

FROM IDEA TO ACTION:

PAY FOR SUCCESS IN SANTA CLARA COUNTY



A case study funded by **THE HEALTH TRUST**,
and prepared by **THIRD SECTOR CAPITAL PARTNERS**.

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A Letter from the CEO

The Health Trust

Dear Reader,

I had the opportunity to hear Dr. Clay Christensen from the Harvard Business School a few years ago discussing his upcoming book *The Innovator's Prescription*. The book describes Christensen's theory of Disruptive Innovation as it applies to health care. As communities across the country are faced with ongoing government funding reductions, increased social needs, and the long-term effects of the recession, it is clear we need to develop new solutions to ongoing challenges.

That is why two years ago The Health Trust brought Dr. Christiansen from Harvard to Silicon Valley to speak about the application of Disruptive Innovation (DI) theory to the nonprofit sector. It is also why we followed that event by funding DI projects in the health equity field. One of the resulting grants was made to Catholic Charities to explore Pay for Success (PFS) and Social Innovation Financing (SIF) in Santa Clara County. Third Sector Capital Partners, which prepared the case study that follows, was engaged for consulting support to work with the County government and the local nonprofit community to identify potential areas where these concepts could be applied.

We have been very pleased with the receptivity of the County to this project and the progress to date, thanks in no small part to the strong support from the Board of Supervisors and the dynamic leadership of COO Gary Graves from the County Executive's office.

This report is intended to describe our process and progress-to-date. We want to support continued growth in this field, and I believe that reflecting on our lessons learned is essential to the successful completion of this project, and can inform other efforts underway across the nation.

Interest and buy-in from philanthropic and commercial funders is essential to a Pay for Success initiative, so we at The Health Trust invited a group of experts to speak to potential investors about the Santa Clara County project and the growth of PFS and SIF. Kimberlee Cornett, Director of Social Investment Practice at the Kresge Foundation, is our keynote speaker, and Gary Graves from the County, George Overholser from Third Sector, Greg Avis from Summit Partners and Ian Galloway from the Federal Reserve Bank of San Francisco will all share their unique perspectives and experiences.

We are grateful to the several foundations in the Silicon Valley that have already supported this innovative project, in particular the Sobrato Family Foundation and the Silicon Valley Community Foundation. We also recognize the dedicated leadership to the issue that Catholic Charities of Santa Clara County and their Step Up Silicon Valley initiative has provided.

I look forward to the day when we solve challenging issues facing vulnerable communities in Silicon Valley and across the country through the use of innovative approaches and outcomes-based accountability. I hope this case study can provide some context and lessons learned on one such effort here in Santa Clara County.

Kind regards,



FREDERICK J. FERRER, M.S.
CEO, The Health Trust

PURPOSE AND SCOPE



This case study documents Santa Clara County's exploration of a Pay for Success (PFS) initiative from its origins in community conversations through the County Board of Supervisors' vote on August 27, 2013, to fund the construction of one or more PFS projects. In this case study, we identify and document critical factors that advanced the project and key lessons learned by stakeholders. Our hope is that these findings will inform government officials and funders who are interested in pursuing PFS initiatives, and others who are tracking the development of this growing field of work.

The content of this document is drawn from interviews with many of the players who participated in the origination and development of the Santa Clara County PFS exploration, including individuals from the public, nonprofit, and philanthropic sectors. This primary source content was supplemented by background information provided by Third Sector Capital Partners' staff members, who led a collaborative effort to assess the viability of a PFS effort in Santa Clara.

PAY FOR SUCCESS AND SOCIAL INNOVATION FINANCING

Pay for Success (PFS) describes a form of contracting between government entities and providers of social services, where the government only makes payments if the contracted service providers achieve an agreed-upon level of social outcomes. PFS contracts are often suited to social challenges where the provision of a preventive social service is more cost-effective than treating on a remedial basis. This arrangement differs from traditional cost reimbursement or throughput contracts, where governments typically pay social service providers without regard to the ultimate outcomes they bring about.

