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Chief Executive Officer

October 23, 2014

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
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Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

PAY FOR SUCCESS BLUEPRINT FOR THE COUNTY OF LOS ANGELES

On October 15, 2013, the County of Los Angeles Board of Supervisors moved that the Chief Executive Officer:

1. Convene an advisory group comprised of external Pay for Success financing experts, the Auditor-Controller, County Counsel, the Director of the Internal Services Department, and the Treasurer and Tax Collector. The sole purpose of this advisory group will be to develop the blueprint, including contractual and financing guidelines, that enables the Board to launch Pay for Success initiatives that meet the readiness assessment criteria described in the Chief Executive Officer's August 20, 2013 memo.

2. County Counsel should provide guidance to ensure that participation by external experts is compliant with County procurement policies and procedures.

3. Prioritize launching an initiative that targets soon-to-be-released inmates who are at risk of becoming homeless once released and returning to jail and/or prison.

4. Report back within 90 days with a written blueprint report that includes:

    a. Criteria for selection of interventions that are operationally and programmatically suitable for a Pay for Success initiative;

b. Options and recommendations for securing and contracting with evaluators and intermediaries to facilitate implementation of the Pay for Success concept;

c. Guidelines for the development of a financing model, including a payment structure that is based on the demonstration of outcomes achieved and addresses the process for County-wide and departmental budget augmentations; and

d. Recommendations for changes to the County's fiscal, procurement, and other policies and procedures that would be required for implementation.

BLUEPRINT COMMITTEE

In response to the Board motion, a Blueprint Committee was formed to develop a blueprint for launching Pay for Success (PFS) initiatives, and the Group included representatives from the County departments identified in the Board motion. The role and responsibilities of each department are as follows:

Table 2: County of Los Angeles PFS Blueprint Committee

Department	Responsibilities
Chief Executive Office	Coordinates development of blueprint report Serves as County budget subject matter expert
County Counsel	Ensures compliance with County policies/procedures
Auditor-Controller	Subject matter expert lead expert on accounting
Internal Services Department	Subject matter expert lead expert on procurement
Treasurer and Tax Collector	Subject matter expert lead expert on fiscal and financing matters
Consultant	Third Sector Capital served as subject matter expert providing information on PFS models and best practices

This report is structured in three sections:

- Section I: Background on PFS – Provides a high-level overview of the goals and objectives of a PFS Initiative;

- Section II: County of Los Angeles PFS Blueprint – Provides a recommended Blueprint for how Los Angeles County, if approved by the Board, could undertake the implementation of successful PFS initiatives; and

- Section III: Examples of PFS Interventions (Appendix) – Provides example of how the Commonwealth of Massachusetts launched its PFS initiative, highlighting the goals and financial components, along with performance outcomes. Additional examples from other jurisdictions are also highlighted.

Upon Board approval of the Blueprint, we would like to work with your staff and County departments so that we can: 1) define a recidivism project in order to request and obtain state funding; and 2) make recommendations for other potential projects to address intervention area(s) either selected by the Board and/or proposed by the County departments.

If you have questions, or need additional information please contact Antonia Jiménez at ajimenez@ceo.lacounty.gov, or at (213) 974-7365.

WTF:AJ
VD:ljp

Attachment (1)

c: Executive Office, Board of Supervisors
County Counsel
Auditor Controller
Internal Services Department
Treasurer and Tax Collector

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Attachment 1

COUNTY OF LOS ANGELES

PAY FOR SUCCESS BLUEPRINT

A Guide to Structuring an Initiative

October 2014

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EXECUTIVE SUMMARY

This report provides a high level overview of the Pay For Success (PFS) concept; presents general information on the essential components to take into consideration when selecting an intervention; and recommends a Blueprint for launching a PFS Initiative in Los Angeles County.

The County of Los Angeles' PFS Blueprint Committee researched various PFS models to make recommendations on: program selection criteria, the solicitation process, financing, evaluation of outcomes, and payment structures. This Blueprint presents a roadmap for the County to implement a PFS project. It proposes the creation of a PFS Steering team to oversee the selection, development and implementation of a PFS Initiative.

HOW DOES A PAY FOR SUCCESS MODEL WORK?

The following PFS model (Fig. A) illustrates five overarching steps to launch an initiative, and presents the framework for the eight tasks outlined in the PFS roadmap (Fig. B).

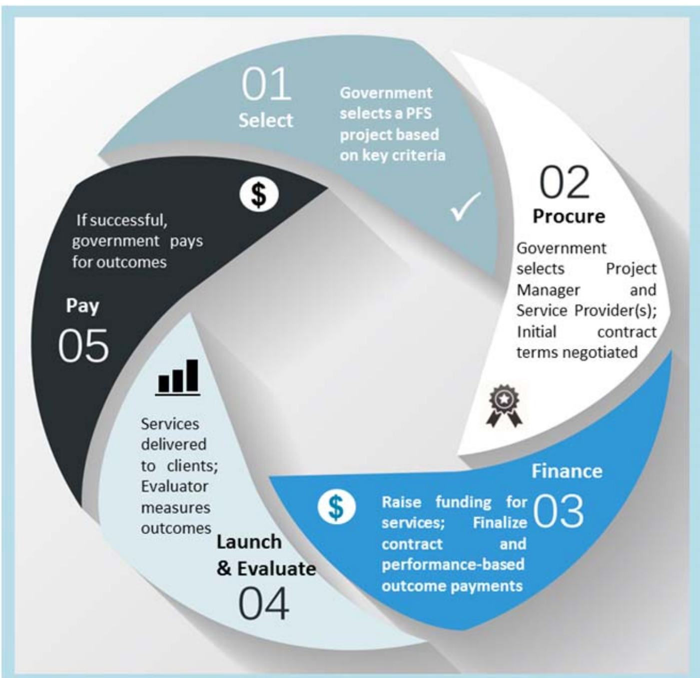


Fig. A: Five Steps for Government to Launch a Pay for Success Initiative from development to implementation

1. **Select** – Select and Prioritize Intervention issue area
2. **Procure** – Procure Project Manager and Service Provider(s) and begin negotiating contract terms and conditions
3. **Finance** – Raise project funding and negotiate payment terms
4. **Launch & Evaluate** – Implement project and evaluate outcomes
5. **Payment** – Pay for any successful outcomes achieved

The following highlights the report's recommendations for how the County could pursue a Pay For Success Initiative.

I. **Selection** – Highlighted in the Blueprint are critical program and financial criteria and characteristics for consideration when selecting an intervention that is preventative and is estimated to produce cost savings. In addition, we developed a Selection Criteria Continuum (Figure 3, page 15) which identifies the characteristics of interventions with low, medium and high potential for success.

II. **Procurement** – The Blueprint recommends that a Request for Concept Paper Procurement methodology be used to select projects as it provides a flexible solicitation tool and establishes a process whereby the County will solicit concept papers for proposed Pay For Success models. Based on the concept papers received, the County will determine which proposed service delivery model would best serve constituents and increase the project's likelihood to achieve desired outcomes. To effectively implement the initiative, the County would need to:

- Select a Project Manager (also known as the Intermediary) who would be responsible for spearheading the initiative and working with the County to partner with providers, funders, and a Third Party Evaluator.
- Establish a list of Qualified Service Providers. The County would ensure that the providers on the list are in good standing with the County. The Project Manager would use this list to select providers to participate in the initiative.
- Work with the Project Manager to select a Third Party Evaluator responsible for designing and implementing a rigorous evaluation to determine if outcomes are achieved by the initiative. This includes establishing baseline data and helping the County determine the value of the project outcomes. In addition, they will be validating that the outcomes have been met before the payments are processed by the County.
- Participate in contract term negotiations to ensure the County's best interests are represented.

