

**Agenda Item 4  
February 4, 2015**

DATE: January 22, 2015

TO: Children and Families Commission of Orange County

FROM: Christina Altmayer, Executive Director 

SUBJECT: Receive Update on Bridges Maternal Child Health Network and Pay for Success Feasibility Analysis, and Adopt Resolution Authorizing Agreement with NetChemistry Inc.

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**SUMMARY:**

Since 2000, a cornerstone of the Children and Families Commission's investments has been the creation and enhancement of the Bridges Maternal Child Health Network (Bridges Network). The Bridges Network provides an entry point to receiving an array of services funded by the Commission which is devoted to supporting the healthy development of children from prenatal through age five. After 15 years of implementation, the Commission is screening 70 percent of births in Orange County; connecting the families most at risk with evidence-based home visitation services that are responsive to identified needs; and has developed a track record of achieving strong outcomes with families. As the Commission's revenue declines, there is a growing need to diversify the funding base to sustain the community impact.

This agenda item provides an update on the Bridges Network, demonstrates how the Bridges Network supports common priority outcomes, and provides a preview of the Bridges Network *Pay for Success* feasibility project results. The preliminary feasibility results will be presented at the March meeting.

**DISCUSSION:**

Ilia Rolón, the Commission's *Pay for Success* Project Manager, will provide a presentation on the Bridges Maternal Child Health Network and progress on the feasibility assessment to transition the program to a *Pay for Success* model (Attachment 1).

**Bridges Maternal Child Health Network Background**

The Bridges Network represents a strong family-friendly infrastructure of 10 birthing hospitals, Public Health Nurses, and three non-profit Home Visiting providers (MOMS Orange County, Children's Bureau of Southern California, and the Orange County Child Abuse Prevention Center). Using a validated screening tool, families are assessed and referred to services designed to most appropriately address their identified level of need (See referral protocols summarized in Attachment 2). The program was redesigned in 2009 in an effort to achieve stronger outcomes, identify cost savings and reductions, find ways to streamline processes, and strengthen program management. Through the continuum of services provided, the Bridges Network continues to serve as a platform to implement many of the Commission's strategies to address maternal child health issues and strengthening families at risk. A policy brief describing the comprehensive network of services

offered through the Bridges Network is being developed to assist in promoting support for home visitation investments at the national, state and local level.

### ***Pay for Success* Project Update**

As previously reported at the July 2014 meeting, the Commission was selected to be part of the of James Irvine Foundation and Nonprofit Finance Fund's first cohort of agencies funded under the California *Pay for Success* Initiative. The grant provided technical assistance to assess the feasibility of transitioning the Bridges Maternal Child Health Network to a *Pay for Success* structure. Third Sector Capital Partners, Inc. is the designated technical assistance provider for the project. Third Sector has worked diligently with the Commission to implement the Phase 1 scope of work including a review of the Bridges Network program and performance, an assessment of partnership potential, and creation of a final project feasibility report outlining findings and recommendations. Third Sector is scheduled to present their work related to the Phase 1 feasibility analysis at the March 2015 Commission meeting.

### **Bridges Network Outcomes and Data Integration**

In order to assess the metrics that the Commission should consider for a potential *Pay for Success* project, Third Sector conducted a literature review of evaluations from several national home visitation models, scanned the U.S. Department of Health and Human Services Home Visiting Evidence of Effectiveness research, and related measures tracked by the National Committee for Quality Assurance's Health Effectiveness Data and Information Set (HEDIS). This review resulted in a short list of recommended outcomes to be considered in implementing a *Pay for Success* project for the Bridges Network program. These suggested outcomes metrics include key measures used by health plans to evaluate service quality and document unnecessary health care utilization such as emergency room use and hospitalizations.

Given that 95 percent of children whose families receive Bridges Network home visitation services are Medi-Cal beneficiaries, CalOptima has expressed their willingness to explore a data matching project with the Commission's Bridges Network service data. Once appropriate authorizations are confirmed, the services of an independent evaluator may be needed to assist in completing the analysis. A subcontract through the Commission's existing agreement with NetChemistry Inc. is recommended since the vendor already has authorization to access both Commission and CalOptima data. Up to \$20,000 of Commission funding was approved as a set-aside in the September 2014 project allocations for evaluation and data matching efforts.

Staff will be applying for continued funding under the James Irvine and Nonprofit Finance Fund California *Pay for Success* initiative to support this evaluation effort. Staff requests authority to execute an amendment adding \$50,000 to the NetChemistry Inc. contract for this work. This proposed allocation of funding would only be accessed if the Commission's additional grant opportunity request is funded. In the event additional funding is not secured the amendment amount will be limited to the \$20,000 previously authorized by the Commission.

### **New Feasibility Technical Assistance Grant Opportunity**

Third Sector Capital Partners, Inc, a federal grant recipient from the Corporation for National and Community Services, recently issued a Request for Proposal (RFP) for technical assistance. If awarded, the grant would provide continued technical assistance as the Commission transitions from initial feasibility analysis to project structuring. The Policy and Practice Journal Article "Pay for

Success Programs: An Introduction” (Attachment 3) provides a description of how funding, program evaluation and program management is more effectively combined in a *Pay for Success* model with the goal to improve social outcomes.