Pay For Success

PFS Performance-based contracting with the social sector where government pays only if results are achieved

Social Innovation Financing (SIF) enhances PFS contracting by providing service providers with the working capital needed to bridge timing gaps between the provision of services and future government payments. Social Impact Bonds (SIBs) are a form of Social Innovation Financing where philanthropic and/or commercial investors provide the initial funds required for the provision of services. In return, if the service provider achieves its target outcomes, the investors receive a portion of the resulting savings accrued by the government partner.

Social Innovation Finance

SIF Financing that bridges timing gap between government payments and upfront capital needed to run PFS Programs. *Social Impact Bond is a type of SIF*

KEY CRITERIA FOR A PAY FOR SUCCESS PROJECT



There are a variety of conditions that need to be satisfied in order for a Pay for Success effort to have the highest possible likelihood of reaching the execution stage and fully achieving its desired outcomes. First, the PFS project must present significant value to a government partner, either in the form of producing fiscal savings or addressing a high-priority social challenge. A promising project must also be able to identify a specific target population, with clearly defined needs. To improve outcomes for this group, a PFS project requires a proven intervention that has the ability to scale in order to reach a sizable target population. To measure the effectiveness of an intervention, there must be reliable and available data that can be used to capture outcomes as the intervention is delivered. Finally, a successful PFS project requires safeguards for the target population to ensure that there is no unwarranted denial of service or other adverse consequences.

BACKGROUND: AN IDEA TAKES ROOT

The PFS concept was initially introduced to the Santa Clara County community thanks to the enthusiasm and advocacy of Greg Kepferle, CEO of Catholic Charities of Santa Clara County, a community organization dedicated to helping low income Santa Clara County residents rise out of poverty. In 2011, Kepferle, who had already been involved in several efforts to advance federal anti-poverty legislation, committed to promoting innovative policy reform efforts at the local government level. As a first step, he convened a group of local government, philanthropic, and private leaders to form Step Up Silicon Valley¹.



Step Up's Outcomes Leadership Council, which included County Supervisor David Cortese, was tasked with identifying and pursuing anti-poverty strategies based on a set of principles derived from NOCRA², including a commitment to the use of rigorous and measurable outcomes and an exploration of market driven-strategies that might engage private sector partners and funds. Supervisor Cortese, who would become a major advocate for the project, realized that "this kind of merit-based contracting could be a powerful tool for moving a large group of people out of poverty."

Kepferle invited Steve Rothschild, an author and proponent of Human Capital Bonds³, to speak at a gathering hosted by the Silicon Valley Community Foundation. Kepferle first met Rothschild through

a program sponsored by Catholic Charities USA and was intrigued by his vision for how PFS might introduce accountability for social services.

Rothschild's presentation coincided with a new grant competition funded by The Health Trust, which seeks to improve wellness and health in Silicon Valley. In February of 2012, The Health Trust hosted a Disruptive Innovation Summit with Harvard Business School Professor Clay Christensen. Christensen is widely credited with introducing the idea of disruptive innovation to describe new business approaches that introduce simplicity, convenience, accessibility, reliability, and affordability to replace previous products or services that have grown complicated, expensive, and inaccessible. The Health Trust followed the Summit with a disruptive innovation Request for Proposals that sought out initiatives that had the power to "catalyze entrepreneurial thinking and implement creative solutions to existing health and social issues impacting the Silicon Valley."

Kepferle, CEO of Catholic Charities, and Almaz Negash, the Managing Director of Step Up, prepared a response to examine the feasibility of pursuing social impact bonds with the Santa Clara County government. Step Up had previously received seed funding from the City of San Jose to investigate Pay for Success and was excited to continue its exploration. As Negash recalled, Step Up sought new and innovative ways to reduce poverty in the region. She explained, "We want to make sure that organizations are measuring outcomes rather than outputs, and believe that a PFS model can help create an infrastructure that our community can use for years to come." Step Up's grant application for \$100,000 was successful, and the organization elected to engage Third Sector, a national nonprofit expert on PFS contracting, to conduct a feasibility analysis.

¹ Step Up Silicon Valley is the movement to cut poverty in Santa Clara County, founded and supported by Catholic Charities of SCC. The movement focuses on three strategic areas – convening, advocacy for policy changes, and systems change incubation.