III. **Finance** – After initial contract terms and project plans are developed, parties approach funders to discuss **upfront funding** for the project, which may include a combination of private and/or philanthropic organizations.

IV. **Project Launch** – Upon project launch, the upfront funding is used for **delivering services and operations**, including coordination, management, and evaluation of the project.

V. **Payment** – Once services are delivered, the **evaluator measures and validate outcomes**. If the evaluator finds that the project is successful, the government makes a **performance-based success payment** to the project based upon the outcomes achieved.

The following characteristics of PFS show that through greater accountability, more effectively managing interventions, and allowing for flexibility and innovation in program structure, PFS projects can yield greater efficiency, improved outcomes, and cost savings.

- **Innovation** – The PFS model can enhance service delivery by giving service providers greater flexibility in program design to achieve better outcomes and serve more participants.
- **Accountability** – Aligning program flexibility and incentives with outcomes enables government to only pay for programs that have demonstrated success.
- **Improve Outcomes and Cost Savings** – By improving outcomes for a population, the need for additional more costly public services can be prevented.

The process for selection, negotiation and launch of a PFS Initiative can take up to two years. While we have proposed a procurement model that significantly reduces the procurement time and mitigates the risk of contracting with providers who are not qualified to embark on these types of initiatives, we recognize that a significant amount of time will be required to negotiate contract terms and conditions with the project manager (also known as the intermediary). Even though the County would only be entering into a core contract with the project manager, the County would be intricately involved with the negotiations with the service provider(s) and funders to ensure that the County and the clients' best interests are clearly articulated. Moreover, the County will have a vested interest in ensuring the payment terms are clearly defined and that the expected performance outcomes are understood and valued by all stakeholders.

The following presents a roadmap of the proposed Blueprint to highlights eight tasks required to develop and launch a successful PFS Initiative for the County of Los Angeles.

ROADMAP FOR DEVELOPING A PFS INITIATIVE

SELECT	❶ SELECTION OF INTERVENTION AREA	The Board can establish **priority intervention areas** or have departments propose projects within or outside these priority areas. Such areas may include: recidivism, homelessness, child welfare services, etc.
PROCURE	❷ PFS PROJECT SELECTION	Using the established criteria, select an intervention that is **preventative**, has a **high probability for success**, and is estimated to generate **cost savings**. A major criterion for project selection is long-term budgetary commitment to the program.
	❸ PROCURE THE PROJECT MNGR	The project manager (known as the Intermediary) will be accountable for **ensuring project success** and will assist in raising funding. Once the service provider(s) are qualified by the County (Step 4), the project manager will contract directly with the service provider(s).
	❹ QUALIFY SERVICE PROVIDER(S)	We are recommending that the project manager be obligated to work with the **County to pre-qualify the service provider(s)**. The project manager will be asked to select service provider(s) from the pre-qualified list.
	❺ NEGOTIATE CONTRACT TERMS	**Initial contract terms are negotiated** with the selected project manager and service provider(s), including the value placed on the outcome and the related cost savings for government.
FINANCE	❻ SECURE FUNDING	After agreement of initial contract terms, all parties approach funders to discuss **upfront funding**, which may include a combination of private and/or philanthropic organizations. With funder commitment to finance the project, all parties finalize contracts prior to project implementation.
LAUNCH	❼ LAUNCH PROJECT	Upon project launch, the upfront funding is used for **service delivery and operations**, including coordination and management of the project. Once services are delivered, the **evaluator measures and validates outcomes.**
PAY	❽ PROCESS PAYMENTS	If the evaluator finds that the project is successful, the government agency makes a **performance-based success payment** to each funder, based upon the outcomes achieved.

Fig. B: County of Los Angeles PFS Roadmap

Upon Board approval, we will work with County staff to provide the appropriate training and guidance required to select an intervention and establish the infrastructure to launch a successful initiative. The Blueprint will serve as a roadmap to help guide the County team with knowledge to set up a strong foundation in which to build an infrastructure that supports and maintains projects in order to achieve outcomes that are designed to make a significant social impact.

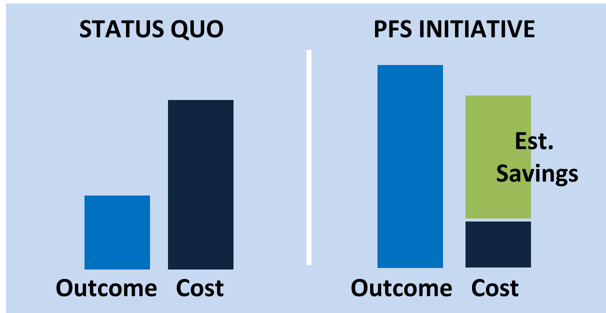
Momentum for PFS legislation is occurring at the federal, state, and local levels across our nation. In California, Governor Brown signed AB 1837 on September 29, 2014 to establish the Social Innovation Financing Program. The legislation authorizes the Board of State and Community Corrections, through the Recidivism Reduction Fund, to award grants between $500,000 and $2,000,000 to three counties to enter into a PFS or social innovation financing contract. The total amount of these grants would be limited at $5,000,000. With the signing of AB 1827 into law, we recommend recidivism as one of Los Angeles County's priority areas for a PFS project.

If you have questions or would like additional information, please contact Antonia Jiménez, Deputy Chief Executive Officer - Children and Families' Well-Being, at ajimenez@ceo.lacounty.gov, or at (213) 974-7365.

BACKGROUND

I. BACKGROUND

Fig. 1: Impact of PFS on Government



Generally, governments contract with non-profit service providers to deliver a specified set of services with defined objectives at an agreed upon price, with the goal of achieving a desired client outcome. The expectation is that the predefined service delivery model will address the client's needs and deliver the outcomes for the intended population. However, since these non-profits need a steady revenue stream to maintain their service delivery levels, payments are not aligned to outcomes but to inputs and/or transactions. Providers are reimbursed for the total number of clients served or number of forms processed. While the inputs justify the payments, there is no guarantee that expected client outcomes are achieved.

Pay For Success (PFS) initiatives are designed to change the existing landscape so that governments define the expected client outcomes upfront and only pay if the pre-determined outcomes are achieved. Through Social Innovation Financing (SIF), governments establish a shared financial risk model with private and philanthropic organizations, where clients' services are structured to meet desired performance outcomes, and government entities only pay if the outcomes are achieved.

Simply speaking, the government entity selects a specific intervention such as reducing recidivism for youth or homelessness; private and philanthropic organizations provide upfront funding to pay for the delivery of services; and government only pays if the agreed upon performance outcomes are achieved. The performance outcomes are mutually agreed upon and verified by an independent evaluator. To date, four PFS projects have launched in the United States, and several projects are under active development across the nation (see Section III for descriptions).

The ultimate goal of PFS is to enhance service delivery, improve social impact, and through **better outcomes** for clients, government realizes **cost savings**. By paying for success rather than transactions and/or inputs, PFS provides a contracting framework for government to scale interventions only after they have demonstrated successful outcomes. This innovative strategy focuses on enhancing overall service quality and program effectiveness to improve outcomes for a specific population. Through greater accountability, more effectively managing interventions, and allowing for flexibility and innovation in program structure, PFS can yield greater efficiency, improved outcomes, and cost savings.

INNOVATION

PFS provides a vehicle for government to identify an intervention; community provider(s) are responsible for implementing evidence-based solutions with the flexibility of changing and/or enhancing the service delivery model, if the desired outcomes are not being achieved. By allowing greater flexibility in program design and scaling operations to serve more participants, innovative practices can be adopted to achieve greater impact.

ACCOUNTABILITY

Providers will no longer have to adhere to specific service delivery models that may or may not generate the intended outcomes; instead providers can target specific interventions for at-risk populations. Aligning program flexibility and incentives towards outcomes enables government to fund evidence-based practices with the goal of scaling programs that have real-time demonstrated success. An independent evaluator, through very concrete and agreed upon data, determines whether the intended outcomes are achieved; ensuring total accountability.

