



December 2, 2013

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U.S. Department of the Treasury
1500 Pennsylvania Avenue NW, Room 1325
Washington, DC 20220

Attention: Docket ID TREAS–DO–2013–0006, Pay for Success Incentive Fund RFI

On behalf of the Campaign for Youth, a coalition of national youth policy and advocacy organizations focusing on low-income youth who are out of school and/or out of work, we appreciate the opportunity to submit comments on the U.S. Department of the Treasury’s Federal Register Notice regarding strategies to accelerate the testing and adoption of pay for success (PFS) financing models.

We support the Administration in its efforts to better understand how Pay for Success (PFS) financing models may be applied to assist public private partnerships in helping to solve some of the nation’s greatest challenges.

The Campaign for Youth is particularly concerned about the employment, education, and social challenges facing our vulnerable and disadvantaged youth. With youth employment rates at historic lows, millions struggling to graduate high school and detached from school, and countless others afflicted by violence and incarceration, consideration of how PFS strategies could be leveraged in support of interventions that target the youth population has tremendous merit.

We strongly believe the PFS field is in an emerging stage - in which a broad array of approaches, interventions and structures could be tested and applied to address a number of population challenges. Only a few PFS projects are in the field, and none have yet reached the point at which outcome payments are made. Given this limited knowledge base, our comments are related to how PFS strategies could undergo valuable testing and demonstration to improve outcomes for disconnected youth without inadvertently harming the very population they are intended to serve. We are also hopeful these comments will seed a greater vision for cross-agency policy that strengthens service to disconnected youth that is comparable to the challenges facing them in urban, suburban and rural communities across the nation.

If you have any questions about these comments, please contact Kisha Bird, Project Director, Campaign for Youth/Sr. Policy Analyst, CLASP (kbird@clasp.org).

1. *Instead of focusing on particular programs, the budget language proposing the Fund is broad in scope. What agencies and/or program areas are best suited for the Fund and why? What level of evidence exists in these areas about interventions that work? What is the threshold of evidence that a program should have in order to merit consideration for a PFS approach? What other factors should be considered in setting resource priorities for the Fund?*

Exploring PFS as an Approach to Address Issues Facing Vulnerable and Disconnected Youth?

Defining Disconnected Youth

PFS strategies can be applied to a broad range of interventions aimed at advancing positive social outcomes for multiple population groups, including youth. For the purposes of this response vulnerable and disconnected youth include individuals age 16 to 24 who have dropped out of high school; are within the age for compulsory school attendance but are over-age and under-credited; have been subject to the juvenile or adult justice system or ordered by a court to an alternative school; are homeless/runaway or under the care of the child welfare system; are low-income pregnant or parenting and are not attending any school; and are low-income and have a disability. Strategies that are specifically targeted to this youth population are essential. This particular youth population is often overlooked, as they may require interventions that are more intense and longer in nature.

One of the greatest threats to the U.S. economy is youth unemployment.

Youth and young adults 16 to 24 years old account for nearly 30% of all unemployed people in the U.S. For black male teens, work opportunities are nearly nonexistent. Just one in five black males ages 16 to 19 are employed. And depending on the age range, between one-quarter and one-third of young Latino workers today are unemployed. While the youth employment situation worsened due the Great Recession, unemployment among youth of color is a persistent threat to long term economic success.

By 2018, we will need 22 million new postsecondary degrees to meet labor market demands and remain economically competitive.

There are 6.7 million youth ages 16 to 24 years are not attached to school or work; 3.4 million are “chronic,” spending most of their time between ages 16 to 24 years unattached to school or work. Young people with limited education fare even worse in the labor market. Only 36% of youth who lack a secondary credential and are not enrolled in school are employed. Recent research suggests a correlation between state and county economic opportunity and its percentage of disconnected youth. Studies have shown that, over a lifetime, a high school dropout costs taxpayers \$292,000 more than a high school graduate because of reduced tax revenue, public assistance, and incarceration.

Research also shows that prolonged unemployment early in a career has negative consequences for lifetime earnings and future career success. In addition, for youth whose income is supplement household income, lost wages take a measurable toll on family economic security. Disconnection and elevated levels of unemployment for young people threatens the competitiveness of the U.S. economy, especially since youth of color represent a growing share of the U.S. labor force.

Characteristics of interventions that work for vulnerable and disconnected youth

According to a commonly used PFS readiness assessment tool¹, several key questions must be answered about the intervention to determine if it is an appropriate fit for a PFS strategy: *Can the impact of the intervention be clearly measured? Does the intervention have a long track record of results? Does the intervention focus on prevention?*

At the heart of a PFS contract is a preventive intervention (or set of interventions) that can improve outcomes in an area where there is a need to go to scale. CFY believes that many programs and strategies have shown great promise to improve educational, employment and social outcomes for disconnected youth and that there is no one single model or approach that can produce positive impacts for this population. Thus, we recommend potential PFS youth models include specific interventions and flexible individualized packages of services that include the following core programmatic elements.

