PAY FOR SUCCESS, SOCIAL IMPACT BONDS AND FUNDING INNOVATIVE SCHOOLING

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December 2023

Executive Summary

Pay for Success Models, including Social Impact Bonds, have a relatively limited and recent history in the United States. These innovative, public-private partnership financing structures have been utilized over the past decade to address important social challenges such as housing insecurity, recidivism rates for juvenile offenders and advancing early childhood education opportunities. But despite numerous advantages these programs can offer for supporting innovative education models, like microschools, and specific provisions in federal legislation laying out how this can work, such initiatives have not yet materialized.

This report discusses prominent Pay for Success and Social Impact bond programs of the past decade, including program results and details, different partners and the roles they have played. It explains how these models work and discusses advantages, and some concerns, about the particular program details and structures utilized. Finally, it explains how different microschools can be particularly well positioned to succeed supporting nontraditional learning models for primary and secondary aged students, and what social benefits could be realized by positive results.

Introduction - Pay for Success Models and Social Impact Bonds

At a time when supporting promising innovation in education is as important as at any time in recent history, government programs at all levels struggle to do so impactfully. Meanwhile, over the past decade decisionmakers in several states have turned to Pay for Success programs, in which private funders and service providers confront pressing social challenges for which they are repaid with public funds upon demonstrating successful outcomes and subsequent savings to taxpayers.

These programs have produced track records of success solving societal challenges including housing insecurity, recidivism for juvenile criminal offenders, and early childhood development. But to date, these have not included improving education outcomes at primary and secondary levels, one of our nation's most pressing social needs.

Pay for Success models, including social impact bonds, are innovative instruments for public-private partnership which have seen limited, generally successful implementation in the United States over the past decade. Government entities agree by contract in such arrangements to reimburse private investors for the costs of targeted intervention programs demonstrated to produce positive social outcomes resulting in savings to taxpayers, and paying investors the savings from averted costs.

Success in primary and secondary education has been linked to a broad range of economic results by a preponderance of authoritative research. Many prominent studies have linked educational attainment and achievement to future earnings, incarceration rates, and mortality expectations, among other important (and costly) associated outcomes. This would position innovative education models able to demonstrate significant positive outcome impacts well to catalog economic benefits as needed for Pay for Success arrangements.

"Pay-for-Success is designed so that the government only pays for a program if its outcomes are achieved, thus shifting the risk of failure to investors," noted a 2015 report by the Government Accountability Office.

The White House Office of Management and Budget Office of Economic Policy's John Tambornino observed to a 2019 social scientists' conference in New Orleans that government Pay for Success programs bear the ability to encourage innovation, reduce financial risks to taxpayers, improve outcomes by offering increased flexibilities, and emphasize proactive interventions rather than remediating existing problems.

What kinds of educational outcomes represent ideal targets for such programs? A 2017 U.S. Department of Education publication, "Pay for Success Feasibility Took Kit: Considerations for State and Local Leaders," discussed increases in academic achievement; third-grade reading proficiency; English language acquisition; positive social, emotional and behavioral outcomes; high school graduation rates; industry credentialing including occupational certifications and licenses and employment, earnings and job retention, and reduction in grade reduction as

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examples of near-term and long-term benefits with important value to government.

Savings are generally defined as reductions in costs that government would have incurred had it not been for the success of the designated program activities.

Pay for Success programs bring together partners in different roles to produce greatest impact. Service providers selected for specific expertise are deployed to "do the work" impactfully. Philanthropic donors have the opportunity to combine with other funders, including commercial capital investors, in arrangements allowing them potentially to assume "first-loss" risks in the event of underperformance.

Critics have voiced concerns about certain aspects of these models, including the cost and complexity often required to structure partnerships and collaborations. Others have expressed reservations about the inclusion of nonpublic funders and service providers in areas where government agencies have been primarily responsible in the past.

While some will continue to hold these views, public private partnerships addressing social challenges are nothing new. Today, more than 3.7 million students attend public charter schools around the United States. The federal Department of Housing and Urban

Development partners with an extensive list of nonprofit organizations to provide housing opportunities to low- to moderate-income families. Internationally, rural electrification and telecommunications infrastructure are two focus areas where government partnerships with nonprofit organizations have produced powerful advances solving social challenges.