Applications were due by January 16, 2015 and award announcements are scheduled for the end of February. Based on the application guidelines, staff submitted a proposal to receive an “Accelerating Assistance Award”. Given Orange County’s progress over the past six months, the additional technical assistance support would allow the Commission to develop a contract implementation plan, design and implement a randomized controlled trial or other vigorous evaluation, refine an economic model quantifying return on investment for the anticipated end payer, and develop a communication strategy and tools to support public leadership and stakeholder engagement.

A requirement for participation is the contribution of a minimum of \$25,000 cash match. Staff is recommending a minimum of \$25,000 and a maximum of \$50,000 to support this next stage of feasibility work. Funds are available in the Round 2 Catalytic Funding: Partnerships for Children’s Health funds that are specifically focused on attracting and leveraging federal, state, and local funding.

The Commission’s management team has dedicated a significant amount of time to engaging key stakeholders to garner their support, reviewing the program model and refining the value proposition, and overcoming logistical challenges in order ensure successful implementation of the project. Staff will continue this commitment to the on-going work, and will monitor other *Pay for Success* related funding opportunities that may be available and applicable to the Commission’s priorities.

#### **STRATEGIC PLAN & FISCAL SUMMARY:**

The proposed action has been specifically reviewed in relation to the Commission’s Strategic Plan and is consistent with the Healthy Children and Capacity Building goals. The total funding amount of up to \$50,000 is included in the FY 2014/15 budget within the Catalytic Funding, Partnership for Children’s Health category.

#### **PRIOR COMMISSION ACTIONS:**

- September 2014 – Received update on the feasibility of transitioning the Bridges Maternal Child Health Network Program to a *Pay for Success* Model.
- July 2014 – Received Annual Planning Meeting report including identified follow-up actions for sustainability strategies and philanthropy.
- June 2014 – Held Annual Planning Meeting and received presentation on sustainability strategies including the *Pay for Success* and Social Impact Bond approaches.
- April 2014 – Received update on Catalytic Matching Fund Program including the *Pay for Success* project proposal.
- March 2014 – Received Executive Officer update on the *Pay for Success* partnership opportunity.

**RECOMMENDED ACTIONS:**

1. Receive an update on the Phase 1 *Pay for Success* feasibility analysis.
2. Provide direction to staff in preparation for the Third Sector presentation on the Phase 1 feasibility analysis findings and recommendations, scheduled for the March 2015 Commission meeting.
3. Confirm support of the *Pay for Success* grant application submitted to Third Sector for continued technical assistance in completing Phase 2 of the feasibility analysis.
4. Pledge a minimum project cash match of \$25,000 and a maximum of \$50,000 to meet the match requirements for the Third Sector technical assistance grant, if awarded.
5. Adopt resolution (Attachment 4) authorizing the Executive Director, or designee, to amend agreement FCI-BN2-19 with NetChemistry Inc. adding up to an additional \$50,000 for evaluation work to continue data matching and analysis efforts aligned with key healthcare quality measures, for revised contract obligation of \$158,000 for the period July 1, 2014 through June 30, 2015. A maximum of \$20,000 of Commission funding may be used for this contract, consistent with September 2014 action.

**ATTACHMENTS:**

1. Bridges Maternal Child Health Network Presentation
2. Bridges Maternal Child Health Network Summary Graphic
3. Pay for Success Programs: An Introduction
4. Resolution FCI-BN2-19 with NetChemistry Inc.

**Contact:** Alyce Mastrianni

# Update on Bridges Maternal Child Health Network



Children & Families Commission of Orange County



1. Provide an update on the Bridges Maternal Child Health Network (Bridges Network)
2. Demonstrate how the Bridges Network supports common priority outcomes
  - Continuity of care
  - Effective system utilization
  - Maternal and child health outcomes (prenatal care, birth weight, post-partum care)
3. Preview the Bridges Network Pay for Success feasibility project results

# Bridges Network Background



Funded since 2000 to promote the following outcomes:

- Babies are born healthy
- Children have and use a health home for comprehensive health services
- Children have access to early screening and assessments to identify, assess and manage health and developmental conditions
- Children are raised in healthy and safe environments

Multidisciplinary system of providers:

- Early Outreach and Referral
- Prenatal Home Visitation
- Public Health Nursing Home Visitation
- Infant Home Visitation
- Toddler Home Visitation

Services are centrally coordinated:

- Standardized screening and assessments
- Information system facilitates referrals and reporting



The Bridges Network is the Commission's largest program investment.

- Three-year continued funding was authorized as part of the March 2014 renewals (through FY 2016/17)
- The \$5.7 million annual investment in the Bridges Network represents close to 20% of total program investments in the FY 2014/15 budget

Participation in Medicaid reimbursement programs have generated additional funds to support program expenses.

- Since program inception, the Bridges Network has generated over \$8 million in Targeted Case Management and \$5 million in Medi-Cal Administrative Activity reimbursements
- The total current reimbursements paid out to participating providers represents approximately 15% of the annual program budget

As Commission revenue declines, there is a growing need to diversify the funding base to sustain community impact.