A growing body of evidence suggests three primary intersecting programmatic features of comprehensive interventions that yield results for this population:

- ***Access to academically rigorous coursework that will prepare students for a successful transition into postsecondary coursework/certifications*** - Such options should include in-district and community based organization-run, high-quality alternative programs or schools; accelerated learning models (e.g. credits earned based on demonstrated competency via multiple forms of evidence instead of seat time); twilight academies; concurrent enrollment in high school and community college; GED Plus/Diploma Plus models; career and technical education; postsecondary education and training opportunities; and integrated education and skills training.
- ***Opportunities that are relevant to careers with real world applications*** - Includes a wide array of strategies such as job training, youth entrepreneurship, career and technical skill building, internship and apprenticeship opportunities, and employment opportunities, including summer and year-round employment, national and community service, service-learning, and work experience that expose youth to the world of work, including careers in high-growth, high-demand industries. In addition, workforce preparation activities that promote the development of applied skills, including oral and written communication,

teamwork, leadership, critical thinking, and a commitment to social and civic responsibility.

- ***A case management approach where a young person builds a relationship with a caring adult who helps coordinate the variety of services necessary for success*** - The role of case management in connecting youth to essential education and work activities is significant -- but even more so this function provides young people who often overlap in various youth systems with essential navigation assistance. The most vulnerable youth often need help to access health and mental health services, drug treatment services, housing, transportation, childcare or family support services. They also often need help navigating postsecondary and training institutions, including federal financial aid opportunities.
- ***Longer periods of service*** - Disconnected youth face an array of barriers to reconnection that require a significant period of time—often a year or more—of consistent and meaningful intervention to overcome. Traditional government and philanthropic funding streams often fall short of providing the resources and support to sustain a young person’s reconnection to work and school. Successful programs are those that can creatively weave together multiple streams of resources and weather the gaps in funding without interrupting services. PFS could mollify this challenge by bolstering an effective program for the longer program cycles that are truly needed to achieve results for young people.
- ***Family participation*** - While the definition of “family” varies for disconnected youth, those families who are engaged in the youth’s program participation are better equipped to offer support. Early analysis shows that family support helps increase attendance in program activities and eases the transition into postsecondary institutions. PFS models that value family involvement in interventions should see better chances of success.

Possible applications for PFS: Findings from research and demonstration of youth interventions

A diversity of models of youth interventions that employ the aforementioned practices have been analyzed and evaluated. Findings suggest these practices can yield a range of positive outcomes for youth including: reduced recidivism, increased graduation rates, postsecondary enrollment employment and wage earnings.

For example, Youth Fair Chance and Youth Opportunity Unlimited were analyzed and evaluated by Mathematica Policy Research and the Academy for Educational Development. Their findings and lessons were incorporated in structuring the federal Youth Opportunity Grants, which were subjected to much more rigorous process and impact evaluations by Decision Information Resources, Inc.

- ***Youth Opportunity Unlimited*** reduced the incidence of juvenile arrests and reduced dropout rates among high school youth.ⁱⁱ
- ***Youth Opportunity Grants*** enrolled over 90,000 mostly minority youth in service programs. The Department of Labor estimated that 62 percent of eligible out-of-school youth in the program catchment areas participated. Decision Information Resources, Inc., which conducted process and impact evaluations, found that Youth Opportunity Grantsⁱⁱⁱ:
 - Reduced the number of out-of-school and out-of-work youth and reduced the number of high-school dropouts;
 - Increased the receipt of Pell Grants in urban sites and increased postsecondary enrollment for foreign-born youth;
 - Increased the labor force participation rate overall and increased the employment rate for black youth, teens, and out-of-school youth and had a positive effect on hourly wages for women and teens;

National networks of programs for disconnected youth, including service and conservation corps, YouthBuild, and transitional jobs programs, provide work experience to tens of thousands youth every year.

- ***Postsecondary Success Initiative***: National Youth Employment Coalition, YouthBuild USA, The Corps Network^{iv}
 - The focus of this initiative is to substantially increase numbers of former dropouts who complete secondary Credential programs (high school and GED alternative programs or schools), enter postsecondary programs and persist to earn a credential or degree. The Center for Youth and Families at Brandeis University—evaluators of this initiative—in conjunction with Jobs for the Future designed a common reporting system. Results include information on 29 programs and over 1700 youth (although credential data is not yet available) ,results to date include:
 - Of those entering programs without a secondary credential (some students
 - Enter college bridge programming having already earned this credential), 69% earned a diploma or GED
 - 52% of program completers enrolled in college
 - 47% tested out of developmental reading or writing
 - 67% persisted through at least one semester of postsecondary education
- In a comprehensive study of national youth corps programs, researchers found that young people who join a Corps experience significant employment and earnings gains and reduction in arrests and out-of-wedlock pregnancies.^v

Support An Tiered Evidenced-based Evaluation

We do not believe that the intervention must have been previously tested through a rigorous controlled evaluation; in fact, because the government entity only pays for outcomes, PFS contracts can be a way for governments to reduce their risk in supporting innovation.