Public charter schools represent the most significant form of public private partnership arrangement for elementary and secondary education to date in the United States (nonpublic early childhood providers have long been prevalent, including as providers for Head Start and other federal programs). While charter schools have demonstrated significant success in many communities, it has been well documents that the highly-regulated requirements under which charter schools and their authorizing bodies must operate have made it extremely difficult, often impossible, for newer, flexible and those utilizing outside-the-box teaching and learning models to gain approval and operate viably.

For these reasons, Pay for Success models are able to operate outside such rigidities, while demonstrating positive outcomes within targeted populations and communities.

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Newly-emergent microschooling models are proving exceedingly popular, including in underserved communities, while broadly demonstrating the ability to produce powerful, measurable outcomes surpassing those of incumbent providers. In considering the ways Pay for Success models are structured, these may well represent strong opportunities for microschooling to benefit communities whose lack of adequate schooling options poses substantial social, and economic costs.

The analysis which follows details how these programs work, and how they might prove valuable for high-quality, nontraditional schooling options.

Federal Policy and Programs

To date, several major federal programs have included Pay for Performance/Pay for Success programs. The federal Social Impact Partnership to Pay for Results Act (SIPRA) of 2018, Workforce Innovation and Opportunity Act (WIOA) of 2014,and the Every Student Succeeds Act (ESSA) of 2015 each include significant federal provisions for establishing or supporting such initiatives.

The 2015 Every Student Succeeds Act (ESSA) is the most definitive and comprehensive federal legislation governing elementary and secondary education, and includes a prominent "Pay for Success Initiative" program sponsored by late Utah Senator Orrin Hatch. The law allows federal funding to be utilized for performance-based grants or cooperative agreements by public entities where direct cost savings or cost avoidance to the public sector are produced through improved outcomes with social benefits.

An initial feasibility study based on existing evidence of effectiveness and third-party evaluation of outcomes are necessary elements stipulated by the federal law.

The federal Workforce Innovation and Opportunity Act of 2014 also includes stipulations permitting program funds to be utilized for Pay for Performance programs for eligible providers as determined by local agencies achieving agreed-upon success targets. Additionally, program funding reserved for governors' discretionary statewide initiatives can also be eligible for pay-for-performance programs. Depending on applicable laws in individual states, such state programs allocating federal funds may require state legislative approval.

A currently-open federal Treasury Department Office of Economic Policy funding announcement under SIPRA (UST-SIPPRA-2024-002), with an application deadline of April 15, 2024, also includes provisions opening the program for education programs serving certain target, underserved student populations. Only state and local government applicants may apply, on behalf of Social Impact Partnerships in which they play a lead role, falling within certain program categories.

Its broad focus includes social service programs serving families in need through activating public-private partnerships that produce measurable and verifiable positive outcomes as well as financial savings to federal, state and local governments as a result of the outcomes.

Program components include:

- Federal grants can pay up to 15 percent of project grant amounts.
- Regarding education, the competitive grant program identifies "improving the educational outcomes of special-needs or low-income children" by measures of clear indicators over time as identified by an independent third-party evaluator.
- Eligible partnerships need to have investors, service providers and all necessary partners in place.
- The period of project performance generally anticipates a 48-60 month window of observation during which results are achieved.

Additionally, the federal Social Innovation Fund housed at the Corporation for National and Community Service supported over 150 programs serving low-income communities in public-private partnerships prior to being wound down during 2017 federal budget negotiations.

A wide range of NGOs and academic institutions have also acted as partners in pay for performance initiatives, including the Colorado Coalition for the Homeless, Mental Health Center of Denver, the public school districts of Granite and Park City (UT), The Urban Institute, the University of Utah's Sorenson Impact Center, Utah State University, and the YMCA.

Philanthropic, venture investors and financial institutions participating in Pay for Success partnerships have included the Laura and John Arnold Foundation, Finnegan Family Foundation, Goldman Sachs Investment Group, the Illinois Facilities Fund, Living Cities Blended Catalyst Fund, Northern Trust, Park City Community Foundation, J.B. Pritzker and the M.K. Pritzker Family Foundation, Providence Alaska Foundation, the Rasmuson Foundation, the United Way and the Lucy Ana Fund at the Walton Family Foundation.

What follows is a summary of different state and local Pay for Success implementations, highlighting program aspects which might inform future initiatives.