² NOCRA, the National Opportunity for Community Renewal Act, was a proposed anti-poverty bill that failed to pass congress in 2010 and 2011. It was conceived and championed by a coalition that included Catholic Charities USA. After failing to earn federal support, NOCRA's advocates committed to "proving its principles locally," according to Greg Kepferle.

³ Human Capital Bonds, which Rothschild has promoted nationally and written about for several years, are a form of Pay for Success contracting in which a government entity issues a traditional bond to generate the funds for making success payments to selected social service providers.



“We want to make sure that organizations are measuring outcomes rather than outputs, and believe that a PFS model can help create an infrastructure that our community can use for years to come.”

-Almaz Negash
Managing Director
Step Up Silicon Valley

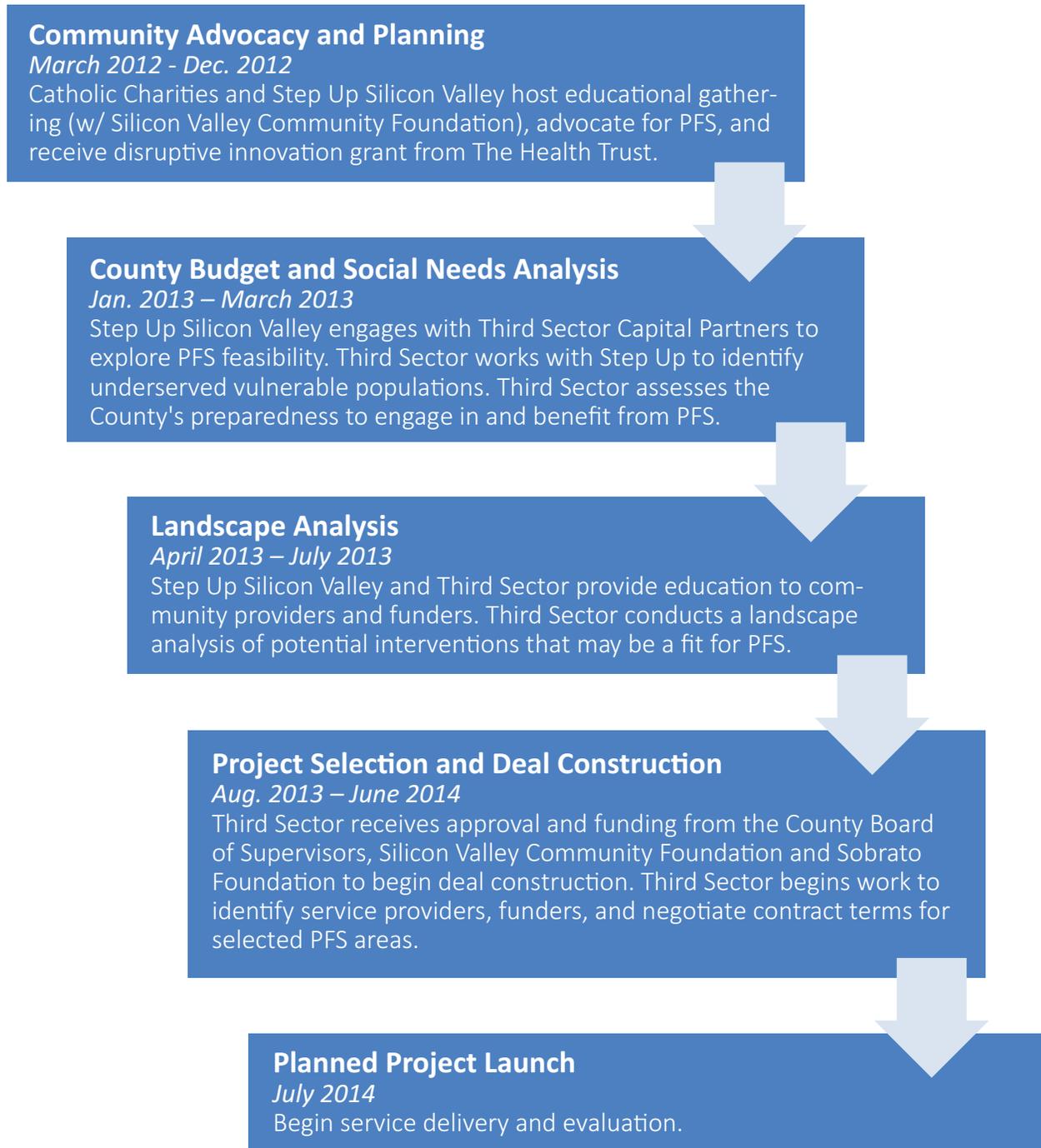
KEY PLAYERS IN THE SANTA CLARA COUNTY PFS EXPLORATION

Organization	Mission/Purpose	Role	People
Catholic Charities of Silicon Valley	To help people of all cultures and beliefs rise up out of poverty and overcome the barriers to self-sufficiency	Introduced Pay for Success in Santa Clara County and applied for Health Trust Disruptive Innovation Grant.	• Greg Kepferle <i>Chief Executive Officer</i>
Step Up Silicon Valley	An initiative of Catholic Charities of Santa Clara County to reduce poverty in the region.	Received Health Trust Disruptive Innovation Grant to explore Pay for Success and led community engagement and education efforts.	• Almaz Negash <i>Managing Director</i>
The Health Trust	To lead Silicon Valley community to advance wellness	Funded Step Up and Catholic Charities through Disruptive Innovation Competition to lead exploration of Social Impact Bonds	• Fred Ferrer <i>Chief Executive Officer</i> • Todd Hansen <i>Chief Operating Officer</i>
Santa Clara County	To plan for the needs of a dynamic community, provide quality services, and promote a healthy, safe and prosperous community for all	Worked with Third Sector and Step Up to assess feasibility and potential value of Pay for Success projects. Co-funded Third Sector to lead deal construction efforts.	• Gary Graves <i>Chief Operating Officer</i>
Third Sector Capital Partners	To accelerate America’s transition to a performance-driven social sector	Led feasibility analysis to identify suitable Pay for Success target populations and interventions, and quantify potential costs and savings.	• Caroline Whistler <i>Co-Founder & Partner</i> • Caleb Jonas <i>Associate, Advisory Services</i>