IMPROVED OUTCOMES & COST SAVINGS

Allowing for innovation and flexibility in program design, the service providers are able to improve outcomes for a specific population and prevent the need for additional, more costly public services in the future. Success means that outcomes and cost savings are achieved.

BENEFITS AND RISKS OF PAY FOR SUCCESS

Currently, government designs the end-to-end service delivery model and providers are accountable for providing the prescribed services. Moreover, if the service delivery model is not working as planned, it is difficult for government to change the service delivery model, because contracts have already been executed with very specific guidelines. Under a PFS model, governments and service providers have more flexibility to adapt to changing circumstances. It is important to note that while the interventions are funded by private and philanthropic dollars, there are both benefits and risks to this approach, as outlined below.

Table 1: Pay for Success Benefits & Risks

Benefits	Risks
▪ Government pays only if performance outcomes are achieved and validated through a third party evaluator.	▪ Interventions selected must have quality data to support the development of a true baseline and a rigorous evaluation. If quality data is not available, it will be difficult to establish measurable outcomes.
▪ The project manager is accountable for ensuring outcomes and government does not assume financial risk, if outcomes are not achieved.	▪ Providers must be afforded the opportunity to make programmatic adjustments as necessary and tailor services to meet the specific client's need.
▪ Selected interventions are designed to meet pre-determined outcomes, based on an established baseline and rigorous evaluation of the program by an independent evaluator.	▪ Interventions span fiscal years; therefore, projects require long-term commitment by government executives to fund and pay for outcomes achieved.
▪ Provides a vehicle to fund complex programs that yield better services to clients and cost savings to governments.	▪ Prior to launching the initiative, a clear exit strategy must be developed in the event that interventions fail to achieve desired outcomes within an agreed upon timeframe. The goal is to ensure constituents are not negatively impacted.

KEY STAKEHOLDERS IN THE PAY FOR SUCCESS MODEL

There are five key stakeholders that play a crucial and unique role in the PFS model (Table 2).

Table 2: Pay for Success Model – Key Stakeholders

Player	Role
Government	▪ Contracts with Project Manager (also known as the Intermediary) and/or service provider(s). ▪ Negotiates contract terms including outcome metrics and success payments ▪ May engage in communicating program intervention to clients and raise capital.
Project Manager (Intermediary)	▪ Coordinates project implementation and manages operations to ensure quality service delivery and client outcomes. ▪ Manages contracts, cash flows, negotiates terms and fundraising. ▪ Is accountable for ensuring project success
Funders	▪ Private and/or philanthropic funders provide upfront funding through a combination of loans and grants. ▪ Loans for projects are repaid with interest, only if the project is successful. ▪ Grants can be reinvested in the project to provide ongoing “seed funding” in the future.
Service Provider(s)	▪ Provides intervention to target populations with the goal of achieving the desired outcomes.
Third Party Evaluator	▪ Objective third-party evaluator assesses whether pre-determined outcomes are achieved. Payments are issued only after the third party evaluator has validated outcomes.

COUNTY OF LOS ANGELES

PAY FOR SUCCESS BLUEPRINT

II. COUNTY OF LOS ANGELES PAY FOR SUCCESS BLUEPRINT

The County of Los Angeles (County) Blueprint Committee researched existing and new PFS initiatives within the United Kingdom and the United States. The Committee also consulted with other jurisdictions to gather information on how they selected, developed and launched their PFS intervention. Specific discussion centered on selection of an intervention, program financing, procurement processes, risk mitigation and overall payment structures. In jurisdictions where PFS Initiatives have already been launched (e.g., New York and Massachusetts), we conducted a deep dive on the established financial models and discussed best practices and lessons learned.

The recommended LA County PFS Blueprint represents a comprehensive approach for how the County could launch a successful PFS Initiative. While this is a very exciting endeavor, it is also very complex. To that end, we have developed this proposed Blueprint as a guide to help us select, develop and launch, with Board approval, a PFS initiative within the County.

ROADMAP FOR DEVELOPING A PFS INITIATIVE

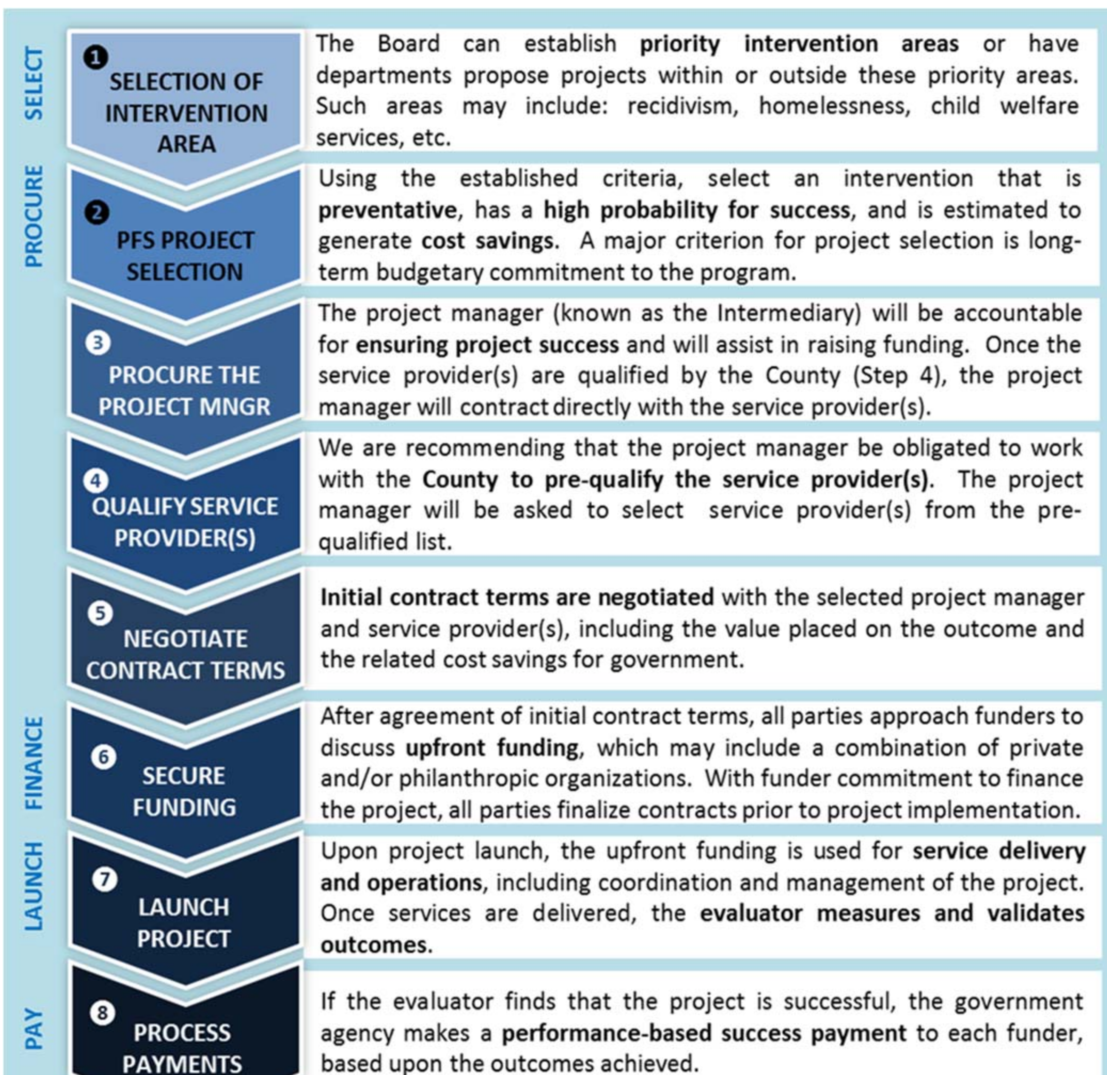


Fig. 2: PFS Roadmap

1. SELECTING AN INTERVENTION

There are numerous ways for the County to select an intervention depending on whether the Board of Supervisors wants to select a specific priority area for the first PFS Initiative.