Alaska

Alaska's Home for Good program utilized a Pay for Success mechanism with $12.75 million in funding went to support 150 Anchorage residents experiencing persistent homelessness.

The initiative was implemented to advance housing stability and public service, considering post-intervention service utilization measures for cohort participants in Anchorage to demonstrate impact.

Initial philanthropic funding was later converted to government funding, as evidence of successful attainment of agreed-upon outcomes, as program partners and evaluators indicated positive results.

The project launched in October 2020, and its first evaluation report found encouraging program outcomes on track to substantially exceed targets in all categories for various measurable targets and periods in its first full year.

Among the promised outcomes the program demonstrated were achieving cohort six-month housing stability targets, reducing shelter visits and EMS transports. Improving coordination between systems and government agencies was also a declared program goal.

Partners in the Home for Good Initiative include the City of Anchorage, United Way of Anchorage, SouthCentral Foundation, Social Impact, and in total some two dozen government, nonprofit and philanthropic organizations.

Major philanthropic funders include the Alaska Mental Health Trust Authority,Premera Blue Cross, Providence Alaska Foundation and the Rasmuson Foundation. Other funding for the program came from the U.S. Department of Housing and Urban Development and the U.S. Department of Justice.

Colorado

The Denver Social Impact Bond Initiative for Permanent and Supportive Housing implemented its program between 2016 and 2020, serving 250+ chronically homeless individuals. Among the impacts it sought to demonstrate were to increase 12-month cohort housing stability and decrease jail bed stays over a 3-year window.

Results were demonstrated by comparing cohort participant data with randomized control group measures, and in each case exceeded in producing improved outcomes according to the program's methodology as determined by an analysis by nonprofit evaluation partner The Urban Institute.

The City of Denver subsequently awarded the Colorado Coalition for the Homeless and the Mental Health Center of Denver a $1.038 return on an $8 million investment by private investors.

Partners in the Denver Social Impact Bond Initiative for Permanent and Supportive Housing were the City of Denver, the Mental Health Center of Denver, Denver Coalition for the Homeless, the Urban Institute, Social Impact Solutions (strategic financial services consulting firm), and Enterprise.

Lenders included the Northern Trust Company, the Laura and John Arnold Foundation, the Ben and Lucy Ana Fund at the Walton Family Foundation, the Colorado Health Foundation, the Piton Foundation, the Denver Foundation, the Living Cities Blended Catalyst Fund, and the Nonprofit Finance Fund.

Three Early Childhood Education Programs in Utah, Illinois and Idaho

Pay for Performance programs built around delivering educational opportunities have been rare, and these have largely addressed early childhood education only. Perhaps the most prominent U.S. examples of these are two in Utah and Illinois that demonstrated moderate success, and a plan in Idaho which never came to fruition despite what seemed to be multiple advantages.

Utah's High Quality Preschool Program Social Impact Bond was organized in 2013 to build on a program in the Granite School District which had developed a strong reputation in its seven years in operation. Its major goal was to boost school readiness and preparedness for academic learning among lower-income 3- and 4- year old children.

Central to the Utah plan was, according to a case study by the U.S. Department of Health and Human Services, the "assumption that as a result of entering kindergarten better prepared, fewer children will use special education and remedial services in kindergarten through 12th grade, which results in a cost savings for school districts and cost avoidance for the State of Utah and other government entities."

These latter factors constituted the cost avoidance to government upon which the program's evaluation was structured. In its first year, program evaluators determined that $281,500 of savings and cost avoidance had been produced, allowing initial investor reimbursement. While a number of educational experts raised questions about the integrity of causality data, the program was deemed a success by those responsible for the program.

Partners in the Utah High Quality Preschool Program Social Impact Bond were the Granite and Park City School Districts, the Guadalupe Charter School, nonprofit organizations Voices for Utah Children, early learning providers Children's Express and Lit'l Scholars, and the YMCA of Northern Utah. Utah State University and the Park City Community Foundation also worked as active partners in the program.

Investors were philanthropist J. B. Pritzger and the Goldman Sachs Urban Investment Group, who provided initial funding (loans) in the form of $7 million in social impact bonds. The United Way of Salt Lake and Salt Lake County served as capital partners.

In large part to support this work and potentially other similarly-configured programs, Utah's legislature approved a School Readiness Restricted Account, enacted in 2019. The account was established to include legislative appropriations, federal grants funds, and private donations (these funds also generate interest income), and was approved to support different elements of a social impact bond.