However, because the third-party investors risk their capital investment, they will presumably limit their support to investments that they believe will succeed, and thus will be the de facto arbiters of what is a sufficient evidence base. The risk with subjective evaluation of “success” by prospective investors is that too few youth strategies have been rigorously evaluated. Of those that have been evaluated, with random assignment experimental design as the predominant method, very few have yielded robust positive findings. This is not necessarily because the program interventions do not have merit; rather, it might reflect the challenges inherent in effectively evaluating interventions with many moving parts in very complex environments. Also, the more youth-serving programs and systems a community has, the more likely it is that a control group can access training and services outside of the demonstration, thus minimizing the findings on impact.

Therefore, we urge the Administration to encourage PFS partnerships to adopt evaluation approaches that maximize tiered knowledge development and foster innovation and creativity, as has been done through the Obama Administration’s tiered-evidence initiatives. For example, through the Corporation for National and Community Service’s Social Innovation Fund^{vi}, applicants seeking to impact youth development, health and/economic opportunity of low-income populations are required to demonstrate a minimal level of evidence that a proposed intervention works.

- Preliminary: Evidence from studies that is based on a reasonable hypothesis supported by research findings.
- Moderate: Evidence from studies that can support causal conclusions but have limited generalizability or studies with high external validity but moderate internal validity.
- Strong: Evidence from studies that support causal conclusions and, that in total, include enough of a range of participants and settings to support scaling up to the state, regional, or national level.

Other factors that should be considered in setting resource priorities for the fund

The following points emphasize precautions and protections to serving the most vulnerable individuals:

- The next section (response to Question 2) includes a description of accepted youth outcomes that should be considered. However, it does not specify relative performance. Given the multiple barriers to success that disconnected youth face, we recommend that the levels of performance shall take into account when measuring success for youth interventions. These

levels of performance should take into account the economic and labor market conditions of the area served, the socioeconomic profile of young people in the area, secondary school graduation rates, and the activities or services provided through the PFS. Unless these external factors are considered, there is a significant risk that PFS models could result in “creaming,” which is to say that the easiest-to-serve get preference in the competitive process. Local service providers, intermediaries, and communities that have a track record in implementing comprehensive strategies that meet the unique needs of the young people they serve are best suited to determine and set strong but achievable levels of performance for hard to serve youth.

- Another precaution to keep in mind when applying the PFS model in the disconnected youth arena is the risk of crowding out organizations or entities that are best-suited to serve a vulnerable population. In some cases, organizations that serve vulnerable populations have been chronically shut out of traditional government funding streams due to institutional and political barriers unrelated to their performance track record. For example, nonprofit community-based organizations that emerge to serve the multiple needs of a rapidly growing immigrant population in a rural area are likely to be relatively new compared to established social service providers in their locale and therefore potentially disadvantaged in competitions that reward reputation and other intangible other factors. However, such organizations are often the entities best-suited to serve the most vulnerable populations with culturally- and linguistically-competent programs. PFS models must be designed in a way that does not confer bias toward large established service providers and smaller or relatively new service providers. A secondary but related concern is that organizations that have demonstrated deep impact but have small budgets could be hard-pressed to build robust economic and financial cases needed to compete for PFS funding. Equipping regional and national intermediaries with the ability to provide technical assistance to smaller programs could be one way to level the playing field.
- We also feel strongly that the Administration should take care to supplement federal funding that supports disconnected youth in state and local communities and not use PFS financing models to supplant existing federal funds. Diverting critical formula dollars that support the needs of low-income populations to develop competitive grant programs would decrease access to services in resource-poor communities.

2. *The budget proposal encourages maximizing the leverage of Federal funds by engaging intermediaries, including state, local and tribal governments. What other kinds of groups should be considered as intermediaries? Are there other organizational constructs that should be considered? The ability to demonstrate whether a PFS intervention produces the desired results is the backbone of the model. How can the Federal government encourage the adoption of low-cost yet rigorous outcome measures? What are some of the barriers to using administrative data in a PFS scenario, and how might they be addressed?*

Outcomes and Metrics We Value

While success is implicit in the term “pay for success,” it is important to highlight the importance of agreement on the desired outcomes, and the ability to measure these outcomes in ways that reflect the value added by services. When services have multiple goals, performance payments that are based on only a subset of these goals have a real risk of distorting service delivery or having perverse incentives. It is also important to note that reduced recidivism is not the only measure that should be used to determine effectiveness of youth-serving programs or the applicability of a PFS strategy.