Silicon Valley Community Foundation	Advances innovative philanthropic solutions to challenging problems, engaging donors to make our region and world a better place for all	Joined County in funding Third Sector to lead deal construction efforts.	• Eleanor Clement Glass <i>Chief Giving Officer</i>
Sobrato Foundation	To build a strong and vibrant Silicon Valley Community by investing exclusively in nonprofits serving those most in need	Joined County in funding Third Sector to lead deal construction efforts	• John Sobrato <i>Board Chairman</i> • Rick Williams <i>Chief Executive Officer</i>

Case Study: Pay for Success in Santa Clara County

PFS EXPLORATION AND IMPLEMENTATION PHASES

Third Sector took a multi-phase approach to conducting the Pay for Success feasibility study in Santa Clara County, with clear decision points for the County and partners at the conclusion of each phase. Below is a project overview that describes the key phases of work, their duration, and the key activities in advancing the feasibility analysis. This progression captures one County's path from idea to action in exploring a Pay for Success project.



LESSON LEARNED: GOVERNMENT PARTICIPATION IS VITAL

One of the essential components of any PFS contracting effort is a government entity or another payer's willingness to fund a social intervention, so long as it achieves agreed upon outcomes. In an early setback to Step Up's desire to advance one or more such pilot projects, Gary Graves, Santa Clara County's Chief Operating Officer, was initially skeptical of social impact bonds. As the County executive most responsible for the government's internal processes and procedures, Graves held the power to single-handedly stop the PFS project in its tracks. As Todd Hansen, Chief Operating Officer of The Health Trust reflected, "We had to get Gary on board. He's the guy who makes things happen."

When Graves encountered social impact bonds, he had a number of concerns about its implications for the County and its partners. First, Graves was skeptical about the County's capacity to issue new debt and reported, "I had real questions about whether or not we could generate cashable savings." Specifically, Graves worried that "for these kinds of social issues or areas where we struggle to meet our community's needs, even if we could address them, we probably wouldn't generate real cash savings." As a result, Graves said, "I was very reticent to make any commitment that the County would have to come up with money to pay back an investor."