a) The Board can prioritize a specific intervention area such as Recidivism, Homelessness and/or Child Welfare and the PFS Steering Committee can focus on finding specific projects that are in alignment with the specified intervention area. As these initiatives are complex and there is much to learn about project structure and financing models, we recommend a maximum of two projects. Throughout the implementation of these projects, we will be providing status updates. If projects are not progressing as designed, the Board can reconsider this decision. ***Since Governor Brown has signed into law AB 1837 which authorizes the Board of State and Community Corrections, through the Recidivism Reduction Fund, to award grants between $500K and $2M to three counties to enter into a PFS or social innovation financing contract, with a maximum grant amount of $5M; we recommend Recidivism as one of LA County's priority areas.***

b) The Board can direct the CEO and County departments to issue a Request for Information to obtain ideas and or suggestions for potential PFS initiatives from the community at large.

c) The Board can instruct the CEO and County departments to make recommendations for Board consideration and have County departments propose Intervention areas that they believe meet the established criteria with a high probability of success.

Please note: We recommend that the County establish a PFS Steering Committee comprised of all members of the Blueprint Committee along with representatives from County departments to implement Option C. This option would allow the Steering Committee to work with departments to identify the interventions most likely to lead to successful PFS projects, yet still allow the Board to decide which intervention areas the County should pursue. The following sections outline how the PFS Steering Committee would implement this option.

SELECTING A PAY FOR SUCCESS INITIATIVE

Section 1 of this Blueprint outlines key steps that the County could take to select a PFS initiative. This section includes key characteristics of successful PFS initiatives and serves as a guide for reviewing PFS initiatives.

1. **Inform departments and key stakeholders about PFS selection criteria**
2. **Collect application forms from departments for a specific PFS intervention**
3. **Blueprint Committee and key executives review submitted applications**
4. **Recommend to the Board which PFS initiative the County should launch**

1 INFORM ABOUT PFS SELECTION CRITERIA

The PFS Steering Committee and County executives will educate departments and key stakeholders about qualities inherent to a PFS intervention. There will be a series of PFS discussions that will present an overview of PFS program and financial selection criteria as well as answer questions. The overview will inform how a PFS structure works and the key players involved. The key characteristics of successful PFS interventions will be highlighted, as discussed below.

PROGRAM CRITERIA

Experts in the field have indicated that there are critical program criteria and characteristics that need to be considered when selecting an intervention for the PFS program.

Executive leadership support - Support from top Executives is vital to the success as long-term management decisions and prioritizing of resources will be required to ensure successful implementation. In LA County, we will need the support from the Board, County departments and CEO, who will be ultimately responsible for overseeing the intervention.

Strong, evidence-based service delivery model - The intervention should be one that has been previously evaluated with demonstrated successful outcomes. For example, if a program was designed to decrease recidivism of previously incarcerated individuals, results should indicate lower rates of recidivism for participants than individuals in a comparison group.

Well-defined population - The characteristics of the target population need to be well defined. Parameters that clearly defined the population, such as age and service needs are required to ensure that the participants selected are the most likely to benefit from the services provided. Moreover, a clearly defined population is critical to establishing the baseline, defining the expected performance outcomes and establishing the evaluation criteria.

Scalability and potential impact - Once intervention is deemed successful, ensure the intervention is scalable to meet a significant portion of the targeted population.

Clear, measurable outcomes - Sufficient data should be available that can be used to determine whether the intervention is successful. This data will also be used to establish the baseline and help define the expected performance outcomes.

Strong data collection system - Existing data collection systems are available to collect program data and help track performance outcomes. If there is no current system, such a system could be easily developed. Continuous oversight of data collection and a review of data are necessary to promote high data quality and standards.

Awareness of potential risks and benefits - Expertise within the County can support the program with the ability to adjust and refine program components to protect the County from potential risk.

Service integration - The proposed intervention fosters service integration whereby clients can benefit from improved service quality and outcomes. This also provides opportunities for greater efficiencies in the delivery of services.

FINANCIAL CRITERIA

Estimated significant savings to the public sector - Benefits to the public sector are measured by estimating government cost savings, cost avoidance, or increasing the number of clients served with the same level of investment. The intervention should enable government to target a segment of the population and more effectively use their resources.

Ability to attract funding - The intervention and overall project goal needs to be able to attract substantial interest from private and/or philanthropic organizations and the community.

Limited restrictions for use of funds - In order to provide the program with maximum flexibility, there needs to be limited funding restrictions so that the program can adjust the service delivery model to best serve the client. In addition, long-term funding commitments are required for program success and one-time funding should be limited as to not to hinder implementation of a PFS project that spans multiple years.

2 COLLECT APPLICATION FORMS FOR A SPECIFIC PFS INITIATIVE

The Blueprint Committee would develop an application form that could be periodically collected from County departments interested in proposing a PFS initiative. The application form would request information about the goal and intended outcomes of the program and a description of the target population. In addition, departments would provide baseline data on a target population to illustrate expected social impact, and they would note any available resource that could be allocated towards the project. The application would also request information about existing collaborative partnerships or interest from other County departments, community-based organizations, or private funders.

3 STEERING COMMITTEE AND KEY EXECUTIVES REVIEW SUBMITTED APPLICATIONS

The PFS Steering Committee and key executives representing various service areas would form a team to review the applications submitted by departments to determine if the proposal is a viable candidate for a PFS initiative. The team would consider the proposal's potential for success as a PFS project by assessing key financial and program criteria (Fig. 3). Applicants would be invited to present their applications and answer questions about the proposal. Based on their assessment, the team would determine which initiatives to recommend to the Board for its consideration.

FIG. 3: SELECTION CRITERIA CONTINUUM

	CRITERIA	LOW Potential for Success	MEDIUM Potential for Success	HIGH Potential for Success
FINANCIAL	COST SAVINGS	Unknown	Known Status quo	Known Improved
FINANCIAL	KNOWN FUNDING SOURCES	Lack of funder interest	Moderate funder interest	Significant funder interest
FINANCIAL	FUNDING RESTRICTIONS	Yes	Moderate	No
PROGRAM	EVIDENCE-BASED PRACTICE	Not demonstrated	Shows limited impact	Shows positive impact
PROGRAM	SERVICE QUALITY	Diminished	Status quo	Improved
PROGRAM	DATA	Lacks data	Some data availability	Demonstrates need, cost, and impact
PROGRAM	COLLABORATION	None	Some linkages	Strong partnerships
PROGRAM	MONITORING	None	Moderate	Strong; consistent

In reviewing a PFS issue area for a potential project, the Steering Committee will undertake an **assessment of the application's design** to ensure a solid plan presents parameters of the treatment population and a strong, evidence-based service delivery model. The initiative should also have a clear goal and be implemented in a reasonable timeframe so that the outcomes for participants can be measured to determine the program's success. In addition, a **review of baseline data** is essential to understanding the program's pre-determined outcomes and data collection plan. Any collaborative efforts would add value to the application and be viewed favorably, including a description of **data sharing efforts** among agencies.

For assessment of financial criteria, a **methodology to estimate public sector benefits** and any cost-effective practices would provide valuable information. Typically, a program that offers preventative services is expected to yield **cost savings** to government. Therefore, the initiative should propose significant savings to the County in order for the program to become self-sufficient once the initial program ends. Furthermore, a commitment to allocating resources, including partnerships with other interested parties, would further support the application.

