

**REQUEST FOR INFORMATION**

**PAY FOR SUCCESS**

**ILLINOIS DEPARTMENT OF HUMAN SERVICES**

**Information Due Date: April 12, 2016.**

## **Introduction:**

The Illinois Department of Human Services (IDHS) would like to thank your organization in advance for reviewing this Request for Information (RFI) and assisting the State of Illinois (State) in this effort.

This Request for Information (RFI) is being issued by the IDHS as part of its continued efforts to partner with entrepreneurs from the nonprofit and private sectors to increase the efficiency of government-funded service delivery, improve outcomes for difficult-to-serve populations, reduce costs to taxpayers, and accelerate innovation in ameliorating social problems.

The IDHS is seeking information from **providers, intermediaries, and investors** on how to apply a Pay for Success (PFS) model contract to some of their most difficult to serve populations. We are soliciting information from potential partners as well as interested citizens about areas of government activity where performance-based contracting strategies have the potential to improve outcomes and reduce costs.

### **1. Background**

Pay for Success performance contracts provide an innovative strategy to finance new programs through public-private partnerships. Under a PFS contract, the government pays contract-holders entirely or almost entirely based upon achievement of performance targets. Performance is rigorously measured by comparing the outcomes of individuals referred to the service provider relative to the outcomes of a comparison or control group that is not offered the services. This ensures that taxpayer funds are spent on proven, rather than promised, outcomes.

Independent monitoring and evaluation of outcomes is critical in PFS contracts. Rigorous evaluation systems, which determine if pre-agreed upon targets have been reached, can deepen the State's understanding of which programs actually work, and findings can be used to improve services throughout the State. This learning enables the state to spend taxpayer funds more efficiently and scale evidence-based, innovative programs that have been proven to work in Illinois.

In PFS projects, performance targets and corresponding payments are linked to taxpayer savings and benefits. If the contract holder fails to achieve the minimum negotiated target(s), the government does not pay. Payments typically rise for performance that exceeds the minimum target up to an agreed-upon maximum payment level.

Given the length of time often required to accurately measure outcomes, respondents will need ways to finance their operations for several years in advance of state success payments. This can be done

through the use of Social Impact Bonds or other creative funding structures<sup>1</sup>. In Social Impact Bond arrangements, third-party investors/intermediaries support service providers by providing upfront capital in exchange for a share of the government payments that become available if performance targets are met.

Pay for Success (PFS) projects on homelessness, early childhood education and recidivism are currently underway in nine states, counties and cities across the country, including Illinois, and many more are in development. The IDHS is open to proposals that use Social Impact Bonds or other innovative financing mechanisms. In all cases, respondents must demonstrate their ability to fund proposed operations in advance of state success payments.

Important considerations include:

- **The role of the intermediary.** In establishing a PFS contract, states often contract with an intermediary, who is in turn responsible for raising capital and contracting with the mutually agreed upon service provider(s).
- **A stable expansion path for service providers.** One of the major advantages of a PFS contract is that it provides stable, multi-year funding for a proven service provider. For this arrangement to be successful the intermediary must be able to demonstrate the ability to raise adequate capital and the contract must advance this goal.
- **Appropriate payment terms.** In a PFS contract, investors are repaid only if the predetermined savings and/or benefits are achieved. The threshold for generating investor repayment is set at a level that ensures the state is only liable for payments if performance objectives are achieved. Payments increase as the savings/benefits to the state increase, and payments never exceed the savings/benefits that are produced. This approach places the risk on private investors, rather than taxpayers.

For more information about Pay for Success Contracts, please refer to the Harvard Kennedy School's Government Performance Lab's webpage: <http://govlab.hks.harvard.edu/> or the Brookings Institute's recent report:

<http://www.brookings.edu/~media/research/files/reports/2015/07/social-impact-bonds-potential-limitations/impact-bondswweb.pdf>

## 2. Policy Areas of Interest

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<sup>1</sup> The term "Social Impact Bond," which was coined in the UK, has led to some confusion. These private sector financing arrangements do not involve a typical debt instrument and do not require the government to issue debt.

