Pay For Success

HCRC Fact Brief

What is Pay for Success?

Social impact financing through a Pay for Success (PFS) contract is a creative, new financing method that allows state or local governments to expand cost-effective social or education services through contributions from private investors.[1]

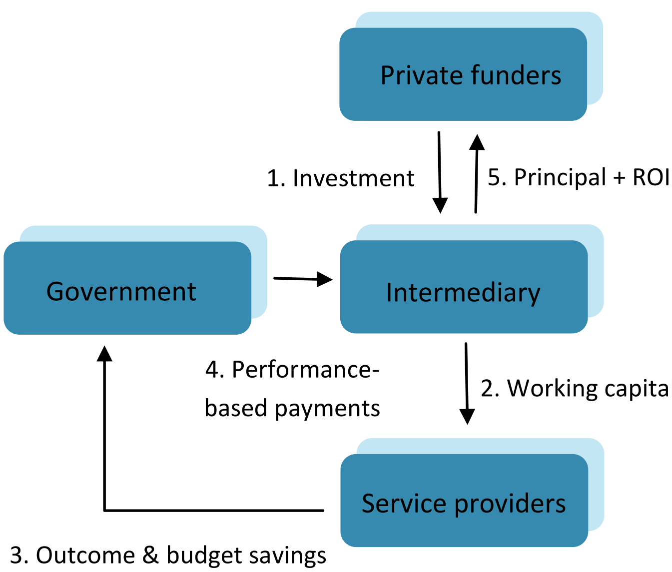
The main goal of PFS is to scale up an existing evidence-based intervention or social program when political or economic barriers exist for raising tax revenues.[2]

How does Pay for Success work?

Policymakers, service providers and private investors identify services that may generate cost savings to government if expanded. Private funds flow through an intermediary to service providers.

Governments only pay investors back if an independent evaluation finds that predetermined outcome targets have been reached. The savings in public revenues allows for the payment of investors without increasing taxes.

Social impact bond structure



Chicago's Pay for Success initiative

As the fifth social impact borrowing initiative in the United States, the city of Chicago approved a plan to expand the Chicago Child-Parent Center preschool to 3rd grade (CPC P-3) program in order to serve more than 2,600 preschool students over four years. Goldman Sachs, the Northern Trust, and the Pritzker Foundation loaned $16.9 million to open new CPC P-3 sites in low income neighborhoods in Chicago. As a result, 11 new classrooms were opened in February 2015.[2]

The city of Chicago will repay the loans based on an outside evaluator's performance review of the program in the following criteria:

- $9,100 for each child who avoids special education from kindergarten through 12th grade
- $2,900 for each child who is school ready based on the Teaching Strategies Gold Assessment System
- $750 for each child who meets the standards for reading proficiency in 3rd grade

PFS in Every Student Succeeds Act

The Every Student Succeeds Act (ESSA) was passed in December 2015 as a replacement of the No Child Left Behind (NCLB) Act. The new act specifically supports children's access to high-quality preschool education for a strong start in education.[3]

ESSA is the first federal legislation where the PFS initiative is defined. It allows the use of PFS initiative in the following areas:

- Prevention and intervention programs for children and youth who are neglected, delinquent, or at-risk.
- Student support and academic enrichment grants under section 4108, "Activities to Support Safe and Healthy Students."

Chicago CPC 2011-2014 Social Impact Borrowing Initiative	
Projected number served	2,620 children
Amount invested	$16.9 million
Investors	Goldman Sachs, Northern Trust, Pritzker Foundation
Intermediary	IFF and Metropolitan Family Services
Risk sharing arrangements among private investors	Pritzker Foundation is subordinate lender
Success payments	• For each child not placed in special education each year (K-12). • For each child deemed ready for kindergarten. • For each child achieving proficiency in read-
Payback window	13 years
Comparison group	For special education payment only: children without preschool participation in matched Chicago Public School

References

1 Liebman, Jeffrey & Sellman, Alina (2013). Social Impact Bonds: A Guide for State and Local Governments. Harvard Kennedy School Social Impact Bond Technical Assistance Lab.

2 Temple, J. A., & Reynolds, A. J. (2015a). Using Benefit-Cost Analysis to Scale Up Early Childhood Programs through Pay-for-Success Financing. Journal of Benefit-Cost Analysis, 6(03), 628-653. Temple, J.A. &Reynolds, A.J. (2015b) Using social impact borrowing to expand preschool to third grade programs in urban public schools, Journal of Education for Students Placed At Risk, . 20, 281-292.

3 Public Law 114-95 (2015, December 10). Every Student Succeeds Act. Washington, DC: U.S. Government Printing Office.

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