Chicago's Pay for Success/Social Impact Bond program was based on similar goals relating to advancing early childhood education for children from low-income households and reducing special education placement as one of several cost savings resulting from participation. The program funded Child-Parent Center preschool initially at five program sites to serve 156 three- and four- year old children, beginning in 2014 and expanding over time.

Results were generally deemed to be successful, albeit less than hoped for, resulting in investor payouts substantially less than the maximum allowed. While various reasons for educational outcomes below expectations were discussed, inclusion of larger proportional populations of English Language Learners than the program seemed equipped to support adequately subsequently led project leaders to consider upgrading program elements to better serve and measure this important group of children.

Program partners for the Pay for Success Social Impact Bond were the Illinois Facilities Fund, Goldman Sachs Social Impact Fund, Northern Trust, J.B. and M.K. Pritzker Family Foundation, Finnegan Family Foundation and DLA Piper.

SRI International served as the evaluation partner.

Idaho's Pay for Success Program is among the nation's best-suited for education programs, although the process has yet to be utilized. The law permits the Idaho Department of Education to enter into contacts designed to "enhance student academic achievement," according to, "mutually agreed upon grade-level performance targets and efficacy standards." The law instructs that agency to approve a participating cohort of students selected from public school districts and charter schools.

Other statutory requirement for program approval include:

- External program evaluator prepared to measure educational performance, data collection and analysis;
- Investor-provided funds adequate to cover all contract costs;
- Mutually agreed upon formula for the distribution of savings realized;
- Annual CPA's audit and financial reporting, and
- Compliance with applicable state and federal laws;

In 2017, the state's Lee Pesky Learning Center anchored a proposed partnership created to respond to this opportunity that seemed to meet all program requirements. The plan prepared to address Idaho's relatively low rate of children entering kindergarten "below grade level" on reading benchmarks, at 49% in 2016. It sought to scale Pesky Center trainings for early childhood providers, demonstrating that providers completing such training have more children meeting reading benchmarks when they enter kindergarten.

For uncertain factors, however, the state's department of education did not approve the plan to move forward. The Pesky Center partnered with the University of Utah Sorenson Impact Center to prepare a feasibility study for its proposed Pay for Success program initiative.

The study, funded by the Corporation for National and Community Service's Social Innovation Fund, "confirmed the viability of Lee Pesky Center's Pay for Success project, including the presence of a willing outcomes payor in the State Department of Education, and several private and philanthropic investors with interest in collaboration."

Nonetheless, the plan never received approval by the state education department, and thus did not move forward to implementation.

Pay-for-Success as a Tool to Drive Innovative Schooling Models?

These examples raise both benefits and concerns about the use of Pay-for-Success models as they relate to potential education initiatives specifically.

There are certainly advantages such an approach can bring about, Among these:

A funding structure which allows lawmakers and government decisionmakers to fund innovative work to address important challenges facing their communities while shifting the risk of failure to private investors and philanthropy and away from taxpayers allows them useful flexibility.

Philanthropists and investors can advance effective new solutions to pressing societal challenges, and even generate a return for their investment when projects succeed.

State decisionmakers especially must conduct their important business under deadlines, often tight budget constraints, and generally are understaffed and must rely on lobbyists representing enduring institutions for subject-matter expertise – all factors which make it difficult to approve truly innovative solutions. In education, the sustained relationships school districts and other publicly-funded entities bolster through having a daily presence in legislative proceedings make funding business-as-usual options easier than newer, truly innovative approaches developed in the field that often represent better, more promising approaches to solving real-world challenges.

Stability of funding that offers providers multi-year windows to plan and implement their innovative work allows the experts to maintain focus on their program in ways that support success. Providers can staff, resource and plan activities strategically over the duration of the initiative in ways nonprofit organizations focused on innovation frequently find difficult and complicated due to complex business environments and year-to-year fundraising realities.

Studying how Pay for Success has been implemented to date also raises some concerns.

One reasonable question is whether requirements that only evidence-based models be considered for Pay for Success programs effectively exclude many truly innovative, promising programs. The present federal Social Impact Partnerships to Pay for Results Act funding program discussed earlier in this report requires, for instance, requires evaluation of, “the existing base of evidence and citing available research literature.”