Finally, an **awareness of potential risks and benefits** of the application is necessary to protect the County. The application should demonstrate flexibility and the capability to adjust and refine program components. Moreover, an understanding of potential risks and benefits can indicate the application's strengths and weaknesses and be important for consideration in the selection of an intervention. The more information provided on the initiative decreases uncertainty and risk. If reliable information is known for the criteria outlined, the application is more likely to demonstrate the likelihood that an initiative is designed for success.

4 RECOMMEND INITIATIVES TO THE BOARD

The applications will be prioritized based on their ability to meet these categories for program and financial criteria. Department representatives will be invited to present their applications and answer any questions that the Blueprint Committee has about the initiative. Up to three proposals would be selected for Board recommendation. For each proposed initiative, a complete description would be presented to the Board for consideration, including a description of how the intervention area would fit the PFS model, lead to improved outcomes for a population, a description of the target population, and baseline data. In addition, financial information that estimates public sector benefits and the total capital required to fund the initiative would be included. The potential benefits and risks of each recommended initiative would be disclosed to highlight any issue that should be carefully considered prior to selection of any intervention.

2. IMPLEMENTING PFS SOLICITATION & CONTRACTING

Section 2 of this Blueprint outlines the recommended solicitation and contracting model that the County could take to identify and contract with a project manager (sometimes called an intermediary) which will ultimately contract with the service provider(s) for a PFS initiative. The few jurisdictions that have launched PFS initiatives across the nation each have a different procurement and contracting model.

The County's Blueprint Committee carefully reviewed and considered each of these models, and developed the following recommendations.

A Solicitation: The Request for Concept Papers

The Request for Proposals (RFP) is the County's customary solicitation method. Minimum qualifications, proposal submission and evaluation are addressed in one document. The RFP process requires the County to provide a detailed Statement of Work which the selected proposer will be expected to perform. Therefore, the RFP is preferred when the County knows what it wishes to solicit and can describe it with specificity. For that reason, RFPs are not preferred for programs that require flexibility or outcome-driven performance requirements. As a result, the Blueprint Committee recommends that the County use a Request for Concept Papers to solicit its Project Manager.

The Request for Concept Papers (RFCP) is a flexible solicitation tool that functions similar to a grant application process. It permits for more open-ended responses in that it poses a problem to be solved and solicits proposed solutions, free from pre-defined work requirements that are standard in the RFP.

Using a RFCP, the County would solicit concept papers for proposed Pay for Success models. The County first would identify qualified candidates by using minimum mandatory requirements. Minimum requirements can be established based upon the County's determination of what a project manager must be required to demonstrate. For example, we know from other jurisdictions that have implemented PFS initiatives that a Project Manager must demonstrate administrative capacity and an ability to raise and/or manage funds.

Once candidates are screened to identify those who meet the minimum mandatory requirements, that group would be invited to submit substantive concept papers for innovative ideas and models. Candidates will be required to respond with detailed models that address all aspects of an intervention, from target population to financing to data collection. As a result, it is possible that some responses will identify potential service providers with whom the project manager ultimately will contract. The County will review the concept papers and select one Project Manager to secure an agreement.

Pros and Cons of the RFCP Model

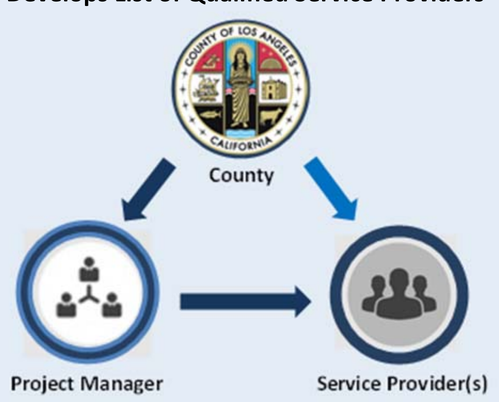
Pros	Cons
▪ Candidates given opportunity to provide innovative ideas for how to solve a specific problem. ▪ Requires candidates to define outcomes and provide an overall payment structure that would be validated by County and a third party independent evaluator. ▪ Streamlined solicitation process. Quickly eliminates any candidate who does not meet the minimum qualifications for serving as a project manager.	▪ Using mandatory Minimum Qualifications requires defining necessary characteristics in an objective and detailed format ("yes or no"). ▪ Phase II evaluation is structured differently than the RFP, and therefore, requires an evaluation panel with strong critical thinking and analytical skills.

The risks associated with using minimum mandatory requirements can be mitigated by permitting adequate time to discuss and vet those requirements. Further, even though the evaluation panel will require higher degree of sophistication and commitment than traditional service oriented solicitation, this could be achieved through mix of County contract managers and outside subject matter experts, including those from jurisdictions already implementing Pay for Success initiatives.

B Contracting with the Project Manager

County Contracts with Project Manager to Mutually Develop List of Qualified Service Providers

Fig. 4: County Contracts with Project Manager; Develops List of Qualified Service Providers



In this model, the **County contracts with the Project Manager and contractually obligates the Project Manager to work with the County to develop a List of Qualified Providers**. **The Project Manager contractually assumes risk of developing the project and does not receive any government payment until agreed-upon outcomes are achieved and verified.** The Project Manager contracts with the service provider(s) and has the flexibility to select service provider(s) from the List of Qualified Service Providers, and to make adjustments to the project throughout implementation to ensure success. The Project Manager will assist the County in determining the appropriate requirements for selecting service provider(s) for the List of Qualified Providers, based on their expertise with Pay for Success and/or the given intervention selected. For example, providers may be required to demonstrate that they have experience with performance-based service payment and the ability to refine a homeless intervention to meet outcome targets.

Benefits	Risks/Other Considerations
▪ All service providers who meet specific criteria are given an equal opportunity to compete for a contract with the Project Manager. ▪ Selection for the List of Qualified Service Providers will be based on an objective evaluation of the service provider's ability to meet the minimum requirements. Project manager's expertise may be utilized to develop the appropriate minimum requirements for service providers. ▪ Opportunity for innovation is readily available as the project manager is provided flexibility to select service providers, along with the flexibility to change service providers if needed. ▪ Project Manager is responsible for managing the project to outcomes; government only pays for the project if outcomes are achieved and verified.	▪ The County will develop the List of Qualified Service Providers, but will not be selecting the service provider(s). ▪ Requiring the project manager to work with the County to develop parameters for a List of Qualified Service Providers, and then procuring and selecting service providers may extend the overall timeline of the initiative.

Implementation Considerations

Adding Providers to the List of Qualified Providers – In projects where multiple service providers are utilized, the County can contractually require the Project Manager to run an open and continuous process for adding new service providers to the List of Qualified Service Providers so that new service providers are not excluded from being selected by the Project Manager, should changes to the initiative be required.

Pros	Cons
▪ Service providers not originally considered have equal opportunity to be on List of Qualified Service Providers in the future (continuously updated). ▪ Project Manager has flexibility to select from the List of Service Providers. ▪ Project Manager holds contracts with service providers. County will qualify service providers, but only the project manager will contract with them.	▪ County has limited control of the service providers selected because it does not have a legal/contractual relationship with them.

Summary of the Recommended Solicitation & Contracting Option –

RFCP to Select Project Manager and Then Mutually Develop List of Qualified Providers

The steps below highlight the RFCP solicitation process with the contract model (County Contracts with Project Manager to Mutually Develop List of Qualified Service Providers), which we believe would lead to selection of the most qualified partners so that a PFS intervention could be launched and implemented by the County of Los Angeles in a timely manner. The following summarizes the key steps in the recommended solicitation and contracting model.

