

Pay-for-Success in Child Welfare: A Case Study

By Patrick Lester ¹
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On December 3, 2014, Cuyahoga County announced the nation's first pay-for-success initiative that will address the interrelated issues of homelessness and foster care.² The initiative will provide \$4 million in privately-funded housing and other supportive services to 135 homeless parents with children in the county's foster care system. Repayments to the project's philanthropic and other investors will be made by the county only if the initiative reduces out-of-home placements for foster children compared to the county's current publicly-provided services.

This brief provides an overview of the initiative and its history, service array, evaluation, and financing.

Project History

Cuyahoga County began exploring pay-for-success in 2011, shortly after its new county executive, Ed Fitzgerald, took office.³ With a grant from The George Gund Foundation, the county brought in Third Sector Capital Partners, Inc., a Boston-based nonprofit with substantial experience developing pay-for-success initiatives, to provide early-stage advising to the government. A year later, in February 2012, Fitzgerald announced a 12-point plan for the county that included pay-for-success as one of its key components.⁴

The county spent the rest of that year seeking citizen feedback on the proposal. In July, Third Sector hosted a three-day listening session that featured presentations and discussions between county representatives and over one hundred service providers, community members, and advocates.⁵ A few months later, in October, the county released a formal Request for Responses (RFR) that sought formal proposals from organizations interested in partnering with the county on the project.⁶

In its RFR, the county asked for proposals that addressed a well-defined problem and target population, utilized evidence-based preventative services with measurable outcomes, and would generate cashable savings for the county while allowing a return on investment for outside investors. The county expressed a particular interest in child welfare and youth/adolescent mental and behavioral health, but indicated that it would also consider other services.

A little more than a year later, in December 2013, the county announced its choice: a project to reduce out-of-home foster care placements for children of homeless mothers in the county through a mix of housing assistance and behavioral health services.⁷ The announcement specified five initial partners, including FrontLine Services as the lead service provider, the county's Division of Children and Family Services (DCFS) and Cuyahoga

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² An overview of social impact bonds, a subset of pay-for-success financing, can be found in "Social Impact Bonds: Overview and Considerations," Elizabeth Lower-Basch, Center for Law and Social Policy, March 7, 2014. Available at: <http://www.clasp.org/resources-and-publications/publication-1/CLASP-Social-Impact-Bonds-SIBs-March-2014.pdf>

³ Cuyahoga County Office of the Executive, "Fitzgerald Announces 'Pay for Success' to Transform Human Services Delivery," December 27, 2013. Available at: <http://executive.cuyahogacounty.us/en-US/122713-Pay-for-Success.aspx>

⁴ Western Reserve Plan, Plan Principles, retrieved December 14, 2014. Available at: <http://www.westernreserveplan.org/en-US/Plan-Principles.aspx>

⁵ Third Sector Capital Partners, "Third Sector Capital Partners Advances Pay for Success in Cuyahoga County, OH," July 17, 2012. Available at: <http://www.thirdsectorcap.org/blog/2012/07/17/third-sector-briefs-cuyahoga-county-pay-for-success/>

⁶ Cuyahoga County Request for Responses, "Cuyahoga County Pay for Success," October 29, 2012. Available at: http://www.payforsuccess.org/sites/default/files/cuyahoga_county_pay_for_success_request_for_responses58.pdf

⁷ Cuyahoga County Office of the Executive, "Fitzgerald Announces 'Pay for Success' to Transform Human Services Delivery," December 27, 2013. Available at: <http://executive.cuyahogacounty.us/en-US/122713-Pay-for-Success.aspx>

Metropolitan Housing Authority (CMHA) as public sector partners, the Center on Urban Poverty & Community Development at Case Western Reserve University as the evaluator, and Third Sector as an advisor on project feasibility, deal construction, and financing.

The proposal was further fleshed out and authorized over the following year. Legislation was introduced⁸ in June to create a new Social Impact Financing Fund to cover program costs and to authorize the county executive to negotiate the associated multi-year contract.⁹ The county council approved the legislation in July. The county council authorized the first annual \$1 million appropriation for the newly created Fund in September. The final contract was signed in October¹⁰ and the project's details (and full set of partners) were announced publicly on December 3, 2014.¹¹

The project passed an important leadership transition milestone in January when the county's next county executive, Armond Budish, assumed office.¹²

The Intervention: Partnering for Family Success

As in other parts of the country, the number of children in foster care in Cuyahoga County has dropped significantly in recent years.¹³ While the county's progress toward its goals of increased family reunification and permanency for foster children has been substantial, however, the remaining children in the system generally have greater needs and face higher barriers to permanency.

One group in this category includes the children of homeless mothers. As is the case elsewhere,

foster children in Cuyahoga County cannot be reunited with their families unless they are provided with a safe and stable home environment. Reunification efforts for these children are challenging, not only because the mothers often struggle with domestic violence, substance abuse, and mental illness, but also because of housing instability that makes addressing these issues more difficult.