- Maintaining program design and impacts will be increasing challenging as Commission revenue declines
- Community support is needed to consider other funding opportunities

# Who does the Bridges Network Serve?



## Pregnant Mothers (*888 Moms in FY 2012/13*)

- MOMS Orange County – Low income mothers with no other significant risk factors
- Public Health Nurses – First time young mothers and mothers at risk for substance use

## Newborns (*15,194 children and their families served in FY 2012/13*)

- Babies born at 10 birthing hospitals in OC
- Mothers more likely to be lower income, lower educational attainment, and on public insurance
- Infant Home Visitation – Referrals for families identified with higher risk
- Public Health Nurses – Referrals for medically high risk and other special populations

## Toddlers (*770 children and their families served in FY 2012/13*)

- Services for families with children between the ages of 2 – 5
- Community based services provided including: home visitation to support healthy child development, family strengthening, supportive services

# What Outcomes are Achieved?



The Bridges Network reaches women and children most at risk:

- 70% of births in OC screened through the hospital-based outreach program
- Of those screened, 42% were referred for home visitation or intensive services based on their risk profile
- Of those referred, 98% were connected with services and 77% of those referrals were successfully closed
- 96% of families participating in home visitation services fell below 200% of the federal poverty level
- 95% of children whose families received home visitation services were Medi-Cal beneficiaries

Commission data indicates that children and their families who receive home visitation services are:

- More likely to have a regular health home and effectively use the services for postpartum and well child visits
- Less likely to utilize the emergency room for unnecessary visits
- More likely to exhibit strengthened parent-child interaction

# Summary of Bridges Referrals (July 1, 2012-June 30, 2013)



27,513 Births at 10 Bridges Hospitals  
(approximately 70% of all births in the county)

**21,846** Prescreened  
(79% of births at the Bridges Hospitals)

13,540 Screened  
(62% of Prescreened)

**4,974** Referred  
(37% of Screened)

**4,874** Referrals  
Accepted  
(98% of Referred)

**77%**  
**Successfully  
closed**



The Bridges Network provides significant value to the families served as well as the broader Orange County community by:

- Ensuring that limited resources are prioritized to those most at risk
- Reducing unnecessary medical and system costs
- Providing an early start in optimizing the health and development of Orange County's children

As the Commission looks to sustain this program long-term, the Pay for Success initiative provides an opportunity to document outcomes in terms of community impact and return on investment

# Preview of Pay for Success Feasibility Analysis



Goal is to develop strategies to transition the Bridges Network from the current grant funding to a reimbursable model that is grounded in achievement of targeted health outcomes

In August 2014, the Commission received a California Pay for Success Initiative grant from the James Irvine Foundation / Nonprofit Finance Fund, to explore a Pay for Success model for the Bridges Network. The Phase 1 project allowed the Commission to receive technical assistance support through Third Sector Capital Partners (Third Sector) for a feasibility analysis to:

- Document the outcomes achieved and quantify the economic value of those outcomes
- Identify potential back end payers that benefit from these outcomes
- Explore potential partnerships to engage backend payers



Third Sector will present its findings and recommendations from the Phase1 feasibility analysis at the March 2015 Commission meeting addressing:

- Definable and measurable outcomes from the Bridges Network
- Feasibility of quantifying the value of these outcomes
- Recommendations related to pursuing a Pay for Success model

Commission staff will continue to pursue grant funding to support feasibility and evaluation analysis

- Application pending for continued technical assistance from Third Sector through federal funds. Letters of support from CalOptima, HCA and HASC indicative of community support.
- Pursuing additional funding from James Irvine/Nonprofit Finance Fund for further evaluation and economic impact analysis.

# Today's Action



- Receive an update on the Phase 1 Pay for Success feasibility analysis
- Provide direction to staff in preparation for the Third Sector presentation on the Phase 1 feasibility analysis findings and recommendations, scheduled for the March 2015 Commission meeting
- Confirm support of the Pay for Success grant application submitted to Third Sector for continued technical assistance in completing Phase 2 of the feasibility analysis
  - Pledge a minimum project cash match of \$25,000 and a maximum of \$50,000 to meet the match requirements for the Third Sector technical assistance grant, if awarded (federal grant).
- Authorize the \$20,000, previously budgeted set-aside for Phase 1 project implementation, to amend the existing contract with NetChemistry for as-needed data matching and analysis efforts.
  - Commission funding will only be used as last resort if grant request from **Nonprofit Finance Fund/James Irvine not awarded.**

# Bridges Maternal Child Health Network

*A comprehensive network of services to promote health and family strengthening outcomes for OC's youngest children*



