



## Best Practice Profile: Outcomes Based Investments for Supportive Housing (Performance Based Contracting and Pay for Success)

### Description

Simply put, outcomes based investments are mechanisms to fund projects based on the achievement of specific and quantifiable outcomes sought by funders. Common outcomes based investment mechanisms include Performance Based Contracting and Pay for Success.

**Performance Based Contracting (PBC)**<sup>1</sup> is a method of contracting that requires a provider to achieve specific and measurable outputs or outcomes in order to receive full payment or other contractual considerations, such as extensions or renewals. PBCs can be structured in a variety of ways to incentivize performance towards outcomes.

**Pay for Success**<sup>2</sup> combines upfront working capital provided by institutional and/or philanthropic investors with Performance Based Contracting. In a Pay for Success transaction for supportive housing the expected outcomes for a target population are identified by the partnership that includes government (end payer), investors, and an evaluation and financial intermediary. The investor(s) provide upfront working capital to supportive housing providers through the intermediary to deliver the housing and services intervention. Outcomes are tracked by an independent evaluator as the intervention is delivered to the target population. Based on outcomes met, the government partner makes payments to the intermediary that is then distributed to the investors and supportive housing providers.

As an evidence based the intervention, Supportive Housing is particularly well-suited for funding and contracting methods that require performance towards key outcomes for vulnerable target populations with complex needs. These populations include frequent or high utilizers of criminal justice, health, child welfare, or other crisis services, residents of health care institutions who prefer to live in the community, and young adults transitioning out of foster care. Studies of supportive housing across these populations demonstrate positive outcomes for many of the participants related to housing and family stability, reduced criminal justice recidivism, access to quality and appropriate health care, all of which contribute to savings and encourage redirecting resources across the broader community systems.

### Benefits

Outcomes based investments in supportive housing assist communities in meeting the needs of vulnerable populations and the communities where they live. Some of the benefits include:

**Improvement on outcomes** due to a refocus of contracts towards outcomes, rather than solely compliance.

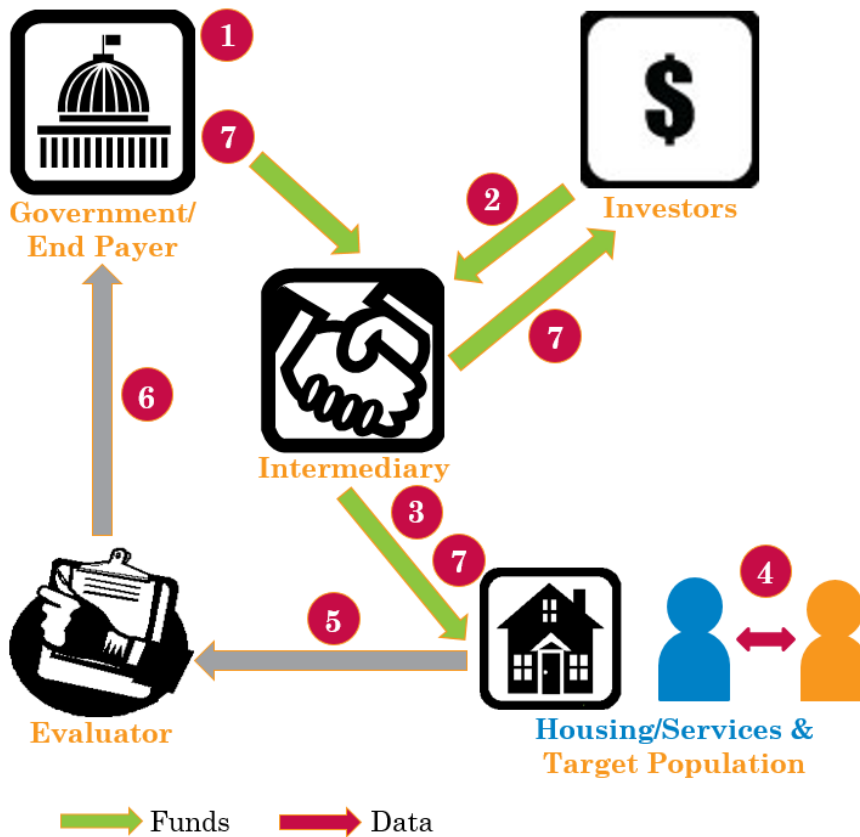
- **Promotes and ensures quality services** according to best practices and fidelity to evidence based practices
- **Mitigates risk to the government** – payments are tied to documented achievement of outcomes, rather than solely on expenses for eligible activities.
- **Allows flexibility to provide the person centered services** necessary to achieve client outcomes.
- Leverages new financial resources to **increase the scale and sustainability** of supportive housing financing.
- **Engages new and diverse partners** in efforts to address vulnerable populations.

<sup>1</sup> Other common terms include: Results Driven Contracts (RDC), Pay for Performance Contracts, Payment by Results (PbR),

<sup>2</sup> Also known as Social Impact Bonds.