1. **Request for Concept Papers (RFCP) released**
2. **Select a project manager**
3. **Contract with project manager to mutually develop list of qualified providers**

3. IMPLEMENTING PFS – GUIDELINES FOR FINANCING & EVALUATION

This section provides an overview of how PFS projects are funded and describes when government is expected to pay for a project's outcomes. In addition, this section outlines the steps to determine a performance-based payment methodology, which is based upon an evaluation of the program's actual outcomes.

PFS FINANCING

The flow of funding in a PFS model involves two phases:

- **Upfront Funding** for Service Delivery
- **Success Payments** Based on Performance

The funding provided by private and/or philanthropic organizations covers the costs of launching the project, including: service delivery, project management, and evaluation. Government makes success payment, only if the project achieves **predetermined outcomes**; the amount of payment is determined by the level of success achieved. The figure below shows the two phases. In the first phase, Upfront Funds finance services and operations (I). Only if outcomes are achieved, government makes Success Payments in the second phase (II).

PAY FOR SUCCESS FINANCING & PAYMENT

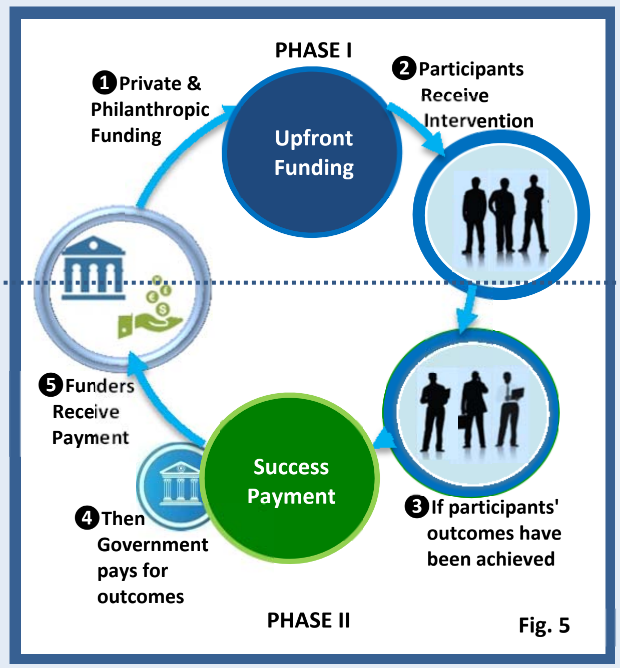


Fig. 5

Phase I: Upfront Funding for Service Delivery

- Flow of **Upfront Funds** occurs from the Private & Philanthropic Funders to the Project Manager.
- These funds cover costs related to: services, program operations, evaluation, and project management.

Phase II: Success Payments

- Government makes **success payments**, if outcomes are achieved.
- Success payments may be capped.
- The amount of success payment depends on the level of outcome achieved.
- Success payments flow from the Government entity to the Project Manager. The Project Manager distributes payments to project partners as specified in contracts, including funders and/or service provider(s).

Social Innovation Financing (SIF) is a tool that allows private and/or philanthropic organizations to provide the funding necessary to launch a PFS project. These organizations agree to cover the cost of the project upfront and bear the risk of project manager and service provider performance. Depending on the level of success achieved by the project, these funders may get paid so they can fund other projects, or they may choose to reinvest funds directly back into the program.

A **The upfront funding pays for service delivery and operation costs** **Upfront Funding**

First, funders provide financing to launch a PFS project. The cost of providing services and operating the initiative comes from these funds. Rather than government paying for services upfront, the funding raised by private and/or philanthropic organizations covers the cost of service delivery and operations, including evaluation and project management. This allows nonprofit service providers to implement programs without having to cover costs on their own, and governments to only use taxpayer dollars to pay for successful outcomes. Through the PFS framework, **government only pays for a program's results and cost savings**. Without a PFS contract, it is important to note that government pays for services regardless of whether or not the project achieves intended outcomes.

Though success payments are only made after outcomes are achieved, governments do need to reassure funders that they will make payments in the future. In currently launched PFS projects, this typically involves setting up reserve funds where annual appropriations can be made to pay for success if it is achieved. Note, however, that no government will spend this appropriation until outcomes are determined by the independent evaluator.

B **Government makes success payments based on level of performance outcome achieved** **Success Payment**

If an evaluation determines that pre-determined outcomes are achieved, the government makes success payments.

Before a program launches, government will determine how much it is willing to pay for each successful outcome the project achieves. Payments are usually calculated by determining the **value of the project**. The value is negotiated with project stakeholders depending on the issue area, expected outcomes/level of success, and the value of those outcomes to government, driven primarily by estimated government cost savings. Depending on the specific funding agreements between the project manager, service providers, and the funders, these success payments can be used to repay project funders. For philanthropic organizations providing grants to the project, success payments can be redirected back to the project to serve more constituents.

Non-philanthropic funders will require a certain amount of interest for funding the project upfront and bearing the performance risk associated with the project. The added cost of financing a PFS project will be negotiated by the County and **is minimal compared to the cost-savings expected** from preventing the utilization of more costly government services. In addition, governments will only make payments if the project is successful. In every scenario, government payments will be equal to or significantly less than the savings accrued from the project.

PERFORMANCE-BASED PAYMENT METHODOLOGY

In order for the public sector to achieve estimated savings through a PFS initiative, a performance-based payment structure must be developed by the government entity, in collaboration with funders and the project manager. The negotiated terms are the basis for the contract agreement among all parties. The following seven steps provide an overview of the decision points that government must determine in order to launch and complete a PFS project.

1. **Define Outcomes for Participants (and set Performance Target)**
2. **Negotiate Price per Outcome based on Projected Savings**
3. **Determine Success Payment Schedule**
4. **Establish Interim Metrics (Process Measures) to Track throughout Project**

PROJECT LAUNCH

5. **Track Interim Metrics**
6. **Evaluate Project Impact**
7. **If Project Successful, Calculate Success Payment**

Steps 1-4 occur prior to project launch, and these terms are negotiated with funders and the project manager before contracts are signed. Once the project is launched, Steps 5-6 assure that interim metrics are tracked and that the project is being implemented effectively. Based upon a third-party evaluation, government pays for successful outcomes achieved (Step 7).

4. COUNTY OVERSIGHT STRUCTURE

As discussed in Section 1, the Blueprint Committee and key executives representing various service areas would review applications from departments and recommend specific intervention areas to the Board for its consideration.

Once a PFS intervention area is chosen, selected members from the Blueprint Committee and key executives who participated in the review of applications would form the County's PFS Steering Committee. The Committee would recommend a project manager to the Board for the contract award. In addition, the Committee along with County Counsel would take part in the negotiation process with funders and the project manager to ensure terms and conditions are in the best interest of program participants and the County.

After the contract terms and conditions are developed, the PFS Steering Committee would continually review the progress of the intervention and receive updates from the project manager on the project's interim outcomes or milestones. The Committee would meet monthly with the project manager to review data and report milestones to the Board.

APPENDIX

— Examples —

PAY FOR SUCCESS INTERVENTIONS

III. EXAMPLES OF PFS INTERVENTIONS

LAUNCHED AND UPCOMING PAY FOR SUCCESS INITIATIVES

The map highlights government entities in the United States that have launched PFS projects or are actively constructing projects. In addition, a number of countries have implemented projects, including the United Kingdom, Canada, Australia, Mexico, Brazil, and India.

