success is a collection of principles and tools that governments can use to drive outcomes-based decision-making and improve results for underserved populations. At its core, Pay for Success is about measurably improving the lives of people in need by getting better outcomes per dollar.

A Pay for Success project begins with a social issue (like homelessness) that a government is trying to address. After identifying successful interventions, governments work with partners to scale the work of effective service providers and interventions. The results of this work are measured by an independent evaluator, which determines whether the chosen outcomes have been achieved. Following the independent

evaluation, governments repay partners if the intervention has been successful according to a performance-based contract.

The first Pay for Success project in the U.S. launched in 2013 in New York City. Since then, the U.S. Pay for Success (PFS) market has grown rapidly. There are now 26 launched projects addressing issues as wide-ranging as providing universal pre-kindergarten, reducing recidivism, and providing vocational training for immigrants and refugees—with many more projects in development.

In addition to the growth of the market, there is increasing bipartisan support for the evidence-based practices at the heart of Pay for Success. The Social Impact Partnerships to Pay for Results Act (the Results Act) demonstrates such support. An idea first developed in 2013 and enacted as part of the Bipartisan Budget Bill of 2018, the Results Act appropriates \$100 million to support the launch of state and local Pay for Success initiatives over a 10-year period. The largest portion of the funds has been allocated to supporting outcomes payments with additional funds available for both evaluation costs and feasibility studies.

Overseen by the U.S. Department of Treasury, the Results Act presents an opportunity for state and local governments to leverage federal funding to tangibly advance their policy objectives, deliver measurable results for individuals and communities in need, and catalyze the incorporation of outcomes-driven practices into funding and contracting decisions.

The Results Act Opportunity for State and Local Governments

On February 22, 2019, the U.S. Department of Treasury released a Notice of Funding Availability (NOFA) under the Results Act for up to \$76.3 million to support Pay for Success outcome payments and evaluation costs. State and local governments and federally recognized Indian tribes are eligible to apply. Proposals are due on May 22, 2019, and must include:

- ✓ A project narrative;
- ✓ An evaluation design plan;
- ✓ An outcome valuation analysis;

- ✓ A contract with the independent evaluator; and
- ✓ A partnership agreement between the applicant and any relevant partners (which may include an intermediary; service provider(s); the evaluator; and/or private funders).

Each of these criteria constitutes a building block of a Pay for Success project. In addition to the outcomes funding currently available, Treasury is expected to release a second NOFA later in 2019 to support Pay for Success feasibility. Therefore, if a state or local government has been considering utilizing Pay for Success to tackle a problem in its jurisdiction, it will soon be able to apply for Results Act funding to begin developing the building blocks for its own PFS project in the form of a feasibility study.

Uniting Uncommon Partners around a Common Goal

In early 2016, the City of Denver, with a sizeable homeless population, launched its first Pay for Success project to provide 250 of its most vulnerable residents with permanent supportive housing. Aply named the Denver Housing to Health Initiative, the project sought to tackle a wide range of social outcomes by providing chronically homeless individuals access to stable housing. Private investors supplied the initial funding for the wraparound services provided by the Colorado Coalition for the Homeless and the Mental Health Center of Denver. Repayment from the City of Denver was dependent on maintaining housing stability for the residents and decreasing jail-bed days. Success in achieving these outcomes is measured by the Urban Institute, the project's independent evaluator. Due to the success of the supportive housing program, the first housing stability payment to investors occurred in October 2017.

At its heart, Pay for Success financing serves as an opportunity to unite uncommon partners around a common goal. By focusing on defined outcomes, using data to make decisions, tying payments to performance, and applying strong measurement,

For More Information

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PFS projects align governments, service providers, and funders. This collaboration creates an opportunity to spend government dollars more effectively and to tangibly improve the lives of those in need.

In addition to the trifecta of government, service providers, and funders, Pay for Success projects often come together with outside support. As the intermediary in a Pay for Success project, Social Finance acts as a coordinator and project manager for government, service providers and impact investors, driving the design, negotiation, and financial structure of the project. Social Finance also mobilizes the necessary capital from multiple sources for the Pay for Success project and performs ongoing investor relations and active performance management services.

Chapman and Cutler LLP (Chapman) has served as lender's counsel, government counsel, service provider's counsel, and intermediary's counsel in several Pay for Success transactions across the country, providing Chapman a broad base of experience with this innovative financing tool and a deep understanding of the goals and concerns of government participants in these transactions.

Interested in Exploring Pay for Success?

The May 22 deadline for the Results Act NOFA is fast approaching. If you'd like to take advantage of this opportunity and leverage federal funding to improve lives for those in need, learn more at [treasury.gov/SIPPPRA](https://www.treasury.gov/SIPPPRA).

For governments that are interested in exploring outcomes-based financing at an earlier stage, you can view Pay for Success project design options, covering issue areas from homelessness, maternal health, to recidivism, at socialfinance.org/SIPPPRA/competition.

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