Graves's reluctance was due, in part, to his disinclination towards issuing any bonds to fund social programs. Fortunately for the project's advocates, Graves's perspective on PFS began to shift after the County Board of Supervisors approved a referral by Supervisor David Cortese, who was excited to apply PFS's rigorous attention to outcomes to the government's efforts to reduce poverty. Cortese remarked that he was excited to put Santa Clara on "the cutting edge of considering new tools that will encourage the County to innovate, improve its efficiency, and leverage its capital."

Graves later explained that the language of the referral, and subsequent meetings with Third Sector, helped him to understand that PFS contracting had

the power to quantify the impact of government-funded social services. Furthermore, Graves learned that the phrase "social impact bond" is a misnomer, and that a shift to PFS procurement practices would in fact ensure that County funds were used only to pay for successful interventions. As Graves said, "I started to look at it from the perspective that if there was an opportunity to measurably improve social outcomes, this might be worth exploring."

Graves's interest in PFS was strengthened when the Board of Supervisors made clear in a subsequent meeting that it was open to pursuing the use of PFS contracting to address high-priority social problems, even if they might not necessarily result in near-term fiscal savings to the County. He noted, "The approach that we've taken in this County is that we need to be open-minded to innovation and new ideas, and I became convinced that there might be a way that we could see this as a source of accessing new resources to tackle some of the most difficult social problems that we face."



A Dual-Track Approach

"I became excited when the Board approved a dual track that would allow us to explore two potential PFS applications:

- To find preventive interventions that might save the County money;*
- To improve accountability and outcomes for high-priority social problems."*

-Gary Graves
Chief Operating Officer
Santa Clara County

Case Study: Pay for Success in Santa Clara County

Graves's support allowed Third Sector to begin its initial phase of feasibility work by meeting with County department and agency executives. Caroline Whistler, Co-Founder and Partner of Third Sector, remarked, "Gary's engagement opened the door for us to have valuable meetings with the County staff who best understood the needs of the County's most vulnerable populations." Third Sector found

All the stakeholders interviewed for this case study identified government support as a critical success factor in Santa Clara's PFS exploration. As the ultimate contingent success payer in any PFS project, the Santa Clara County Government had to be convinced that exploring this shift in procurement would be worth its time and effort. Earning the trust and backing of government representatives proved slow,

All of the stakeholders interviewed for this case study identified government support as a critical success factor in Santa Clara's PFS exploration.

that these County leaders were largely receptive to the Pay for Success concept and eager to share their ideas about what areas might be best served by a pilot project. The success of these conversations strengthened Graves's willingness to advance the PFS exploration process. As Graves reflected, "I really needed to know that this idea seemed worthwhile to my senior staff at the social service departments and agencies, since they are the experts in their fields."

The support of the Board of Supervisors, the County's Chief Operating Officer, and various department heads also signaled to community partners that the County's commitment to exploring PFS was "real and deep," in the words of Eleanor Clement Glass, Chief Giving Officer at the Silicon Valley Community Foundation. She elaborated, "Seeing the County's commitment at multiple levels and Gary's leadership addressed a threshold question that permitted us to consider supporting this project."

especially because the PFS project's success relied on earning the support of County officials and staff at multiple levels and in different areas. Ultimately, however, a two-pronged strategy proved effective in convincing the County to engage in a Pay for Success exploration. First, the commitment by Catholic Charities, Step Up, and The Health Trust to fund and lead an exploration of this concept demonstrated that respected community institutions were willing to provide tangible support to help the County better understand and consider this concept. Second, Third Sector's commitment to leading a rigorous feasibility process helped to convince stakeholders that PFS pilots could measurably benefit vulnerable populations, while also potentially saving the County funds. In concert, these two assurances helped earn the County's critical commitment to fully exploring PFS.

LESSON LEARNED: TRANSPARENCY BUILDS A NECESSARY FOUNDATION OF TRUST

“PFS can’t just be something that is pushed by government alone. It requires an interest from the community, and an investment in building partnerships.”

-Gary Graves
Chief Operating Officer
Santa Clara County

A number of non-governmental advocates and stakeholders noted that the feasibility assessment phase of work took longer than they might have anticipated, due in some part to the execution of an exploration process that was deliberate, transparent, and collaborative. As Todd Hansen of The Health Trust noted, “PFS is still largely new and unknown, which means that it requires a lot of discussion at every step of the way. As a result, this process is going to take longer than one expects.”