ELIGIBILITY/SCREENING	REFERRAL PROTOCOL	SERVICE MODEL/EVIDENCE	OUTCOMES							
<b>PRENATAL (Referral Network) 888 CHILDREN SERVED</b>										
<p>Mothers at risk for late or no prenatal care, single mothers, and mothers at risk for substance use can be referred for prenatal services.</p>	<ul style="list-style-type: none"> <li><b>Medi-Cal Eligible/ (Low income)</b> – Approached or referred to MOMS OC for home visitation services</li> <li><b>First time teen moms</b> – Nurse Family Partnership (NFP)</li> <li><b>Mothers at risk for substance use</b> – Public Health Nursing (PHN)</li> </ul>	<ul style="list-style-type: none"> <li>MOMS – Modified NFP evidenced based</li> <li>NFP – Evidence based practice</li> <li>PHN – Evidence informed practice</li> </ul>	<ul style="list-style-type: none"> <li>Early and consistent prenatal care</li> <li>Decreased pre-term and low birth weights</li> <li>Reduced frequency of newborn admission to NICU</li> </ul>							
<b>BIRTH (Universal Screening – 70% of births in OC) 15,194 CHILDREN SERVED</b>										
<p><b>Validated, 2-step screening administered universally at 10 birthing hospitals:</b></p> <p><b>Prescreening</b> ..... Electronic review of admission data considering income, prenatal care, age of mother, paternity status, etc. Employs a 33 point scale of risk assessment. 81% of mothers at 10 high birth hospitals were prescreened; 62% of those had a second bedside screen.</p> <p><b>Risk Screening</b> ..... Bedside interview of mother by trained Bridges Coordinator based on prelim results.</p>	<table border="1"> <tr> <td><b>Minimal/No Risk</b> 40% of births from 10 hospitals</td> <td>Parent Education/ Kit for New Parents/ Community Referrals</td> </tr> <tr> <td><b>Moderate/Low Risk</b> Score of 39 or below (Approx 70% of mothers)</td> <td>Community-based supportive agencies, Family Resource Centers, 211, Help Me Grow</td> </tr> <tr> <td><b>Medical High Risk</b> Referral based on medical need (Approx 2.8% of mothers)</td> <td>Public Health Nursing</td> </tr> <tr> <td><b>Highest Risk</b> Score above 40 at prescreen (Approx 39% of mothers)</td> <td>Infant Home Visitation PIPE = Partners in Parenting Education/ Children's Bureau &amp; Prevent Child Abuse OC)</td> </tr> </table>	<b>Minimal/No Risk</b> 40% of births from 10 hospitals	Parent Education/ Kit for New Parents/ Community Referrals	<b>Moderate/Low Risk</b> Score of 39 or below (Approx 70% of mothers)	Community-based supportive agencies, Family Resource Centers, 211, Help Me Grow	<b>Medical High Risk</b> Referral based on medical need (Approx 2.8% of mothers)	Public Health Nursing	<b>Highest Risk</b> Score above 40 at prescreen (Approx 39% of mothers)	Infant Home Visitation PIPE = Partners in Parenting Education/ Children's Bureau & Prevent Child Abuse OC)	<ul style="list-style-type: none"> <li>Reduced ER Visits</li> <li>Improved health care system utilization</li> <li>Improved healthy parent/ child interaction</li> <li>Health screening and linkage to services</li> <li>Screening for developmental status, parental depression and linkage to services</li> <li>Reduced risk in home</li> </ul>
<b>Minimal/No Risk</b> 40% of births from 10 hospitals	Parent Education/ Kit for New Parents/ Community Referrals									
<b>Moderate/Low Risk</b> Score of 39 or below (Approx 70% of mothers)	Community-based supportive agencies, Family Resource Centers, 211, Help Me Grow									
<b>Medical High Risk</b> Referral based on medical need (Approx 2.8% of mothers)	Public Health Nursing									
<b>Highest Risk</b> Score above 40 at prescreen (Approx 39% of mothers)	Infant Home Visitation PIPE = Partners in Parenting Education/ Children's Bureau & Prevent Child Abuse OC)									
<b>TODDLER (Referral Network) 770 CHILDREN SERVED</b>										
<p>No formal screening and referral. Based on partner referrals, and referrals from physicians/ Help Me Grow; no universal risk assessment.</p>	<p><b>Toddlers at risk for developmental growth</b> .....</p>	<ul style="list-style-type: none"> <li>Toddler Home Visitation (Triple P – Level 3 &amp; 4 / Children's Bureau &amp; Prevent Child Abuse OC)</li> <li>Community-based supportive agencies, Family Resource Centers, 211, Help Me Grow</li> </ul>	<ul style="list-style-type: none"> <li>Improved healthy parent/ child interaction</li> <li>Reduced risk in home</li> <li>Prevent severe behavioral, emotional, &amp; developmental concerns in children</li> </ul>							



**3 SYSTEM ENTRY POINTS**



# PAY FOR SUCCESS PROGRAMS:

## AN INTRODUCTION

By Drew Von Glahn and Caroline Whistler

### Why the Burgeoning Interest in Social Impact Bonds?

At the 2011 APHSA Spring Policy Forum, there was a great deal of interest in social impact bonds. The initiative—increasingly referred to as Pay For Success (PFS)—combines funding, program evaluation and program management. Its goal is to improve social outcomes while more effectively allocating scarce public-sector resources.

In its simplest form, Pay For Success is constructed as follows:

- ◆ Government contracts for social service programs to address a societal need.
- ◆ Philanthropic funders provide the financial resources to pay for the program.
- ◆ Government, service providers and philanthropic funders agree upon targeted social outcomes.
- ◆ Independent evaluators monitor program performance.
- ◆ Should the program achieve the agreed metrics, the government will be able to reimburse the initial funders for their “invested capital” and reinvest in the program. If the program fails to meet the targeted outcomes, the state agencies are not obligated to repay the investors.