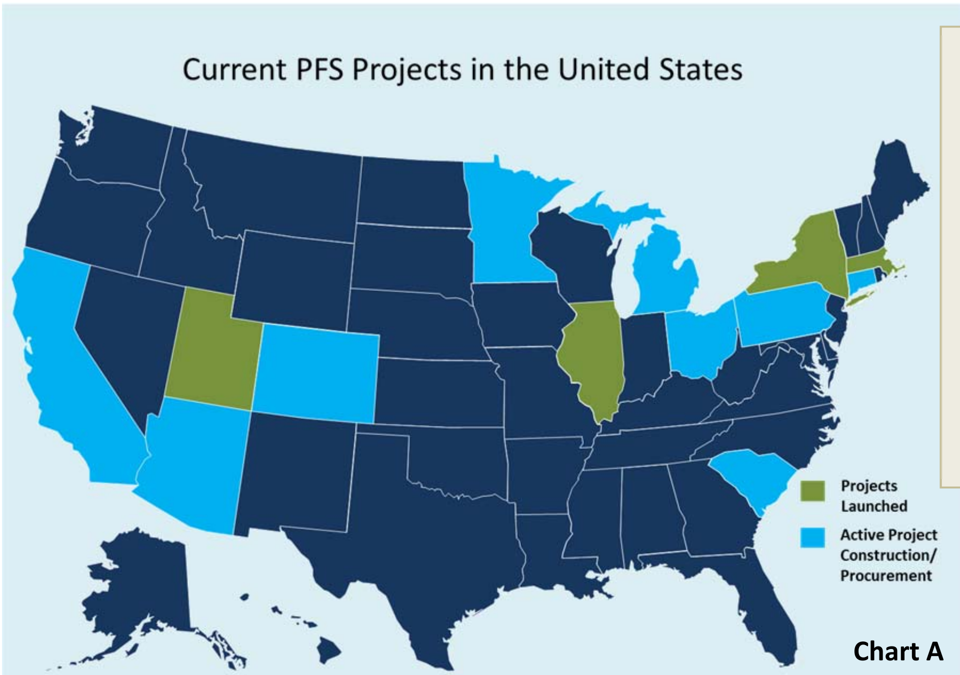


Chart A

Other Government Action

Legislative Activity: California, Idaho, New Jersey, Oklahoma, Oregon, Washington

Federal Activity: Treasury Department; Department of Labor; Department of Justice; Department of Health and Human Services; White House Office of Social Innovation; Corporation for National and Community Services

	JURISDICTION	ISSUE AREA	OBJECTIVE
Launched	**New York City, NY (2012)**	• Juvenile Justice	• Decrease recidivism
Launched	**New York (2013)**	• Justice/Workforce Dev't	• Decrease recidivism; incr. employment
Launched	**Massachusetts (2014)**	• Juvenile Justice	• Decrease recidivism; incr. employment
Launched	**Salt Lake County, UT (2013)**	• Early Education	• Reduce special education placement
Launched	**City of Chicago, IL (2014)**	• Early Education	• Reduce special education placement
Project Construction	**Cuyahoga County, OH**	• Homeless/Foster Care	• Reduce foster care placements
Project Construction	**Santa Clara County, CA**	• Chr. Homeless; Mental Hlth	• Housing retention; red. MH facility stay
Project Construction	**Illinois**	• Juvenile Justice/Foster Care	• Decrease incarceration
Project Construction	**New York**	• Juvenile Justice	• Reduce juvenile placement
Project Construction	**Fresno County, CA**	• Asthma	• Reduce hospitalization/ER visits
Project Construction	**Connecticut**	• Subst. Abuse/Foster Care	• Increase permanency; well-being
Project Construction	**Massachusetts**	• Adult Basic Education	• Improve employment outcomes
Project Construction	**South Carolina**	• Infant/Maternal Health	• Reduce ER visits, improve health
Project Construction	**Washington, D.C.**	• Infant/Maternal Health	• Reduce teen pregnancy
Procurement	**Denver, CO**	• Request for Info. (RFI)	• Various
Procurement	**Michigan**	• Request for Proposals (RFP)	• Infant/Maternal Health
Procurement	**Minnesota**	• RFI	• Various
Procurement	**Philadelphia, PA**	• RFP	• Criminal Justice/Child Welfare
Procurement	**Pima County, AZ**	• RFP	• Criminal Justice/Child Welfare

Source: Third Sector Capital Partners

COMPARISON OF PFS PROJECTS LAUNCHED IN THE U.S.

The table below compares three PFS projects, including, program characteristics, minimum performance thresholds, payment structure, and funding risk.

Table B: Comparison of Three PFS Projects

	Commonwealth of Massachusetts	State of New York	City of New York
Issue Area	• Juvenile Justice	• Criminal Justice	• Juvenile Justice
Intervention	• Job training support groups, behavioral therapy, and educational counseling	• Job training and employment services	• Reintegration services based on cognitive behavioral therapy
Population	929 17-24 yr old high-risk males	2,000 formerly incarcerated adults	10,000 16-18 yr old at-risk youth
Budget	$21.3 million	$13.5 million	$16.8 million
Time	7 years	5.5 years	5 years
Minimum Performance Threshold	• 5% decrease in days of incarceration (bed days)	• 5% increase in employment; • 8% decrease in recidivism *(36.8 bed days)*	• Decrease in recidivism; 8.5% reduction in bed days
Success Payments	• Payment cap at $27 M for outcomes • Success payments initiated in year 4 • Success payment per outcome varies depending on level of success	• Payment cap at $11.1 M in Phase 1 • Pays 100% of savings until original investment repaid; additional payments calculated at 50% of savings • Phases 1 and 2 paid at end of years 4 and 5.5	• Half of principal repaid at 8.5% success, full principal at 10%, base interest at 11%; full payments at 20% success • Payments in years 3 and 5 based on 12 and 24 month evaluations
Funder Risk	All principal at risk; repayment dependent on reaching target	Philanthropy to provide first loss guarantee for 10% of principal	Bloomberg Philanthropy to provide $7.2 M first loss guarantee to repay 75% of principal
Capital Stack	• Senior Loan • Junior Loans • Philanthropy (no credit enhancement)	• Equity Investments • Philanthropy (credit enhancement)	• Senior Loan • Philanthropy (credit enhancement)

Sources: Third Sector Capital Partners;
Investing in What Works: "Pay for Success" in New York State Increasing Employment and Improving Public Safety. March 2014.

— APPENDIX —

COMMONWEALTH OF MASSACHUSETTS

JUVENILE JUSTICE PFS INITIATIVE

EXAMPLE - MASSACHUSETTS JUVENILE JUSTICE PAY FOR SUCCESS INITIATIVE

The Massachusetts Juvenile Justice Pay for Success Initiative launched in January 2014, and this section highlights important components of the project, specifically the: 1) Intervention; 2) Project Financing; 3) Payment Structure; 4) Contracts; and 5) Governance.

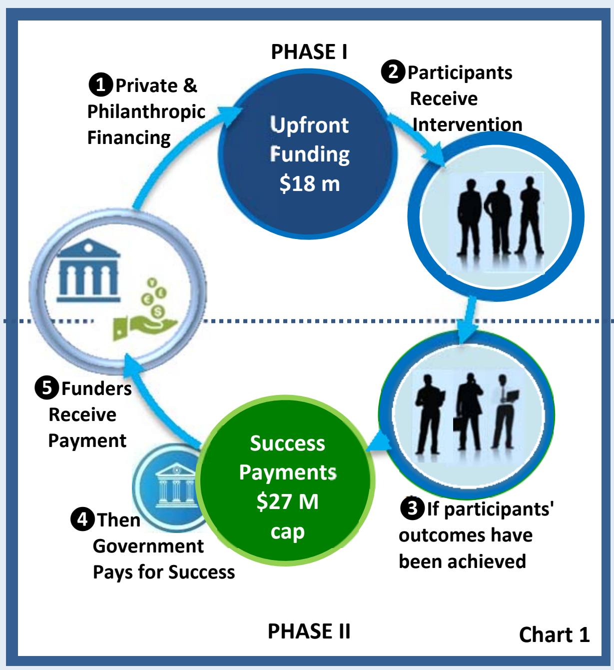
INTERVENTION

The Massachusetts Initiative provides a high-impact intervention to 929 high-risk young men aged 17-23 in the probation system or exiting the juvenile justice system. This population has a 64% likelihood of being re-incarcerated in five years, and only 30% attain substantial employment during this time period. The project goal is to reduce recidivism and increase employment for these young men by providing two years of intensive engagement, case management, and job/life skills education, and two years of follow-up services.