Cuyahoga County chose to focus on these families with its pay-for-success project. Under the program, the lead service provider, FrontLine Services, will provide 135 eligible homeless parents with children in foster care a combination of housing assistance and evidence-based behavioral health services, called Critical Time Intervention (CTI).¹⁴ The program services will be provided over 12 to 15 months and will address their housing and other needs simultaneously. In practice, this integration of services will be accomplished by adding the FrontLine intervention to the parent's DCFS case plan.

In general, the combined program, called Partnering for Family Success, will begin by stabilizing housing for the homeless parent. In the first 30 days, a caseworker will help place her in a housing unit or help obtain subsidies and/or vouchers from one of the project's housing partners, including the Cuyahoga Metropolitan Housing Authority or another local housing provider.¹⁵ After the parent has moved into housing, the case worker will then maintain contact and provide continued support during ongoing home visits. This support will include making connections to employers, schools, academic certification and job training programs, medical professionals, substance abuse treatment providers, extended family, and others as needed. Case workers have a maximum caseload of ten families.

⁸ Cleveland.com, "Cuyahoga County Executive Ed Fitzgerald Introduces Plan to Use New Fundraising Model to Pay for Social Services," June 19, 2014. Available at: http://www.cleveland.com/cuyahoga-county/index.ssf/2014/06/cuyahoga_county_executive_ed_fitzgerald_introduces_plan_to_use_new_fundraising_model_to_pay_for_soci.html

⁹ County Council of Cuyahoga County, Ohio, Ordinance No. O2014-0018. Available at: http://council.cuyahogacounty.us/pdf_council/en-US/Legislation/Ordinances/2014/O2014-0018.pdf

¹⁰ Many of the project partners received pro-bono counsel to help them through the deal structuring and negotiation period.

¹¹ Cuyahoga County Office of the Executive, "Nation's First County-Level Pay for Success Program Aims to Reconnect Foster Children with Caregivers in Stable, Affordable Housing," December 3, 2014. Available at: <http://executive.cuyahogacounty.us/en-US/NationsFirstCtyLevel-PaySuccessPrgrm.aspx>. Further details were released in an associated fact sheet available at: [http://www.thirdsectorcap.org/wp-](http://www.thirdsectorcap.org/wp-content/uploads/2014/12/141204_Cuyahoga_PFS_Fact-Sheet.pdf)

[content/uploads/2014/12/141204_Cuyahoga_PFS_Fact-Sheet.pdf](http://www.thirdsectorcap.org/wp-content/uploads/2014/12/141204_Cuyahoga_PFS_Fact-Sheet.pdf)

¹² Ed Fitzgerald ran for governor of Ohio in 2014.

¹³ Third Sector Capital Partners, "Cuyahoga County Announces Details on Pay for Success Initiative," December 28, 2013. Available at:

<http://www.thirdsectorcap.org/blog/2013/12/28/cuyahoga-county-announces-details-on-pay-for-success-initiative/>

¹⁴ The intervention is rated a top-tier homelessness prevention program by the Coalition for Evidence Based Policy. According to the Coalition's independent analysis, based on two studies involving well-conducted randomized controlled trials, CTI produced more than a 60 percent reduction in homelessness (the Coalition's review did not examine its impact on family reunification). See <http://evidencebasedprograms.org/1366-2/critical-time-intervention-top-tier>. The Critical Time Intervention home web site can be found at: <http://sssw.hunter.cuny.edu/cti/>.

¹⁵ Other local housing providers involved with the project include the Famicos Foundation and The Emerald Development and Economic Network.

Thirty days after the parent has moved into her new home, a FrontLine trauma therapist will conduct a diagnostic assessment to determine an appropriate evidence-based trauma intervention. The therapist will review the results of the assessment with the client, children, county DCFS worker, the FrontLine caseworker, and other staff where necessary, and prescribe appropriate evidence-based CTI trauma interventions to be completed prior to family reunification.

Once the parent has completed her DCFS case plan and the Juvenile Court approves, the parent will be reunified with her child. Soon afterward, the therapist will complete another assessment with the parent, children, and other important family members to determine the need for additional evidence-based interventions focused on family-based trauma and, depending on the results of the assessment, the family may receive additional services. The maximum caseload for the program's trauma therapists is 15 families.

Altogether, starting in January 2015, this combination of housing and behavioral health services will be provided to 135 mothers and their families divided into three annual cohorts of 45 program participants each. To prepare for the program's full rollout, a one-year pilot project serving 28 clients was launched in July to test the project's referral process and associated services by FrontLine. As part of the pilot, the project's partners have begun hiring and training key project-related staff.

The project is being managed and overseen by Enterprise Community Partners, Inc., a national nonprofit organization with substantial expertise in financing affordable housing.¹⁶ Enterprise will monitor program implementation to ensure that it is being operated according to contract. Enterprise will also be responsible for disbursing payments from the project's private funders to FrontLine and other project partners. Enterprise will be supported during the program's implementation by Third Sector Capital Partners, Inc., which will provide ongoing advisory services.