Under the Pay For Success construct, performance risk is transferred to the philanthropic funders. An additional attraction is that these programs often drive fiscal savings along with improved outcomes for the targeted population.

As we walk through the concept, its construct and its application, several themes regarding PFS emerge.

- ◆ It is applicable to a broad range of social imperatives.
- ◆ It results in a “rebalancing” of our fiscal expenditures. Dollars will move

toward preventative programs with successful outcomes.

- ◆ It builds upon existing components such as: proven social interventions, performance-based contracting and philanthropic investment in innovative ideas.
- ◆ PFS is a new “tool” that strengthens the connection between government accountability and improved lives.
- ◆ Successful programs will allow for replication, building to scale.
- ◆ It maintains a focus on high-quality care. PFS is not about cutting services, but rather taking to scale proven approaches that achieve better outcomes.
- ◆ It promotes a cycle of continuous innovation in the sector.

### How Does It Work?

Now let’s get into the construct; its background and the expected application here in the United States.

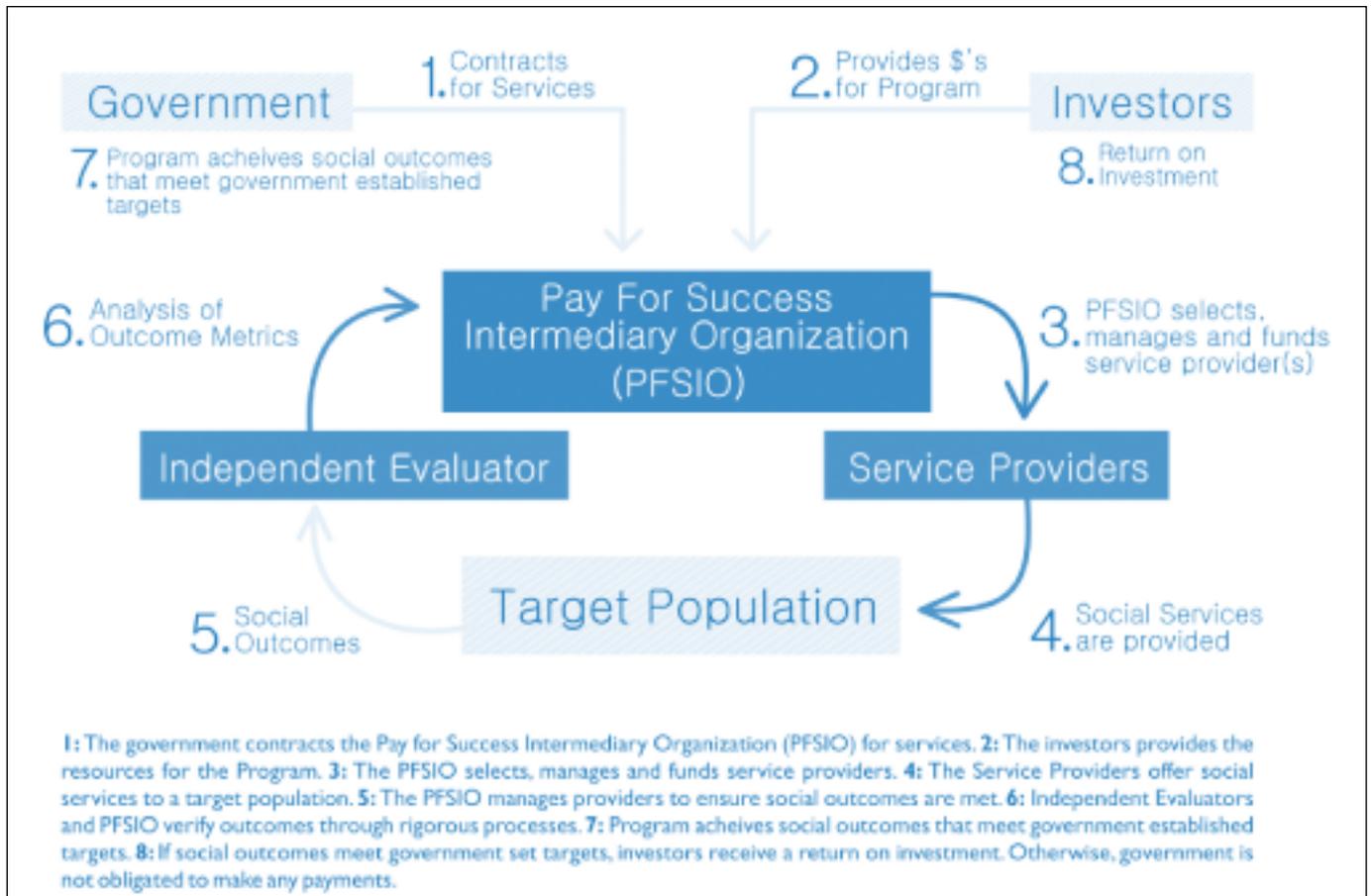
The Social Impact Bond was coined based on a program initiated in the United Kingdom last year. In a desire to reduce recidivism among short-stay offenders, the government contracted the services of several social organizations with track records for positive outcomes in this area. *For more details please see our paper in the*



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Federal Reserve Bank of San Francisco's March 2011 journal, "Translating Plain English: Can the Peterborough Social Impact Bond Construct Apply Stateside?" [http://www.frbsf.org/publications/community/review/vol7\\_issue1/Glahn\\_Whistler.pdf/](http://www.frbsf.org/publications/community/review/vol7_issue1/Glahn_Whistler.pdf/).

