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HB 170 (133<sup>rd</sup> General Assembly) Interested Party Testimony

Hydie Hudson, Associate Director, Social Finance

May 28, 2019

Chairman Dolan, Vice-Chair Burke, Ranking Minority Member Sykes, and Members of the Senate Finance Committee:

Thank you for the opportunity to provide interested party testimony concerning the possibility and potential of Pay for Success in Ohio. My name is Hydie Hudson. I serve as Associate Director at Social Finance, a national nonprofit dedicated to mobilizing capital to drive social progress.

Social Finance is among the most experienced Pay for Success intermediaries in the country. Our sister organization in the U.K. launched the world's first Pay for Success contract<sup>1</sup>—what was called then a “Social Impact Bond”—in 2010. Here in the US, we have worked with dozens of jurisdictions to assess, design, and launch Pay for Success projects reaching nearly 10,000 participants and have raised \$100 million in capital from impact investors to fund that work.

### What is Pay for Success?

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. In short, effectiveness is not guaranteed. At the same time, governments at all levels face significant budget constraints.

Pay for Success is a contracting and funding mechanism whereby 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 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.

### Field Landscape

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.

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

These projects have spanned a number of different issues and outcomes. Many have focused on children and families (e.g., improving child welfare) or criminal justice (e.g., reducing re-incarceration following release from prison). Others have been designed around homelessness, health, workforce development, and environmental resilience.

### **Potential of Pay for Success in Ohio**

Ohio has already begun to explore Pay for Success. Cuyahoga County launched the first county-level Pay for Success project<sup>2</sup> in 2014. Legislation introduced in the 132<sup>nd</sup> General Assembly enabled the state to enter into Pay for Success 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 design a Pay for Success project for evidence-based home visiting.<sup>3</sup>

Pay for Success can be leveraged to address additional state priorities—such as substance use disorder prevention and treatment, family stability and child welfare, and more. The value of Pay for Success can be summed up as follows: Pay for Success allows Ohio to pay for what works—to expand effective programs, and only expend taxpayer dollars if those programs deliver results.

Thank you again for the opportunity to provide this testimony. I am happy to answer any questions that you may have.

Hydie Hudson  
Social Finance

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<sup>2</sup> 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/NationsFirstCtyLevel-PaySuccessPrgrm.aspx>>

<sup>3</sup> 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>>.