Evaluation

The program's success will be determined by a rigorous independent evaluation conducted by the Center on Urban Poverty & Community Development at Case Western Reserve University. The evaluation will measure the program's impact on out-of-home placement days for enrolled

children, either by speeding reunification with their families or hastening a decision by the county's Division of Children and Family Services on an appropriate alternative to reunification.

The evaluation will be based on a randomized controlled trial that will compare results for the program's 135 enrolled families with another 135 in a control group that will receive the standard services currently being provided by the county to these children and their families. Program participants will be chosen at random by the evaluators from eligible participants forwarded by the county.¹⁷ All referrals, randomization, consent processes, and data access and data storage protocols will be approved by Case Western's Institutional Review Board (IRB).

The evaluation will also include an interim two-year implementation study to determine which aspects of the program (such as housing stability, home visitation, or family meetings) are contributing to fewer out-of-home placement days. The final evaluation will be conducted at the end of the project's fifth year and its results will determine success payments to the program's funders (described below).

Financing and Success Payments

The initiative's \$4 million in up-front costs are being funded by private funders and philanthropic organizations at no initial cost to the county. These funders include The Reinvestment Fund, The George Gund Foundation, the Nonprofit Finance Fund, The Cleveland Foundation, and Sisters of Charity Foundation of Cleveland. Funding is being provided through a combination of recoverable grants and loans, with interest rates ranging from 2 to 5 percent.

Additional up-front costs for planning and development were covered through grants from The George Gund Foundation, Cleveland Foundation and Sisters of Charity Foundation of Cleveland. The pilot was funded with a \$780,000 grant from the Laura and John Arnold Foundation.

Under the project contract, the county will only repay the funders if the project reduces out-of-home days in foster care for enrolled children compared to those in the control group. The county will pay \$75 per reduced day of foster care, which is the estimated cost to the county of providing such care, up to a maximum of \$5 million. Above that level, all additional savings will accrue solely to the county

¹⁶ For more information, see the organization's web site at: <http://www.enterprisecommunity.com/>

¹⁷ Referrals will be made from the Norma Herr Women's

Homeless Shelter and a local county domestic violence shelter.

(see Table 1).

Repayments to the investors will be made by the county from the newly-created Social Impact Financing Fund, which will receive \$1 million in payments from the county each year for five years.¹⁸ The first appropriation was approved by the county council in September 2014. Payments to investors will be made within 45 days of the program's five-year completion date.

The break-even point for investors overall is at about a 25 percent reduction in out-of-home placement days for enrolled children. Due to differences in pay-out rates, the actual break-even

point will vary for each investor. While the combination of services provided under the initiative has never been tested together, the negotiated 25 percent break-even level was based on the best available evidence from the literature.

If the project is a success and earns a positive return for investors, The George Gund Foundation plans to use its share to support future pay-for-success transactions. The Sisters of Charity Foundation plans to reinvest any proceeds in capacity building for the program's service provider, FrontLine.

Table 1: Payment Terms and Estimated Savings for Cuyahoga County's Pay-for-Success Program

% Reduction in Out-of-home Days	Success Payments	Gross Savings for County	Net Savings for County
50%	\$5,000,000	\$8,500,000	\$3,500,000
40%	\$5,000,000	\$6,800,000	\$1,800,000
30%	\$4,550,000	\$5,100,000	\$550,000
25%	\$4,125,000	\$4,250,000	\$130,000
20%	\$3,400,000	\$3,400,000	\$0
10%	\$1,700,000	\$1,700,000	\$0

Source: Cuyahoga Pay-for-Success Fact Sheet

Conclusion

Cuyahoga County's child welfare-focused pay-for-success initiative represents an important step for both the use of evidence-based programs for children in the child welfare system in general¹⁹ and for performance-based contracting and the pay-for-success model in particular.²⁰

While this case study has focused on the initial design and launch of the Cuyahoga County initiative, it is likely to continue to provide important lessons for other pay-for-success initiatives that follow in its footsteps.



About the Social Innovation Research Center: The Social Innovation Research Center (SIRC) is a nonpartisan nonprofit research organization specializing in social innovation and performance management for nonprofits and public agencies. More information about SIRC is available on the organization's web site at <http://www.socialinnovationcenter.org>.

¹⁸ The program will terminate early if annual appropriations are not made. Provisions for this are included in the contract.

¹⁹ Another important example of the promotion of evidence-based initiatives in child welfare at the federal level can be found in Social Innovation Research Center, "Foster Care Innovation Initiative Charts a Different Path to Evidence," December 6, 2014. Available at:

<http://www.socialinnovationcenter.org/?p=769>

²⁰ The pay-for-success model has grown significantly over the past year. For more information, see Social Innovation Research Center, "Winning Social Innovation Fund Applications Suggest Substantial Growth Ahead for Pay-for-Success Funding," November 5, 2014. Available at: <http://www.socialinnovationcenter.org/?p=587>