The multi-year program was funded by philanthropic organizations, with the promise of a return on investment if agreed-upon targets were met. As the British government stated at the time:

"...[the] SIB pilot is the first scheme in the world that has used new funding from investors outside government to reduce reoffending with offenders. Investors will only receive returns on their investment from the Ministry of Justice if they reduce reoffending by a set amount."

In the United States, the terminology has changed a bit, and has since

become increasingly referred to as "Pay for Success."

The chart above illustrates the mechanics of a PFS.

As shown above, there are five key players. Let's work through the participants, their roles and expectations.

**Service Provider(s):** In contracting for services, the PFS construct allows for single providers or a "wrap around" approach which coordinates the independent skills of multiple organizations. These organizations would have proven on some scale to have achieved successful outcomes. In discussions with service providers, government officials and funders, programs that initially may be of most interest could include: early childhood interventions, education preparation and performance, recidivism, youths with disabili-

ties, elder care services and workforce engagement.

**Pay For Success Intermediary Organization (PFSIO):** A key part of the construct, and one of its more unique aspects, the PFSIO plays the role of the primary contractor with the government and the primary obligor to the investors. In this capacity, the organization oversees the program providers and monitors their performance. The PFSIO, with its focus on achieving social outcomes, has the ability to hire and fire the contracted service providers.

**Investors:** PFS programs are designed to apply the mechanics of the established capital markets. Private dollars provide the initial "risk" capital for PFS projects. While philanthropic in their focus, the PFS construct allows investors to receive a return on their initial

investment. We anticipate that in the initial phase of implementation, PFS will be funded by traditional philanthropic organizations. Over time, it is expected that the PFS instrument will allow for an even broader population of investors. *For more on impact investors, please see the Hope Consulting May 2010 report “Money for Good” [http://www.hopeconsulting.us/pdf/Money%20for%20Good\\_Final.pdf/](http://www.hopeconsulting.us/pdf/Money%20for%20Good_Final.pdf/).*

**Independent Evaluators:** PFS is about “funding what works.” Hence, independent evaluators play a significant role in the Pay For Success construct. To truly “move the needle,” PFS programs need to have measurable and real improvement in the lives of the targeted population, requiring robust evaluations to be incorporated into PFS programs. Given the application of administrative data to track whole populations, it is expected that the cost and complexity of the evaluation process will decline.

**Local Government Entity/Agency:** Pay For Success programs will be wholly dependent upon the commitment and engagement of government agencies. They will need to identify priority areas for a PFS intervention, determine desired social and fiscal outcomes and commit themselves to the process.

The PFS construct builds upon existing pay-for-performance contract structures and evaluation initiatives in government today. Fred Wulczyn of Chapin Hall, who has been instrumental in structuring these types of contracts, states that “... pay-for-performance contracts provide an exceptional foundation for states looking to explore alternative mechanisms [such as PFS] for funding social programs.” In most states, regulatory changes may be needed to allow for multi-year contingency based contracting—and we expect states to take various routes to achieve the necessary regulatory flexibility to engage in Pay For Success structures.

*In a PFS construct, the government reduces its risk associated with innovative social programs. As in the capital markets, the investors take the performance risk. The government pays only for those programs that meet pre-agreed outcomes, both social and fiscal.*

Another player that has not been addressed in this representation is the federal government. The FY 2012 federal budget includes \$100 million to fund Pay For Success programs at the state and local levels. The proposed budget allocation also includes the necessary provisions for federal agencies to support multi-year contingent contracts.

### **What Is the Value Proposition for State and Local Governments?**

Pay For Success can be compelling for state and local governments for the following reasons.

**Fiscal Realities:** The current fiscal climate has made even the funding of existing programs more difficult, threatening health and human service results across the board. A recent Gallup poll found that Americans are most likely to favor cutting back on state programs (65%) as a way to balance their own state’s budget. With program reductions imminent, PFS allows departments to continue to serve their state’s most vulnerable constituents.

**Innovation Driver:** Wulczyn refers to Pay For Success programs as “investing in success.” As a vehicle to support new initiatives, PFS will relieve pent-up demand for innovation in the human

service sector. By leveraging private funding, PFS provides “R&D capital,” allowing government to innovate and evaluate even in times of fiscal constraint. Pay For Success builds on states’ existing efforts to drive social change.

**Fiscally Prudent:** In a PFS construct, the government reduces its risk associated with innovative social programs. As in the capital markets, the investors take the performance risk. The government pays only for those programs that meet pre-agreed outcomes, both social and fiscal. This is a prudent use of a state/locality’s financial resources.

**Rebalancing:** PFS programs help move states and local governments away from social “safety net” programs to preventive efforts. As one expert observed, it is often difficult for government organizations to pay for programs that prevent situations. PFS allows for the development of a system that establishes and rewards preventive initiatives, thereby moving fiscal dollars to the “front end” of social needs.

