

PFS in Higher Education National Cohort Project Summary

Introduction

Research shows that low-income, first-generation, and students of color disproportionately experience poorer matriculation, persistence, and graduation outcomes in their paths to and through college. National Student Clearinghouse data reveal that while African American and Latinx students are enrolling in postsecondary institutions at similar rates to white peers, they are 11% less likely to matriculate into college the first fall after high school graduation. Additionally, even though the national six-year completion rate reached its highest level for all students in 2018, students of color are 20% less likely than white students to graduate college within six years. For many low-income, first generation, and/or students of color to successfully enroll in and graduate from the institutions of higher education to which they were accepted, additional student support services are crucial for success. Many of these student support services exist and are demonstrating strong outcomes. Yet they are often primarily philanthropically funded, which generally limits their scale and sustainability. As such, partners across the system must innovate new ways to pay for and support the achievement of student success outcomes and to rectify outcomes disparities.

One potential funding mechanism that could be well suited to support and scale the systemic financing of services that achieve student outcomes in higher education is Pay for Success (PFS) financing. Pay for Success is a contracting mechanism centered on incentivizing successful outcomes rather than solely delivering services. Specifically, PFS could be used to drive new public funding relationships between higher education institutions (HEIs) and independent college access and success providers, which are typically funded by philanthropy and frequently operate in parallel to HEIs. Third Sector, in partnership with The Kresge Foundation, sought to explore these hypotheses; **the resulting project — the first-in-the-nation cohort of government end payers; service providers; and philanthropic funders and impact investors — was formed in 2019 and has made great strides toward this goal.** As a result of the cohort activities, two states, Colorado and Ohio, have early evidence that PFS can be leveraged as a way to fund wraparound student support services that improve matriculation, persistence, and graduation outcomes for underserved students. These two state departments of higher education are continuing to build toward launching PFS projects. Several common factors are contributing to Colorado and Ohio looking to move forward with PFS. They both are jurisdictions with performance-based funding formulas, project development is led by centralized state-level coordinating agencies, and each state has a history of using the PFS tool in other issue areas.

PFS in Higher Education Background

PFS is an innovative contracting model that drives public resources toward high-performing social programs that measurably improve life outcomes. While PFS projects take multiple forms, all initiatives result in the close alignment of incentives between contract stakeholders and robust mechanisms for tracking the effectiveness of innovative programs. PFS financing, also known as “social impact bonds,” is a process through which private investors provide upfront funding for services that a government entity later repays if—and only if—those services achieve targeted outcomes.

Third Sector’s initial assessment of PFS in higher education in 2017¹ (focused on uAspire’s college affordability and financial access services in Massachusetts) engaged state policymakers, higher education institutions, service providers, and other relevant stakeholders nationwide. The assessment illuminated a few key trends. The overarching challenge identified was that higher education institution budgets are limited, and investing in additional, independent services (even with long-range benefits) would require upfront financial support. Concurrent with the racial equity gaps in enrollment and graduation, the average cost of attending college is increasing while state funding for higher education is decreasing. The Center on Budget and Policy Priorities showed that overall state funding for public two- and four-year colleges in the 2017 school year was nearly \$9 billion below its 2008 level, after adjusting for inflation. As public state funding for higher education decreases, funding that depends on student enrollment, such as Pell Grants, become increasingly critical funding sources to support institutional costs. If more students eligible for Pell Grants can successfully get to and through college, there is an opportunity to generate financial value for the HEI and broader system, which over time should significantly exceed the cost of delivering services. The uAspire feasibility assessment concluded there is an opportunity for PFS to enable the expansion of college access and success services and support stakeholders in their pursuit of better outcomes for underserved students, in part due to the long-term positive financial and social return. As a next step, the study recommended building toward pilot projects as a way to develop proof points to accelerate the mechanism’s utilization at scale.

To make progress on addressing the assessment’s findings, Third Sector—with renewed support from Kresge—built a collaborative cohort to advance the application of PFS financing models in higher education. The cohort-based systems change approach worked with well-positioned government stakeholders to proceed through the process of developing PFS initiatives around college access and success, along with a group of providers and funder champions. These stakeholders represent the key parties required to successfully develop and implement PFS projects focused on improving college access and success. Third Sector engaged the following groups in a PFS in Higher Education National Cohort (Figure 1).

