HB 15- 1317 – Pay for Success
Common Questions and Answers
Updated March 29, 2015

What are Pay for Success contracts?

Pay for Success (PFS) is an innovative funding model that drives government resources toward social programs that prove effective at providing results to the people who need them most. PFS expands available funding for direct service providers and tracks the effectiveness of programs over time to ensure funding is directed toward programs that succeed in measurably improving the lives of people most in need.

PFS enables governments to draw in greater resources to tackle social problems by tapping nongovernmental investments for the upfront costs of the programs. If the program is successful in delivering services that improve the lives of the people it is meant to serve, then government repays those who made the original investment. If the program does not achieve its target results, government does not repay those who made the original investment. This model ensures that taxpayer dollars are being spent only on programs that actually work and, will ultimately, save taxpayers money in the long-run.

Where are Pay for Success contracts in use in the United States?

- Cuyahoga County, Ohio: Chronic homelessness and out-of-home foster care for at-risk youth
- New York: Recidivism rates for previously incarcerated adults
- New York City: Recidivism rates for previously incarcerated youth
- Chicago, Illinois: Comprehensive family support and early learning for at-risk children
- Utah: Pre-kindergarten services for at-risk youth
- Massachusetts: Young, male ex-offenders at a high risk of recidivating
- Massachusetts: Chronically homeless individuals

What does the legislation do?

- Sets up the process for the state to issue an RFP, review, approve and enter into PFS contracts;
- Sets up the fund into which the cost savings or other benefit determination would be deposited and from which payments would be made;
- Outlines the elements that would have to present in a PFS contract the state enters into;
- Specifies the timing and process for requests for PFS payments and evaluate
- Ensures that any payment for a PFS contract would have to be annually appropriated by the legislature

What doesn't the legislation do?

- It doesn't require the state to enter into any PFS contracts -- that is entirely at the state's discretion;
- It doesn't require state approval of local PFS projects (if they don't involve the state or state funds). If local projects do not require state participation, that is entirely at the discretion of local governments;
- It doesn't require local governments to enter into PFS contracts -- that is entirely at the discretion of local governments;
- It doesn't appropriate any money into this process for payment of contracts;
- It doesn't specify the policy priorities according to which the state might want to pursue PFS ideas -- that is entirely at the state's discretion;
- It doesn't specify the specific measures or metrics for cost savings -- that is at the discretion of the parties during the contracting process and subject to review if requested

Why do we need legislation to allow PFS to move forward?

- Right now, without legislation, cost savings associated with state funding streams would not be able to be paid out through PFS contracts. In other words, currently there is no way to move, for example, special education savings into a payment for PFS contracts since if fewer children are needing services, then the savings would simply accrue to the General Fund and there would be no mechanism to use them for a PFS contract. That means that state savings from corrections, education and healthcare, etc. would not be able to be included in any PFS contracts and the only payments would be from local sources. This severely limits both the scope of PFS contracts we could see pursued in Colorado as well as the innovations that might arise if we allowed state dollars to be part of the success payments.

Does the legislation interfere with local governments' ability to enter into these contracts?

- No. Local governments can enter into PFS contracts currently and this legislation does not interfere with that ability. That said, local governments can only access funds at the city/county/school district level. The Denver project, for example, focuses on city/county justice system measures (e.g. costs associated with the county jail, courts, police, etc.). There are few PFS ideas that can work entirely within local government budgets.
- This legislation allows the state to be able to review, analyze and potentially approve projects that also have state cost savings (e.g. state corrections, special education or Medicaid), resulting in much more significant potential contracts and innovations. In essence, the legislation allows the mechanism for a PFS contract to be written that includes state dollars as a party to the contract. Without it, the gate isn't even open to allow state funding to be part of the conversation.

Christine Staberg, cstaberg@capstonegroupllc.com, 303-868-8979
William Mutch, william@mdmutch.com, 720-308-3497
Will Coyne, will@headwatersstrategies.com, 720-308-7931
Candi CdeBaca, candi@coloradokids.org, 720-289-7884