### **What Will It Take to Implement?**

#### **Government Engagement and Planning**

States are in various levels of pursuing PFS programs. Jeffrey Liebman, former OMB deputy director and Harvard

*At its core, this construct has the potential to leverage private-public partnerships to transform the way state and local governments finance social programs in this country.*

professor, recently wrote an insightful piece on Pay For Success. (See Jeffrey B. Liebman “Social Impact Bonds: A promising new financing model to accelerate social innovation and improve government performance,” The Center For American Progress’s February 2011 journal, [http://www.americanprogress.org/issues/2011/02/pdf/social\\_impact\\_bonds.pdf/](http://www.americanprogress.org/issues/2011/02/pdf/social_impact_bonds.pdf/).) He anticipates that “...in most cases, states will want to follow a two-step process. The first stage would be an RFI process seeking program ideas from a wide range of experts, especially those in the local social service community. With this input, state agencies can narrow down to a few high priority ideas and solicit RFPs in those targeted areas.” Liebman is currently offering pro bono assistance to several states that are considering whether the Pay For Success approach can help them achieve their policy and performance goals.

Additionally, federal OMB officials have indicated that “States don’t necessarily need to wait for the Federal 2012 budget—they can start looking now at what kind of programs they would be interested in using for a Pay For Success type framework. They could start identifying and collaborating with potential partners and intermediaries, and most importantly looking at existing authorities and funding flows that can leverage Pay For Success structures.”

At Third Sector Capital Partners, we seek to play a role in supporting the growth of Pay For Success programs here in the United States. We have established ourselves as a nonprofit advisory boutique with a goal to assist each of the various parties; service providers, PFS intermediaries, state agencies and evaluators in designing and implementing Pay For Success programs across the country.

#### ***A Focus on Program Initiatives that Meet Certain Parameters***

We believe that successful PFS initiatives will include the following characteristics:

- ♦ Support from state and local agencies that view the dual goal of achieving social outcomes and better utilizing fiscal resources as a priority;
- ♦ Programs that have demonstrated the ability to achieve measurable social outcomes;
- ♦ Service providers with experienced management teams;
- ♦ Programs that can demonstrate “cashable” fiscal savings for government;
- ♦ Programs that focus on high quality of care;
- ♦ Programs with an ability to replicate and become sustainable; and
- ♦ Cost-effective access to credible data.

#### ***Use of Performance-Based, Multi-Year Contingency Contracting***

While a number of states have developed performance-based contracting, there is not universal acceptance of performance-based contracts in the health and human service arena. An additional requirement will be incorporating multi-year contracts, as it will take time for a program to demonstrate outcomes. Many state regulations limit the ability to commit over multiple budget periods. However, mechanisms are being developed that allow the necessary contracting constructs. The recent federal OMB PFS budget proposal similarly includes constructs to allow multi-year contingency programs.

#### ***Robust Evaluation Process and Procedures***

A key component of the Pay For Success model is the use of independent evaluations to confirm that program quality is maintained, process

requirements are followed, and established social metrics are achieved. This is critical, as PFS is seeking to engage all parties around “funding what works.” For example, Chapin Hall has developed the capacity to use states’ data on whole populations to develop statistical models for comparing program outcomes among similar populations.

#### ***Making the Case for Pay For Success Programs “Concrete”***

It will be imperative that discussions of PFS are framed in very concrete terms. Outcomes need to be tangible and measurable, such as reduced recidivism rates and lower utilization of foster care placement. The analyses of fiscal savings need to be demonstrated in quantifiable numbers, such as a reduction in special education dollars, lower Medicare payouts and lower juvenile justice expenditures.

#### ***Commitment and Perseverance***

Lastly, implementation of a new tool such as Pay For Success will inevitably run up against unknowns—requiring the willingness of all the involved parties to maintain a focus on the end goal—improving lives while fiscally managing taxpayers’ resources.

In a time when budgets are being slashed and innovation appears to have little bandwidth, Pay For Success programs are a potentially empowering tool for state and local governments to allocate their dollars toward the greatest outcomes for constituents. At its core, this construct has the potential to leverage private-public partnerships to transform the way state and local governments finance social programs in this country. Several state governments are seriously pursuing the implementation of this new tool, and our hope is that concrete examples of this work will be available in the near future. 📍

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY**

**RESOLUTION NO. \_\_\_-15-C&FC**

**February 4, 2015**

**A RESOLUTION OF THE CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY DIRECTING THE EXECUTIVE DIRECTOR OR DESIGNEE AND COMMISSION COUNSEL TO PREPARE AND NEGOTIATE A FIRST AMENDMENT TO AGREEMENT FCI-BN2-19 WITH NETCHEMISTRY INC., A DELAWARE FOR-PROFIT CORPORATION, TO PROVIDE DATA MATCHING AND ANALYSIS SERVICES FOR THE BRIDGES MATERNAL CHILD HEALTH NETWORK PROGRAM; AND, AUTHORIZING APPROVAL AND EXECUTION OF SUCH AMENDMENT ON BEHALF OF THE COMMISSION**