The IDHS has identified several policy areas that are priorities for the Department and may be appropriate for a Pay for Success contract. There is particular interest in the following areas:

Policy Area	Possible Interventions and Target Populations
<b>Supportive Housing</b>	<ul style="list-style-type: none"> <li>• Providing housing and services to chronically homeless individuals dually-diagnosed with mental illness and substance-use disorders to reduce emergency room visits and stays in institutions</li> <li>• Moving individuals currently residing in state-run institutions into community-based care settings</li> </ul>
<b>Community Capacity</b>	<ul style="list-style-type: none"> <li>• Building the capacity of community-based placement options, including integrated living arrangements, for adults with developmental disabilities</li> <li>• Reducing waiting times for placement into individual’s preferred options and provision of services for adults with developmental disabilities</li> <li>• Reducing recidivism rates in state operated hospitals and nursing facilities</li> <li>• Developing crisis intervention services in the community to provide temporary intervention and stabilization services for individuals with intellectual and developmental disabilities and/or mental health challenges</li> </ul>
<b>Workforce Development</b>	<ul style="list-style-type: none"> <li>• Improving employment outcomes of youth aging out of the child welfare system</li> <li>• Enhancing the quality of jobs attained by public assistance recipients, individuals leaving the correctional system, or long term unemployed</li> <li>• Improving the educational and employment outcomes of “opportunity” youth, typically considered those ages 16-24 who are not enrolled in education or participating in the formal labor market</li> </ul>

### 3. Information Requested

We request that you include the following sections in your responses to help us best understand your ideas and feedback:

*A. Background Information (1 page maximum)*

Please provide a brief overview of your or your organization’s background, including but not limited to (i) experience working with similar governmental entities and (ii) the implementation of successful initiatives in any of the areas outlined above.

*B. Description of Program or Idea (3 pages maximum)*

Please describe a social service program area where the aforementioned structure would be an effective tool in achieving positive social outcomes. In particular, IDHS is interested in identifying programs that:

- Are evidence-based, achieve desired social outcomes, and/or result in quantifiable benefits for the State.
- Have demonstrated success on a measurable scale
- Have the potential to be implemented more broadly using the Pay for Success Model.

Please be specific as possible when drafting your response to the following questions, if applicable:

- What social issue are you proposing to address? Please include a description of the target population, the intervention recommended, the possible outcomes and the cost savings or benefits that may be achievable to the State of Illinois.
- What is the structure of your proposed intervention? Please provide a description of the services and supports you would provide to achieve the desired outcome.
- What is the scale of your recommended initiative in terms of budget, timelines, geographical area, and population served? Please estimate the volume of people eligible to be served through this intervention. Keep in mind that most Pay for Success projects need to serve enough people to be robustly evaluated.
- What are the potential referral sources or referral processes that could identify which individuals are eligible for the intervention?
- What funding sources could be available to support the recommended intervention, particularly in the non-profit and private sectors?
- What mechanisms are in place or need to be developed to track and evaluate outcomes for the purposes of determining overall success of the initiative?

#### *C. Description of Governance Structure (1 page maximum)*

Please describe what type of operational or governance structure you envision for your proposed intervention. Please attempt to respond to questions about the following in your response:

- What governance structure would be most effective in achieving desired social and financial outcomes within a Pay for Success program? How should functions be allocated between an intermediary, a service provider, the State, and an independent evaluator?
- Are there alternative models that are consistent with the Pay for Success principles outlined in this RFI the Department should consider?

#### *D. Description of Other Issues or Considerations (1 page maximum)*

Please describe any other issues or considerations not otherwise covered in this RFI that can assist IDHS in developing and implementing a Pay for Success Contract.

## **4. RFI Schedule and Submissions**

Responses must be submitted electronically in a searchable PDF file no more than **6 pages in length**, sent via e-mail addressed to: [payforsuccess@illinois.gov](mailto:payforsuccess@illinois.gov). Submissions are due no later than 2:00 p.m. CST **April 12, 2016**. The subject line of the e-mail should be: "IDHS RFI –Pay for Success".

All RFI response entities will be named on the IDHS website for public availability.

A webinar for more information will be held on March 23, 2016. Please RSVP to [payforsuccess@illinois.gov](mailto:payforsuccess@illinois.gov) to obtain the log-in information.

- March 15, 2016: RFI released
- March 23, 2016: Webinar for additional information
- April 12, 2016: Responses due
- May 2, 2016: All response entities posted for public review

**For questions, please contact:**

[payforsuccess@illinois.gov](mailto:payforsuccess@illinois.gov)

Attn: Mollie Foust

This RFI does not constitute any commitment by the State to follow any particular procurement course of action. This RFI is for informational purposes only and will not result in an award of contract. The purpose of this RFI is to determine what services your company can offer IDHS. Failure to respond to the RFI does not preclude subsequent participation in any procurement process that may be developed as a result of this RFI. Any and all information provided in response to this RFI shall be considered to be the exclusive property of the State and will be kept confidential to the extent permitted by law. Any information provided in response to this RFI claimed to constitute a trade secret and/or otherwise claimed to be confidential, proprietary and/or privileged (See section 7(1)(g) of the Illinois Freedom of Information Act 5 ILCS 140/7), must be supported at the time of submission by a detailed statement and written justification, or any such claim(s) shall be deemed waived. Please be advised that the State cannot reimburse any expenses that may be associated with responding to this RFI.