Figure 1.
PFS in Higher Education National Cohort Participants

State and System Partners	Provider Advisory Group ²	Potential Upfront Funders
<ul style="list-style-type: none"> • Arizona State University (ASU) • Colorado Department of Higher Education (CDHE) • Connecticut State Colleges & Universities (CSCU) • Ohio Department of Higher Education (ODHE) 	<ul style="list-style-type: none"> • Catholic Charities Fort Worth • College Forward • College Possible • Edquity • Educate Tomorrow • InsideTrack • One Million Degrees • uAspire 	<ul style="list-style-type: none"> • Dell Foundation • ECMC Foundation • Joyce Foundation • The Kresge Foundation • Lumina Foundation • Maycomb Capital • Nonprofit Finance Fund • Northern Trust • Strada Education Network • The Reinvestment Fund

¹ <https://www.thirdsectorcap.org/wp-content/uploads/2017/12/FINAL-Promoting-Student-Success-white-paper.pdf>

² 37 providers responded to the initial Request for Information

Cohort Description and Project Goals

In order to keep the cohort of systems, providers, and other stakeholders aligned in their work, Third Sector identified four goals for the cohort. The goals of the cohort were to:

- Educate stakeholders about PFS contracting
- Assess and enhance the capacity of organizations to identify and contract for meaningful outcomes around college access and success
- Catalyze the shift of linking public funding to impact for students
- Provide a clear pathway for PFS project construction that will result in attractive opportunities for funders

To make progress on the above goals, Third Sector delivered six months of training and technical assistance (TTA) to the states and public systems of higher education participating in the cohort. The cohort model enabled Third Sector to work across four jurisdictions as a way to gauge PFS readiness across the field and develop both an assessment and implementation roadmap for each of the sites. In the past, PFS has been critiqued as an expensive and timely process; the PFS in Higher Education cohort aimed to mitigate some of the cost and time barriers to exploring PFS in a single-issue area by streamlining content creation across sites and developing shared tools and resources to accelerate implementation.

Third Sector's TTA offered the four sites access to shared frameworks and tools anchored in a well-tested PFS methodology. Third Sector guided each team through discussions, exercises, and an implementation roadmap designed to help states consider how to leverage PFS at scale. During the implementation roadmap co-creation process, Third Sector sought to identify one or two early adopters willing to pilot a PFS funding model and build toward investable projects. Both Colorado and Ohio demonstrate the feasibility and desire to continue pursuing PFS in higher education initiatives throughout 2020. Their state-level support and higher education department commitment are enabling conditions for PFS project construction. While Arizona and Connecticut may not have project visions ready for near-term implementation, both states made significant progress in bringing stakeholders together to address outcomes disparities among priority populations. Furthermore, both states indicated a commitment to understanding and leveraging PFS within their jurisdiction as stakeholder support allows.

By participating in the training and technical assistance, state and system partners each gained:

- A hypothesis for a PFS pilot initiative that has been vetted by priority stakeholders
- Template PFS tools, and training on how to use the tools to move their project forward, including:
 - Economic Model
 - Term Sheet
 - Request for Information language
 - Template PFS Contract language
- A customized implementation roadmap of next steps

Since the uAspire feasibility assessment indicated capacity constraints for HEIs, Third Sector developed template tools and resources to help cohort participants build the institutional capacity to pursue PFS in conjunction with other stakeholders and simultaneously prepare sites for the longer-term transaction structuring process.

Cohort Learnings: Leveraging PFS in Higher Education

Throughout the TTA, several hypotheses from the initial uAspire feasibility assessment were validated, including:

- **The ideal PFS project is likely to be anchored by a state or system-level institution end-payer with strong oversight and centralized decision-making that also has a robust performance-based funding formula.** Third Sector was most successful in working in partnership with Colorado and Ohio, which are states with performance-based funding formulas and where state-level agencies led PFS project development.
- **Actionable insights and shared tools for potential PFS end-payers create capacity for them to pursue PFS with other stakeholders.** The primary audience for cohort activities were states and public systems of higher education. By targeting these stakeholders for training and technical assistance, and working collaboratively to create PFS tools, Third Sector aimed to deepen an understanding of enabling policy contexts among likely PFS end-payers in a higher education initiative. The cohort's process guided all participants toward building shared PFS tools coordinated among end-payers and service providers. The activities resulted in new knowledge about the number of providers already working to support underserved student populations that are ready to engage in PFS contracts. With additional capacity and tools, two states are actively pursuing PFS project development, and at least one of these states is co-creating their project with a provider from the cohort's provider advisory group.
- **Testing PFS in higher education through the development of initial pilot PFS projects allows stakeholders to trial operational models and develop proof points to accelerate the engagement process with potential project parties.** The national cohort approach supported the identification of jurisdictions ready to develop demonstration projects, and Third Sector helped generate an implementation roadmap toward piloting PFS initiatives or proof points to accelerate the engagement process.

There is an immediate opportunity to leverage PFS to finance programs that are effectively closing outcomes gaps among low-income, first-generation, and/or students of color. More broadly, Third Sector identified general lessons about PFS during the cohort TTA, including insights around the spirit of innovation in PFS contracting, the effectiveness of convening a group of public systems with other stakeholders that share core characteristics, and how streamlining content creation and developing shared tools can be a valuable process to build capacity across different sites. Furthermore, Third Sector concurrently engaged both providers and funders and identified that there is interest, availability, and readiness to participate in PFS contracts among both groups.

For more information about the PFS in Higher Education National Cohort process and approach, please email Sarah Walton at swalton@thirdsectorcap.org.