**WHEREAS**, in order to facilitate the creation and implementation of an integrated, comprehensive, and collaborative system of information and services to enhance optimal early childhood development, the legislature adopted legislation set forth in the California Children and Families Act of 1998, Health and Safety Code Section 130100, *et seq.* (as amended, the "Act") implementing the Children and Families First Initiative passed by the California electorate in November, 1998 and establishing the California Children and Families Commission and County Children and Families Commissions, including this Children and Families Commission of Orange County ("Commission"); and

**WHEREAS**, Commission adopted its Strategic Plan to define how funds authorized under the Act and allocated to the Commission should best be used to meet the critical needs of Orange County's children prenatal to five years of age as codified in the Act; and

**WHEREAS**, the Executive Director and Commission Counsel have prepared a standard Master Agreement for Services ("Master Agreement"), which was approved by the Commission; and

**WHEREAS**, Commission desires to authorize the Executive Director or designee and Commission Counsel to prepare and negotiate a First Amendment to Agreement FCI-BN2-19 ("First Amendment") with NetChemistry Inc., to provide data matching and analysis services for the Bridges Maternal Child Health Program in an amount not to exceed \$50,000, for a revised total contract obligation of \$158,000 for the period July 1, 2014 through June 30, 2015; and

**WHEREAS**, Commission has reviewed the staff report for the February 4, 2015 Commission meeting relating to the scope of services to be provided and hereby finds and determines that the proposed First Amendment is in furtherance of and consistent with the Commission's Strategic Plan; and

**WHEREAS**, Commission desires to authorize the Commission Chair to execute the First Amendment in an amount not to exceed \$50,000.

**NOW, THEREFORE BE IT RESOLVED BY THE COMMISSIONERS OF THE CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY AS FOLLOWS:**

**Section 1** Commission finds and determines the foregoing Recitals are true and correct and are a substantive part of this Resolution.

**Section 2** Commission authorizes the Executive Director, or designee, and Commission Counsel to prepare and negotiate the terms, conditions and final form of a First Amendment to Agreement FCI-BN2-19 with NetChemistry Inc., to provide data matching and analysis services for the Bridges Maternal Child Health Program in an amount not to exceed \$50,000, as specified in the February 4, 2015 staff report for this Agenda item and scope of services referenced therein.

**Section 3** The form of the First Amendment shall be substantially similar to the form of the standard Master Agreement, subject to minor, non-substantive revisions as reviewed and approved by the Executive Director or designee and Commission Counsel. The approval by the Executive Director of the First Amendment shall be conclusively evidenced by the execution of such First Amendment by the Commission Chair and delivery thereof to the Commission Clerk.

**Section 4** Commission hereby approves the First Amendment to Agreement FCI-BN2-19 with NetChemistry Inc. to provide data matching and analysis services for the Bridges Maternal Child Health Program, as specified in the February 4, 2015 staff report for this Agenda Item.

**Section 5** The Commission Chair and the Clerk of the Commission are hereby authorized to execute and attest, respectively, the First Amendment on behalf of the Commission.

**Section 6** A copy of the final First Amendment when executed by the Commission Chair and attested by the Clerk of the Commission shall be appended hereto as a part of Exhibit A to this Resolution. Exhibit A is hereby fully incorporated as a part of this Resolution by this reference and made a part hereof. The final executed First Amendment shall be placed on file in the office of the Clerk of the Commission.

**Section 7** In addition to the authorization of Section 2 above, the Executive Director, or designee, is hereby authorized, on behalf of the Commission, (i) to sign all documents necessary and appropriate to carry out and implement the First Amendment, (ii) to cause the issuance of warrants, (iii) to administer the Commission's obligations, responsibilities, and duties to be performed under such First Amendment, and (iv) during the term thereof to provide waivers, administrative interpretations, and minor modifications of the provisions of such First Amendment in the furtherance thereof.

**Section 8** The Clerk of the Commission shall certify to the adoption of this Resolution.

The foregoing resolution was passed and adopted by the following vote of the Children and Families Commission of Orange County on February 4, 2015 to wit:

AYES Commissioner(s): \_\_\_\_\_

NOES Commissioner(s): \_\_\_\_\_

EXCUSED Commissioner(s): \_\_\_\_\_

ABSTAINED Commissioner(s): \_\_\_\_\_

\_\_\_\_\_  
CHAIR

STATE OF CALIFORNIA )  
 )  
COUNTY OF ORANGE )

I, SUSAN NOVAK, Clerk of the Commission of Orange County, California, hereby certify that a copy of this document has been delivered to the Chair of the Commission and that the above and foregoing Resolution was duly and regularly adopted by the Children and Families Commission of Orange County.

**IN WITNESS WHEREOF**, I have hereto set my hand and seal.

\_\_\_\_\_  
SUSAN NOVAK  
Clerk of the Commission, Children and Families Commission of  
Orange County, County of Orange, State of California

Resolution No: \_\_-15-C&FC

Agenda Date: February 4, 2015

Item No. \_\_



I certify that the foregoing is a true and correct copy of the Resolution adopted by the

SUSAN NOVAK, Clerk of the Commission

By: \_\_\_\_\_  
Deputy

**EXHIBIT A TO RESOLUTION OF COMMISSION**

(Attach copy of final executed First Amendment to Agreement FCI-BN2-19 with NetChemistry Inc.)