If this bar for demonstrating a plan’s being supported by evidence is set too high, only models which have been deployed for enough years in enough settings will be considered. What then, is the reason for requiring all the work needed for a Pay-for-Success plan if evidence already exists it has little chance of failing?

Even Idaho’s Pay-for-Success law, admired for the soundness of its approach to fostering innovation, requires applicants to present, “An evidence-based program delivered by the service provider designed to enhance student academic achievement.” The Idaho model presents a sound model for its clear statutory direction.

The heavy lift, and cost, of preparing the many, process-heavy elements required of each of the Pay-for-Success programs discussed in this report provides another important consideration. Contract rules can be complex at each level of government. Between cost savings calculation requirements, data management and privacy protection requirements, evaluation design plan requirements including randomized control trials, requirements for intergovernmental review, and any modifications to service delivery plans by experts deemed necessary to support specific government program requirements. The associated costs, administration and management required add layers to what is required to deliver the needed program services, which are, after all, the substance of this work.

Such observations about initiatives to date may describe some complications inherent to any solutions to the complex structures of Pay for Success arrangements. Other aspects may be simplified as the collective body of experience in these programs grows.

These concerns can certainly be addressed in various ways in light of significant advantages offered high-quality partnerships can offer. A 2021 Brookings Institution article described ways partnerships for public purpose can, "increase capacity, improve quality, enhance equity, and target poor or marginalized populations for the delivery or financing of services."

Today's American microschooling movement, highly diversified in model, mission and structure and rooted in the communities it serves, features a host of partnerships, providers and governance arrangements which could ably be called upon to meet the challenge and requirements of Pay for Performance programs.

In 2020 the City of North Las Vegas contracted the first-ever public private partnership for microschooling, the Southern Nevada Urban Micro Academy (SNUMA). During the height of pandemic school shutdowns, the city partnered with a local education nonprofit, Nevada Action for School Options, to provide a free microschool for residents operating in two recreation centers and a public library. The city served as a host partner, providing facilities space, resources, meals and IT infrastructure, while hiring the nonprofit to be responsible for teaching and learning.

In the program's first year, SNUMA students demonstrated academic growth far surpassing that of what district-operated public schools serving the city had produced prior to pandemic interruptions. The costs of the program were significantly lower than the school district's per-pupil spending rates. The microschool proved extremely popular with families.

Microschooling providers nationally, such as Primer (Florida and Arizona), Wildflower (operating in more than 10 states), Prenda (Arizona and other states) and KaiPod Learning (Arizona, Florida and New Hampshire) could represent strong potential service providers for Pay for Success arrangements.

[They combine] the ability to encourage innovation, reduce financial risks to taxpayers, improve outcomes by offering increased flexibilities, and emphasize proactive interventions rather than remediating existing problems.

Recommended Resources for More Information

General Pay for Performance

Costa, Kristina, “Fact Sheet: Social Impact Bonds in the United States,” Center for American Progress, February 2015.

“Pay for Success: Collaboration among Federal Agencies Would Be Helpful as Governments Explore New Financing Mechanisms,”United States Government Accountability Office, GAO-15-646, September 2015.

“Pay for Success Feasibility Tool Kit: Considerations for State and Local Leaders,” U.S. Department of Education: Office of Planning, Evaluation and Policy Development, October 2017.

Tambornino, John, “Pay for Success” Program Models: The Promise and the Perils,” White House Office of Management and Budget, Office of Economic Policy, July 29, 2019.

Specific Initiatives

“Assessing the Feasibility of Lee Pesky Learning Center’s Idaho Early Literacy Project,” Lee Pesky Learning Center and Sorenson Impact, September 2017.

Gillespie, Sarah, Devlin Hanson, Alyse Oneto, Patrick Spauster, Mary Cunningham and Michael Pergamit,“Denver Supportive Housing Social Impact Bond Initiative: Final Outcome Payments,” The Urban Institute, July 2021.

“Investing for Social Impact: A Look Back at the Denver Social Impact Bond,” The Denver Foundation, 2001.

Partipilo, Chris,, Tim Ho and Marny Rivera, “Home for Good Evaluator Report 1: Housing Stability and Public Service Outcomes,” NPC Research, May 2021.

“Social Impact Bonds for Early Childhood Education in Utah,” Centre for Public Impact, April 2016.

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