Kepferle and Negash of Catholic Charities and Step Up, the project’s initial advocates, both emphasized the importance of treating the County’s PFS exploration as an opportunity to “align the broader community with the vision of ending poverty.” This desire to earn community support and promote local ownership for local solutions strengthened Third Sector’s commitment to broaden community engagement during feasibility assessment work.

To encourage community participation and feedback in the PFS exploration process, Third Sector hosted an open meeting to brief local service providers on PFS and the County’s process. More than 70 organizations were represented at this meeting. Third Sector also continued to hold individual follow-up conversations with more than 20 interested organizations. Stakeholders reported that the thorough community outreach process, which took several months, was an important step in establishing that the County was

open to feedback and guidance in its exploration of PFS.

This effort to engage and learn from community partners was an important indicator to Eleanor Clement Glass and others of the project’s viability. As she said, “We had to be convinced that nonprofits were engaged and able to give input and feedback.” Similarly, Gary Graves said, “This can’t just be something that is pushed by government alone. This requires an interest from the community, and an investment in building partnerships.”

For many of the project stakeholders, engaging in a deliberate and transparent process was critical to advancing the Pay for Success project. Caroline Whistler noted, “Building on enthusiasm about PFS conceptually to arriving at an actual deal requires patience and planning. Third Sector’s approach in Santa Clara County has been to identify a series of ‘go / no go’ points where stakeholders can choose whether or not to proceed.” Caleb Jonas of Third Sector added, “Pay for Success projects can only succeed with the participation of engaged and enthusiastic funders, service providers, and government leaders. We have been deliberate in building and strengthening partnerships as a core part of this exploration.” Almaz Negash observed that “Pay for Success requires us to think hard about what is not working in our communities, and how we can do better. Those questions should not be fast or easy to address.”

LESSON LEARNED: INNOVATION FORCES FAMILIAR PLAYERS INTO NEW ROLES

Each of the stakeholders involved in developing Santa Clara County's PFS initiative agreed that this exploration prompted them to work with largely familiar partners but in nontraditional ways. The strength and depth of these preexisting relationships proved valuable, as did the willingness of stakeholders and collaborators to explore different ways of supporting a shared vision.

At the philanthropic organizations that supported the project, staff members found themselves engaged in unexpected and unusual ways. Todd Hansen of The Health Trust said, "I am far more hands-on and engaged in this effort than I am with any of our other grants." Based on his background as an attorney with experience working in corporate finance, Hansen also thought that The Health Trust could use its credibility and strong community and government relationships to advance the project. To help boost the project, Hansen took an active role attending meetings, engaging potential investors, and providing strategic support to Step Up and Third Sector.

about and to track its progress in our community."

In explaining her path from observation to participation, Eleanor said, "I was trying to watch this process unfold, see if it had legs, assess where the Foundation could provide the best support, and where the opportunity was for us to add value." Over time, she decided that by supporting the work of constructing and finalizing an actual PFS contract, "Our small investment now could open the door to a much larger pool of dollars down the road." Clement Glass became a careful observer of Third Sector Capital Partner's feasibility assessment efforts and eventually made the decision to offer the Silicon Valley Community Foundation's financial support for project deal construction, so long as the County was also willing to contribute funds.

For Graves, whose day-to-day responsibilities are, as he says, "to make sure the County is running well internally," the PFS project was unique as it required him to spend time talking with community-based so-

"Our small investment now could open the door to a much larger pool of dollars down the road."

-Eleanor Clement Glass
Chief Giving Officer
Silicon Valley Community Foundation



Eleanor Clement Glass, Chief Giving Officer at the Silicon Valley Community Foundation, took a different tack. She made a conscious decision to approach the PFS effort in what she referred to as "learning mode." She explained that her Foundation "is not currently at the stage where we are looking for good impact investing opportunities," but that the PFS concept "was something that we were eager to learn more

cial service providers and potential project funders. In April of 2012, The Silicon Valley Community Foundation hosted an informational session on the Santa Clara County exploration for local philanthropists and impact investors. The session gave Gary Graves an opportunity to speak directly to potential PFS investors about the County's interest in Pay for Success. Eleanor Clement Glass noted that this

session was especially valuable because it also “allowed attendees to directly engage with Gary about their questions and concerns.”

