

TRAINING AND EMPLOYMENT NOTICE	NO. 15-16
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TO: STATE WORKFORCE AGENCY ADMINISTRATORS
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FROM: PORTIA WU /s/
Assistant Secretary

SUBJECT: Release and Availability of a Report: *Process Study of the U.S. Department of Labor’s “Pay for Success” Pilots in Two States: Development of the Grant Applications and Initial Implementation*

- 1. Purpose.** To announce the release and availability of the research report: *Process Study of the U.S. Department of Labor’s “Pay for Success” Pilots in Two States: Development of the Grants Applications and Initial Implementation.*

Background. In September 2013, the U.S. Department of Labor (DOL) awarded grants to two states to operate pilot projects using a Pay for Success (PFS) financing model which is thought to have the potential to promote innovation and to allow evidence-based practices to be scaled up, thus improving social or environmental outcomes for people and communities.

The PFS model used in the two DOL projects involves: private for-profit and philanthropic investors to cover the up-front costs of delivering an intervention; an intermediary organization to develop and manage the project; a “payor” (in this case a government agency) to reimburse investors and provide them with potentially significant returns if specific outcomes are met or exceeded, as determined by a rigorous evaluation; a service provider to deliver the interventions; and an independent validator to verify the outcomes.

The DOL grants, one awarded to the Massachusetts Executive Office of Labor and Workforce Development and the other to New York State Department of Labor, were each for approximately \$12 million. Both states also committed state funds to continue the pilots beyond the DOL grant period (which ends in 2017) and to measuring longer-term outcomes and impacts on individuals served. Both projects focus on increasing employment and reducing recidivism among newly released ex-offenders. The Massachusetts project targets young male parolees, while the New York pilot focuses on adult ex-offenders. Both projects

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WASHINGTON, D.C. 20210**

are using a random control trial (RCT) methodology, as required by DOL, to quantify participants' employment gains and reduction of days in prison, relative to that of controls, in order to determine the amounts that will be paid to investors.

This report is the first of two from a DOL-sponsored process study of the implementation of the two PFS pilots. The overall study, being conducted by Abt Associates, is designed to provide information on the PFS approach to policymakers and program administrators.

2. **Research Design and Analytical Approach.** This report documents the development of DOL's PFS pilots, including the grant application process and early implementation of the projects. The report is based on in-person interviews conducted in fall 2014 with the key partners involved in each PFS pilot, as well as reviews of grantee documentation and performance data that was reported to DOL. Key research questions included:

- How were the PFS pilots designed, and what were the national and local contexts in which they were developed?
- How did grantees identify, recruit, and maintain partnership organizations for their PFS pilots?
- How was the PFS initiative managed and operated?
- How was the PFS financing structure developed and operated?
- How does the service delivery operate and what services were provided to participants?
- What are the challenges and promising practices experienced by PFS grantees?

3. **Key Findings.** Preliminary observations regarding the development and early implementation of the two PFS pilots, as perceived by the respondents, are as follows:

- **The support and influence of each state's Governor's Office, as well as other state leaders, was important in launching the initiative.** This leadership was viewed by the PFS partners as important in developing and launching the PFS projects, as it generated visible and influential support for the approach.
- **Educating pilot partners about the PFS approach was a necessary part of the planning process.** Project partners needed to learn about various technically complex concepts and design issues, including, for example, defining and measuring the target outcomes to determine the effectiveness of the intervention, estimating budgetary savings that result from any improved outcomes, determining payment points and potential returns on investment, and designing and implementing rigorous evaluations.
- **Carefully structured contracts and a strong management and communication process were needed to guide project organization and the PFS partnerships.** The partners in both states established detailed agreements or contracts specifying all aspects of the pilots, including: the service intervention and its cost, outcome measures and targets, the evaluation design, potential payouts for investors, and structures for oversight and day-to-day operations of the pilots.

- **While private capital remains the cornerstone of the PFS approach, partners reported the value of a diverse funding base.** Engaging the philanthropic community provided additional legitimacy and helped secure private investment for both pilots.
 - **Recognizing the need for rigorous evaluation was an important milestone that was eventually reached by both projects, but there have been some challenges in implementing these designs.** While the use of an experimental or quasi-experimental design was a required element of the DOL grant proposal, at the time of the proposal submissions, stakeholder understanding of the RCT methodology (and its justification) was limited. Over time, however, partners reported that they came to value the rigorous evaluation approach because it helped to maintain investors' confidence.
 - **Determining how to measure the outcomes of the service interventions and the potential budgetary savings associated with them was a difficult task.** Partners reported that determining future costs and budgetary savings required assumptions and estimations, not all of which could be accounted for, let alone accurately monetized. Each pilot has similar measures to gauge the success of its service intervention based on the RCT, but they use different methodologies to determine the budgetary savings, in part reflecting that there is not an established way to do this. Partners reported that it was important to reach consensus regarding the type of outcomes they expected the interventions could achieve, and then focus on how the outcomes would be measured.
 - **Establishing outcome targets that trigger payments to investors required significant time and negotiation.** Determining investor payouts was a complex, technical, and time-consuming part of the planning process, with both pilots taking similar, but distinct, approaches. Both pilots have sets of detailed formulas that specify under what circumstances and when payouts will be made to investors. The technical assistance provided by the Harvard Social Impact Bond Lab was particularly important for reaching consensus between the partners on this critical element of the PFS pilots.
4. **Publication Description.** The report documents the development of the pilots during the grant application period and the first approximately ten months of a multi-year operational period. This report examines early planning and operational experiences, including developing working partnerships and management structures, securing private and philanthropic capital and financing mechanisms, establishing the service intervention, setting up the evaluation design, and establishing outcome measures, outcome targets and payment amounts
5. **Inquiries.** To view an abstract of this publication, as well as to download the executive summary and full report, visit the ETA Research Publication Database Web site at: <http://wdr.doleta.gov/research/keyword.cfm>.