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Senate Finance Subcommittee on Primary and Secondary Education

Jake Segal, Vice President, Social Finance

Testimony on behalf of HB 170 – 133rd General Assembly

May 9, 2019

Chair Terhar, Vice Chair Lehner and Ranking Member Fedor:

Thank you for the opportunity to submit testimony concerning the possibility and potential of Pay for Success in Ohio. My name is Jake Segal. I serve as Vice President at Social Finance, a national nonprofit dedicated to mobilizing capital to drive social progress.

Social Finance is among the most experienced Pay for Success (PFS) intermediaries in the country. Our sister organization in the United Kingdom launched the world's first Pay for Success contract¹—what was called then a “Social Impact Bond”—in the Peterborough prison system in 2010. Since then, the Social Finance Global Network has played a role in nearly a third of the world's PFS projects. Here in the US, we have worked with dozens of jurisdictions to assess, design, and launch PFS projects reaching nearly 10,000 participants, and have raised \$100 million in private capital to fund that work.

We have also been engaged since June 2018 with the Ohio Department of Health in designing the state's first Pay for Success project, a public-private partnership aimed at increasing the availability of, and participation in, evidence-based home visiting programs.²

What is Pay for Success?

Governments at all levels face significant budget constraints. Public leaders can look to best practices and find programs that have been tested and produced good results, but the reality is that predicting which programs will work best is nearly impossible: facts on the ground shift, delivery organizations change and face new challenges, interventions themselves have varied results. Effectiveness, in short, is not guaranteed; programs are challenged by the very complexity of the lives they intend to improve.

When governments provide grants or contract with programs, they typically purchase services. Generally, funding is released without a clear sense for the ultimate results achieved by that funding.

Pay for Success is a contracting and funding mechanism intended to shift that dynamic. Instead of paying for services, leaders define the outcomes they are trying to improve—and how improvements in those outcomes would be measured—and only pay if those

¹ See, for example, Jon Hartley, “Social Impact Bonds Are Going Mainstream,” *Forbes*, September 2014.

² For more information, please see News Release from March 8, 2019: “Home Visitation Report Released, Pilot Program Announced,” Office of Governor Mike DeWine <<https://governor.ohio.gov/wps/portal/gov/governor/media/news-and-media/030819>>.

outcomes are achieved. In the meantime, grantmakers and impact investors (such as foundations and mission-oriented financial institutions) cover the upfront cost of delivering an intervention. If the outcomes predetermined in the Pay for Success contract are achieved, as validated by an independent third-party evaluator, then those funders are repaid by the public sector, often with the potential for a modest return if the program is particularly successful at improving people's lives.

Pay for Success allows Ohio to pay for what works—to expand effective programs, and only expend taxpayer dollars if those programs deliver results. For those organizations actually delivering programs, it encourages a more entrepreneurial mindset: moving away from a system based on compliance and toward one more focused on performance, accountability, and adaptive implementation.

At the end of Pay for Success contracts, the State and taxpayers have a very clear idea of what results were achieved. If a project is successful, everybody wins. If it is not, the State can re-purpose the money it would have spent to try a new approach.

Field landscape and examples

Since 2010, there have been 132 Pay for Success projects launched worldwide. In the United States, 26 projects have been launched to date—with dozens more in development.

These projects have spanned a number of different issues and outcomes. The majority have focused either on children and families (from improving child welfare to strengthening preschool) or criminal justice; others have been designed around homelessness, health, workforce development, and environmental resilience.

States have played a leading role in Pay for Success projects. For example—

- **South Carolina:** The nation's first Pay for Success initiative focused on improving health outcomes for mothers and children living in poverty, the project is expanding Nurse-Family Partnership's home visiting services to an additional 3,200 first-time, low-income mothers across South Carolina over four years. Launched in Spring 2016 to support South Carolina's policy goal of expanding home visiting services to expecting mothers in low-income and rural zip codes, it includes a \$30 million budget, and is the first PFS project to leverage federal Medicaid dollars.³
- **Connecticut:** The Family Stability PFS Project leverages \$11.2 million of philanthropic and private capital to scale Family-Based Recovery (FBR) to serve approximately 500 families throughout Connecticut over four and a half years. Since early 2016, FBR has deployed an intensive home visiting program

³ For more information, see, for example, Lenny Bernstein, "Government only pays for the positive outcomes.' A strikingly new approach to social problems," *Washington Post*, February 2016.

intended to keep families together where a child is at risk of being removed from the home due to substance use by one or more parents/guardians.⁴

- **Massachusetts:** The Pathways to Economic Advancement project is a \$12.4 million effort to provide ~2,000 immigrants and refugees with vocational English classes, occupational-skills training, and college-transition programming in Greater Boston. Launched in June 2017, the effort is intended to support the Baker administration's priority of enhancing workforce development opportunities for citizens of the Commonwealth and to help individuals obtain the skills needed to thrive in Massachusetts's growing economy.⁵

Expanding Pay for Success in Ohio

Ohio has already begun to prepare for Pay for Success. Legislation introduced in the last session enabled the state to enter into these agreements. The Department of Health, with support from Social Finance under a grant from the Corporation for National and Community Service, has worked since June 2018 to leverage the tools and thinking of Pay for Success to design a pilot performance-based contract for evidence-based home visiting.

Renewed leadership can extend the innovative financing tools of Pay for Success to additional state priorities—such as further expansion of home visiting to improve maternal and child health outcomes; development of stronger substance use disorder prevention and treatment programs; implementation of a family stability program intended to lower referrals to the child welfare system; and more.

Community leaders throughout Ohio—from engaged philanthropic funders like Every Child Capital in Cincinnati⁶ to the partnership in Cuyahoga County that launched the first county-level PFS project⁷—have demonstrated their commitment to furthering these efforts. Great use of Pay for Success contracting offers flexibility to design and adjust local programs to better meet local needs; to remake the status quo by spending money only on what works; and to create an increasingly effective set of programs that serve Ohioans.

Thank you again for the opportunity to submit this testimony. Please do not hesitate to contact me with any questions.

Jake Segal
Vice President, Social Finance

⁴ For more information, see, for example, Tina Rosenberg, "Issuing Bonds to Invest in People," *New York Times*, March 2018.

⁵ For more information, see, for example, Editorial, "'Pay-for-success' proves a boon to social services," *Boston Globe*, June 2017.

⁶ See, for example, Greg Landsman's testimony to the Ohio House of Representatives Finance Subcommittee on Health and Human Services on HB 49, March 23, 2017.

⁷ See, for example, Cuyahoga County press release, "Nation's First County-Level Pay for Success Program Aims to Reconnect Foster Children with Caregivers in Stable, Affordable Housing," December 3, 2014 <<http://executive.cuyahogacounty.us/en-US/NationsFirstCityLevel-PaySuccessPrgrm.aspx>>