## How it Works

A Pay for Success transaction begins with an interested unit of state or local government that chooses and intervention, like supportive housing, and contracts with all relevant parties.



- 1 End Payer** partners to develop PFS effort that connects a proven intervention with a target population in need of services.
- 2 Investors** provide the upfront capital to finance the intervention.
- 3 Intermediary** provides the service provider(s) with the working capital to implement the intervention.
- 4 Service providers** deliver the transition supports, rental assistance, and services to the **target population**.
- 5** Outcomes and costs are tracked and provided to the third-party **evaluator**.
- 6** The **evaluator** determines whether the agreed upon metrics have been achieved.
- 7 End Payer** makes success payments to the intermediary for distribution if outcomes are met.

## Community Examples

### Denver

The Denver PFS project is an \$8.6M transaction that will house 250 chronically homeless individuals who are frequent utilizers of the criminal justice system over a 5 year period. The performance outcomes for the Denver PFS target specific metrics tied to housing stability and reduction in jail beds. Partners include CSH, the City of Denver, Enterprise Community Partners, and Social Impact Solutions. The transaction closed in early February 2016 and is currently in implementation. [More information.](#)

### Massachusetts

Launched in 2014, the Commonwealth's homeless social innovation financing initiative (also known as SIF or "Pay for Success") is a permanent supportive housing initiative aimed at serving between 500 and 800 homeless individuals over the next six years. As of June 2018, the program has housed 710 tenants and has achieved a 92% rate of housing stability/positive exits. A key feature to the initiative was an expansion of tenant access to Medicaid-reimbursed supportive services in housing. To implement this program, the Massachusetts Housing & Shelter Alliance (MHSA) partnered with United Way of Massachusetts Bay and Merrimack Valley (MASH's fiscal agent) and CSH (serving as evaluation experts) to form an LLC called Massachusetts Alliance for Supportive Housing (MASH) to serve as an intermediary between investors, providers and the Commonwealth. [More information.](#)

## Recommendations for Atlanta

Atlanta's significant investment in developing supportive housing is an opportunity to explore the ways contracts and funding can incentivize more outcomes based financing approaches to maximize the impact of these new resources for vulnerable individuals and families. Possible scenarios for Atlanta to consider include:

- 1) **Establish key outcomes, standards and benchmarks for quality supportive housing that drive performance based on outcomes:** At a minimum, Atlanta should clearly define the expected community and client outcomes alongside the unit production goals. This includes establishing standards and benchmarks for the physical development, property management and operations, and supportive service delivery that promote quality housing and evidence based approaches to working with the target tenant populations.
- 2) **Implement Performance Based Contracting within current Supportive Housing Funding:** Exploring the use of outcomes based investment models may be especially relevant for funding the supportive services required to ensure tenant housing stability. Given the time period required to develop housing, the feasibility of implementing an outcomes based contracting approach can be undertaken over the next two years; ideally becoming available as housing units come online.
- 3) **Local Government takes on role of End Payer in a Pay for Success transaction:** This could be the City of Atlanta and/or a partnership between the City and Fulton and DeKalb Counties, as each jurisdiction shares the cost and responsibility for serving people experiencing homelessness. Through a PFS transaction, the local governments reduce their risk while driving towards a high performing housing and service delivery system. Potential agencies that may be interested in contributing to a PFS transaction could be the child welfare, health and behavioral health, and criminal justice systems as supportive housing as demonstrated results in meeting reductions in costs and improved outcomes for clients served through these systems.
- 4) **An "Anchor Institution" takes on role of End Payer in a PFS transaction:** Anchor Institutions are organizations that are tied to their communities due to their mission, customers, employees and/or investments. In this context, an Anchor Institution could be a local hospital, chamber of commerce or business association, or other organization that has an interest in reducing homelessness and improving outcomes for vulnerable populations.

Implementation of the first two scenarios will help ensure that the significant investments Atlanta is making in supportive housing will meet the City's purpose and goals. The work involved in the first two scenarios may also help lay the groundwork for launching a Pay for Success project in the future. Regardless, immediate next steps Atlanta should consider to assess feasibility include:

- 1) Solidify core leadership team, including leadership from the CoC, Hospitals, FQHCs, local government, and private funders.
- 2) Educate core leadership team on outcomes based investments, including Pay for Success and Performance Based Contracting.
- 3) Analyze HMIS, hospital and other relevant data to better understand the target population, including current costs and target outcomes.
- 4) Coalesce around joint goals and outcomes among the PFS partners.
- 5) Identify potential end payers and investors to engage in the feasibility assessment process.

For more detail on undertaking a feasibility process, see CSH's [Key Components of the Pay for Success Feasibility Process](#).

## Additional Resources

[CSH Pay for Success](#)

[Nonprofit Finance Fund](#)