A “shared understanding of success” is vital to the ultimate achievements of a PFS partnership. While there is not complete agreement on every short-term, interim, and long-term outcome for disconnected youth, there is general consensus in the field on the essential outcomes necessary for youth to thrive and become productive citizens. As the Administration considers the application of PFS to the youth population, we offer the following:

Long-term outcomes must be supported by a broad vision success – in which providers are accountable for ensuring youth (a) attain a secondary school diploma or its equivalent; (b) attain a 2-year or 4-year credential from an institution of higher education, an industry recognized credential, or certification from a registered apprenticeship program; and (c) secure and succeed in a family-supporting career.

Interim Benchmarks of Progress that chart the progress of the program interventions in moving cohorts of youth toward achieving the ultimate outcomes. For example:

- Retention at 6 months, 12 months, 18 months, and 24 months and the achievement of academic progress and labor market objectives at each of those points
- For youth engaged with the foster care or justice systems, homeless/runaways, or other high-risk youth, improvement in independent living skills, personal development, civic development, and recidivism

Academic progress:

- For those who are deficient in basic skills, skills gains commensurate with the time and intensity of the program intervention and in keeping with goal of college and career readiness
- For those without a high school diploma, reenrollment in school or an alternative education pathway that leads to a high school diploma or equivalent
- For all youth, achievement of an academic skill set that prepares them for postsecondary success in college, training, apprenticeship, or employment

Employment benchmarks:

- Continuous engagement in work-related activities—community service, transitional jobs, work experience, apprenticeships, internships, on-the-job training, work-study, subsidized and unsubsidized employment— along a continuum of progress toward living-wage employment
- The achievement of employment competencies and occupational credentials with value in the labor market.

In addition, PFS may also be acceptable on project-based program outcomes if youth are learning real-world workplace skills on a specific project in the community, or performing fee-for-service projects i.e. remediating wildfires, environmental restoration, or energy efficiency audits.

4. Is there an optimal structure for both the timing and tiering of outcome payments? For example, should the projects allow for some degree of “progress payments” based upon achievement of early outcomes? Should the projects allow for “bonus payments” for extraordinary performance? What are the trade-offs of adapting different structures to different projects versus supporting a standardized approach?

PFS should invest in long-term interventions and solutions that can project societal and economic savings based on interim evidence

As PFS projects in the field are still in development and none have yet reached the point at which outcome payments are made, it would not be appropriate to recommend a specific structure to use in a standardized approach. Many of the areas in which preventive investments could produce government societal savings will not be fully realized for many years. For example, a program that supports disadvantaged high school students in their studies and encourages them to go to college will not have significant returns until its participants have completed college and entered the workforce.

It may be unrealistic to expect profit-minded investors to wait this long to receive payments. However, it should be the role of the federal government to incentivize state and local government to invest in long-term and intensive solutions. One way the federal government can encourage this behavior is through the PFS projects and ensuring contracts identify interim outcomes that are strongly associated with the desired long term outcomes that are expected to generate long-term savings.

ⁱ Nonprofit Finance Fund, Pay for Success Learning Hub website, <http://payforsuccess.org>.

ⁱⁱ Margaret Orr and Cheri Fancsali, Improving Chances and Opportunities: The Accomplishments and Lessons from National Community-Focused Youth Services, Academy for Educational Development, February 1997.

ⁱⁱⁱ Community Collaborating to Reconnect Youth, —Fact Sheet: Youth Opportunity Grant Evaluation, 2008
<http://www.clasp.org/admin/site/publications/files/FACT-SHEET-FROM-the-YOUTH-OPPORTUNITY-GRANT-EVALUATION.web.pdf>.

^{iv} Jobs for the Future, 2012, Comments to the U.S. Department of Education Request for Information on Strategies or Improving Outcomes or Disconnected Youth Performance Partnership Response Docket ID:2012DOVAED0014,
<http://www.campaignforyouth.org/admin/documents/files/JFF-Performance-Partnership-RFI-Response-final.pdf>.

^v JoAnn Jastrzab, John Blomquist, Julie Masker, and Larry Orr, Youth Corps: Promising Strategies for Young People and Their Communities, Abt Associates, Inc. Studies in Workforce Development and Income Security, 1997, 16-21,
<http://www.nascc.org/images/pdfs/abtreport.pdf>.

^{vi} Corporation for National and Community Service, “Social Innovation Fund 2012 Competition: Overview: Evaluation and Evidence”, 2012 http://www.nationalservice.gov/pdf/eval_tacall_presentation.pdf