While presentations of this sort fell outside his usual scope of work, Graves recognized that his presence at these public events would indicate that the County was serious in its investigation of this initiative. As he reflected, “It is valuable to me to take the opportunity to face outward on occasion to understand what is happening with our partners in the community and to directly communicate with them.”

and to keep it moving forward.” Similarly, Caroline Whistler of Third Sector said, “We see ourselves as able to bring our expertise on PFS as a tool to address the unique challenges facing individual communities.” In Santa Clara, she went on, “We led a rigorous and methodical approach to help the stakeholders understand if and how a PFS project might benefit Santa Clara County.”

A Pay for Success project requires all of its stakeholders to think and plan differently, even before the implementation procurement is issued or a contract

“It is valuable to me to take the opportunity to face outward on occasion to understand what is happening with our partners in the community and to directly communicate with them.”

-Gary Graves
Chief Operating Officer
Santa Clara County

Step Up and Third Sector saw themselves as able to contribute to advancing the PFS project in ways that were more aligned with their past activities and expertise. To Almaz Negash, Step Up’s Managing Director, the PFS project was a perfect fit for Step Up’s mission. “We believe in creating change and cutting poverty by engaging experts, community leaders, and the broader community around innovative solutions,” she explained. “That is what we were able to do to get this Pay for Success project off the ground

is signed. As the Santa Clara County experience demonstrates, initial funders may have to become advocates and conveners, government administrators may need to interact broadly with the public, and project advocates may need to engage and inform other stakeholders who they want to take a more active role in the future. In Santa Clara County, the willingness of established and respected community organizations to take on atypical roles was a critical factor in advancing the Pay for Success initiative.

LESSON LEARNED: CAPITALIZE ON EXISTING MOMENTUM

As Third Sector progressed through its government readiness assessment work and provider landscape analysis, the team observed two areas where community leaders and stakeholders throughout Santa Clara County had coalesced around innovative and ambitious efforts to address pressing social challenges. These two existing initiatives demonstrated different ways that a Pay for Success might be able to benefit from previous innovations. In the arena of homelessness, a public-private partnership called Destination: Home, a member of the Step Up network, was exploring creative tools to progress towards its goal of permanently housing 1,000 homeless individuals in Santa Clara County. Meanwhile, the County's Mental Health Department was using a "Full Service Partnership"⁴ model to address the needs of clients in its acute psychiatric facilities by providing flexible funding to social service providers.



Destination: Home

Housing Our Community

Destination: Home was among the earliest interested parties in pursuing PFS contracting in the county. Their investigation of how the mechanism might help advance their mission intrigued a number of influential community leaders and provided a tangible illustration of how PFS might be a valuable tool in Santa Clara County. Months prior to Santa Clara County's Pay for Success efforts, Destination: Home had engaged the Economic Roundtable, a nonprofit research organization, to quantify the scope and cost of social services consumed by the neediest members of Santa Clara's homeless population.

Santa Clara County supported this data collection effort, which drew from multiple County databases

that had previously existed in silos. This data project was designed to create both a historical analysis of the highest users of County services, and a tool to identify those at risk of suffering most from the challenges of chronic homelessness. This initiative's progress led a number of stakeholders to quickly identify chronic homelessness as a highly attractive candidate for Pay for Success contracting. PFS contracting relies on exactly this kind of data sharing in order to quantify government savings and evaluate outcomes. Destination: Home provided evidence that it was possible to aggregate and analyze County data across different human service databases. Their success in this effort represented progress that could accelerate a future PFS effort's analysis of the benefit to the County from a reduction in chronic homelessness.