PROJECT FINANCING

This initiative is funded by private and philanthropic organizations ($18 M). In addition, the service provider and project manager (PM) have deferred 15% of their fees. The Commonwealth (CW) will make no payment in the first four years. Following this time period, the amount of success payment will be in proportion to the number of bed days reduced (measure of reduced recidivism).

PAY FOR SUCCESS FUNDING & PAYMENT



Phase I: Upfront Funding for Service Delivery

- **$18 M** from **Private & Philanthropic Funders**
  - **9 M Senior Loan** (Senior Lender)
  - **3 M Junior Loan** (Junior Lenders)
  - **6 M Grants** (Philanthropic Organizations)
- ***$3.3 M deferred fees*** *(15%) (Provider & PM)*
- *Interest (5% Sr/2% Jr)*

Phase II: Success Payments

- If successful, **up to $27 M in success payments by CW**
- Depending on level of success, payments will include[1]:
  1. **Senior and Junior Loan Principal Repayment**
  2. **Deferred Fees** (Provider & PM)
  3. **Success Fees** at higher levels of impact to:
     - Philanthropy (Reinvestable Grants up to $6 M)
     - Senior and Junior Funders (up to $1.6 M)
     - Provider & PM (up to $1 M; Reinvestible)

[1]If project is successful, an additional $12 M from the U.S. Department of Labor is available to pay for successful outcomes.

In Massachusetts, all funds flow through the project manager, an independent nonprofit agency that serves as the legal entity accountable for managing the initiative. In Phase I, the **Upfront Funding** of $18 M pays for the project's costs (service providers, evaluator, PM). If the third-party evaluator verifies that successful outcomes are attained in Phase II, the Commonwealth makes **Success Payments** to the PM, who repays funders/other project stakeholders as outlined in the contract.

PAYMENT STRUCTURE

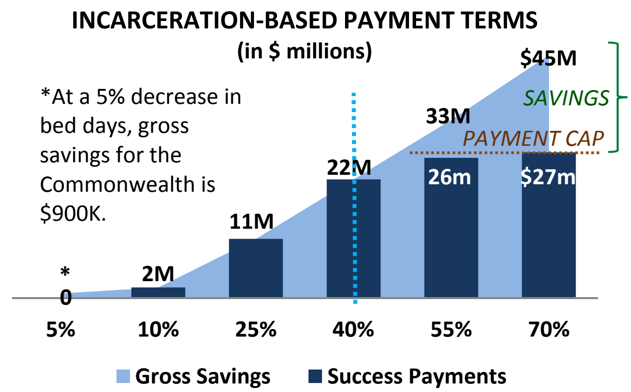


Chart 2

Starting in year four, the Commonwealth (CW) will issue success payments based on:

- Decreases in Incarceration *(majority payment)*
- Increases in Job Readiness
- Increases in Employment

Based on expected outcomes, the CW is willing to pay up to $27 M in success payments. At a 40% target reduction in recidivism [Chart 2], the project would produce $22 M in savings to the CW – an amount roughly equal to the cost of the project. If higher levels of impact are achieved, the CW caps payments at $27 M and accrues savings. For instance, a 70% decrease in recidivism would produce gross savings of $45 M, allowing for $18 M in net government savings.

To determine the value the CW places on each outcome, a cost benefit analysis was conducted to determine the baseline costs and the expected impact of the project. Once the project cost and impact were estimated, the CW negotiated **minimum performance thresholds** required to initiate success payments and the value for each outcome with the project stakeholders. If the project's **impact** on an outcome meets or exceeds the minimum threshold, then the value is multiplied by the level of impact to calculate the estimated public sector savings/benefits. The table below shows how the public sector benefits and success payments could be calculated for the project.

In this example, the government would be paying **$26.9 million** for an intervention serving **929 participants** who meet the following outcomes.

- **40% reduction in bed days** (compared to control group)
- **6.32 quarters in completion of job readiness training** (control group without training)
- **1.22 quarter increase in employment** (compared to control group)

Note: These numbers and calculations are used for illustrative purposes only and show the project's success payments could be calculated using sample performance levels and outcomes.
*Job readiness training increases the likelihood of gaining employment.

-Step 1- Compare Impact to Threshold			-Step 2- Benefit Calculation		-Step 3- Calculate
OUTCOME	THRESHOLD	IMPACT	OUTCOME VALUE	TARGETED SAVINGS	PAYMENT
Decreased Recidivism	5% ⬇ in bed days/ incarceration	**40% ⬇** (216 bed days)	**Higher savings for higher thresholds**	*929 ppts x 216 Bed days x $100 Savings/day =* **$22 M**	**$22.0 M**
Increased Job Readiness	5.6 quarters completed	**6.32 qtrs.**	**$789 payment for outcome**	*929 ppts x 6.32 Qtrs. x $789 Savings/day =* **$4.6 M**	**$4.1 M**[2]
Increased Employment	1.9 quarter ⬆ in employment	**1.22 qtrs. ⬆**	**$750 outcome payment** for decrease in welfare expenditure and public value of employment	*929 ppts x 1.22 Qtrs. x $750 Savings/day =* **$0.8 M**	**$0.8 M**
				TOTAL = $27.4 M	**$26.9 M**

[2]Success payment calculated at cap of 5.6 quarters of successful job readiness intervention completion.

Evaluation of Outcomes*:* An evaluation is being conducted to determine whether project participants have significantly more positive outcomes than a control group. In Massachusetts, an independent evaluator developed the evaluation methodology for a randomized control trial and will measure the impact of the intervention on participants. In addition, an independent validator has confirmed the evaluation design, continues to verify randomization procedures, and will verify the results of the evaluation to validate the overall success of the project.

CONTRACTS

- Core Contract with the Commonwealth covers performance targets, funding, oversight and reporting, performance thresholds and remedies.
- Describes role of the PM, which is ultimately accountable for project success/outcomes.
- PM holds all related contracts, including funder agreements, and contracts with other project stakeholders (advisory, evaluation, and validator).

Exit Strategy Intended to Mitigate Risk

- The initiative's Core Contract details exit thresholds and remedial actions based on performance of the project stakeholders. This protects all parties from project non-performance
- Service provider must report information quarterly; if the provider's performance on specific indicators suggests low retention of enrollees, the provider must develop a remedial plan.
- PM must transfer payments to service provider in a timely, and is responsible for overall project reporting. If the balance in the Operation Account varies significantly from plan, PM must develop a plan to address variance.

GOVERNANCE

Three Committees provide project oversight for the PFS intervention serving high-risk youth. The members and role for each Committee is described below.

COMMITTEE	MEMBERS	ROLE
Operating	PM, Service Provider, CW, may include Evaluator upon invitation	Review service provider's quarterly report; Discuss changes to intervention, funding needs, and PM's role.
Oversight	PM, Service Provider, CW, Evaluator, Funders	Discuss unresolved operational issues and decide on project changes for remediation plans, requires unanimous consent
Lenders	Senior and Junior Funders	Review project progress and issues requiring lender approval or changes in project fees or increase in enrollment.

While funders may observe in the Operating Committee in a limited fashion, they do not have voting rights nor can be present when discussing participants.

Source: FACT SHEET: The Massachusetts Juvenile Justice Pay for Success Initiative, January 2014.