Gary Graves, who sits on the Board of Destination: Home, helped present the County's interest in a PFS initiative to that group, which led to a thorough discussion of how PFS might help reduce homelessness. The group's previous work in quantifying the human and fiscal costs of homelessness allowed it to explore the implications of how such an initiative might be constructed in some detail. Eleanor Clement Glass, who also sits on the Board of Directors of Destination: Home, was present at the meetings where the concept was introduced. She found that Gary Graves's presentation to Destination: Home Board "demonstrated his passion and promise" and that the subsequent discussion "piqued my interest" in the PFS effort. John Sobrato, also a Destination: Home Board

Destination: Home's existing data collection effort led stakeholders to quickly identify chronic homelessness as a highly attractive candidate for PFS contracting.

⁴ In California, Full Service Partnerships (FSPs) are innovative and flexible contracts between local governments and community social service providers. They are designed to benefit individuals suffering from the most severe mental health challenges by providing them with a broad spectrum of services to aid in their recovery. FSP activities are funded through State's Mental Health Services Act of 2005.



Watching the Pay for Success project unfold in Santa Clara County provided a useful reminder that “it is often easier to jump to the front of an existing parade than to start a new one.”

-Caroline Whistler
Co-Founder & Partner
Third Sector Capital Partners

member, whose family foundation later joined the Silicon Valley Community Foundation and County in funding the construction of a PFS initiative, also traced his interest in the PFS initiative to a second presentation to that group.

The County’s Full Service Partnership (FSP) contracts allowed community-based social service agencies to provide customized services based on individual client needs. The County’s use of FSP to support a “whatever it takes” approach to improving outcomes proved to be a useful template to help its leaders understand Pay for Success. As Caroline Whistler of Third Sector explained, “the Pay for Success approach asks a government to shift from funding a prescribed set of activities to paying for a successful outcome. Full Service Partnerships have allowed the Santa Clara County to start moving in that direction.” According to Gary Graves, the Mental Health Department’s experience thinking creatively about contracting was a contributing factor to the Board

of Supervisor’s decision to identify acute psychiatric care as an area of interest for Pay for Success.

For Caroline Whistler of Third Sector, watching the Pay for Success project unfold in Santa Clara County provided a useful reminder that “it is often easier to jump to the front of an existing parade than to start a new one.” As Third Sector began to understand the broad commitment and innovative planning already underway in Santa Clara County, Third Sector identified homelessness as a leading social need that might be addressed with Pay for Success. Almaz Negash concurred, saying that Destination: Home’s momentum showed that “stable housing can be the beginning of someone’s journey out of poverty, and it makes sense for Pay for Success to capitalize on that.” Gary Graves agreed saying, “Looking at Pay for Success as a solution to homelessness, with all the work we are already doing there, helped me understand how this tool could actually be applied.”

WHAT'S NEXT IN SANTA CLARA COUNTY

“At a time when public sector organizations are stretched thin in terms of resources, I think it is our responsibility as a community to fully evaluate new ideas and concepts to see whether or not they can help us to meet the needs of vulnerable populations.”

-Gary Graves
Chief Operating Officer
Santa Clara County

On August 27th 2013, the Santa Clara County Board of Supervisors voted to allocate \$75,000 for the construction of two Pay for Success projects. The County expressed a specific desire to address the challenges of acute psychiatric illness and chronic homelessness. The Sobrato Family Foundation and Silicon Valley Community Foundation matched the County's financial support to underwrite this phase of work. As of October, Third Sector continued to work closely with County leadership to complete a project specification process that would identify the exact target population for each Pay for Success initiative and a preferred outcome measure. Once this process is complete, Third Sector will support the County to select service providers, develop an evaluation design, draft a Pay for Success contract, and assist in structuring Social Innovation Financing arrangements.

The Pay for Success experience in Santa Clara County

demonstrates that developing an effective PFS arrangement requires careful planning and preparation. Trusted partners who are willing to take on unfamiliar roles and think creatively can prove immensely valuable in advancing the project and earning the support of government officials and administrators. Their participation is critical in exploring and enacting a Pay for Success project. A PFS investigation may move slowly, but partners in Santa Clara agreed that a methodical approach greatly increased the project's likelihood of success. As Negash reflected, “We are doing this because, at the end of the day, we need to improve the status quo for people in poverty.” Gary Graves explained, “At a time when public sector organizations are stretched thin in terms of resources, I think it is our responsibility as a community to fully evaluate new ideas and concepts to see whether or not they can help us to meet the needs of vulnerable populations.”

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