**Senate Finance Committee Hearing on Evidence-based policies and programs**

**Written Testimony from Mr. James Lee Sorenson**

**May 10, 2016**

It is a pleasure and an honor to be with you today to discuss a matter of great importance—which is how can we more effectively measure and direct social spending in this country to produce successful outcomes.

My life is one as a business entrepreneur turned philanthropist. When I made the decision to devote my time, efforts and financial resources to giving back, I was unsatisfied with traditional philanthropy that, compared to the business world I came from, was inefficient, unaccountable and didn't move the needle enough in solving core problems to produce real outcomes in the lives of those in need.

Four years ago, I endowed an applied academic center at the University of Utah's Business School in order to help direct private and philanthropic capital to help solve some of the most perplexing social problems, both here in America and abroad in measureable more scalable ways through what is known as impact investing.

Since its inception, the Sorenson Impact Center has facilitated over $100 million in investments into scalable, sustainable solutions to problems like chronic unemployment and criminal recidivism in the U.S. and unsafe drinking water, access to education and health care, and rural poverty in places like Sub-Saharan Africa and Southeast Asia.

Over the past two years, the Center has also been engaged in structuring nearly a dozen "pay for success" projects around the country with a variety of stakeholders, including state and local government, nonprofit organizations, academics, philanthropists, and other funders.

These projects are aimed at addressing some of the most complex and challenging issues facing our country today, including intergenerational poverty, homelessness, foster care, mass incarceration, chronic unemployment, educational achievement gaps, mental illness, and substance use disorders, to name just a few. But most importantly, they do it in a way that is more effective by employing evidence based best practices and measured outcomes.

I'd like to give you a brief overview of how the projects work:

1) First, government or another entity like a hospital decides to pay for certain meaningful and measurable outcomes—not for activities, not for the promise of outcomes, but for actual achieved outcomes. An example may include a sizable increase of students with diagnosed learning disabilities meeting grade-level performance targets.
2) A service provider—which can be local, regional, or national—then agrees to provide the necessary intervention(s) to deliver the desired outcomes.
3) Philanthropists and/or other funders provide upfront capital to finance the service provider's intervention.
4) An independent evaluator conducts a rigorous evaluation in order to determine whether the service produced those specific, predetermined outcomes.

5) Finally, if those exact outcomes are achieved and the project is successful, government, the hospital, or whichever entity promised to pay upon successfully meeting those outcomes, will then – and only then – pay back the initial funders.

These projects are noteworthy for a number of reasons:

1) Stakeholders agree at the outset of the project on a set of definitive, measurable indicators of success.
2) We learn more about what programs actually work and which don't, knowledge that Congress and others can use to decide where to allocate limited taxpayer dollars. Often innovative preventative programs that are unfunded by resource scarce government budgets can receive funding.
3) This fosters a competitive social services environment—a virtuous "race-to-the-top"—for nonprofits and other social service providers since only the most impactful, evidence-based programs are eligible for this type of funding.
4) Nonprofits and social service providers are encouraged and supported to focus more on serving people in need and less on fundraising.
5) Proven, high-quality preventative programs are prioritized over costlier and less effective remedial programs and infrastructure.
    a. For example, funding an evidence-based substance abuse treatment keeps at-risk individuals out of more expensive jails and prisons, homeless shelters, and emergency departments and keeps their children out of the child welfare and foster care systems.
    b. This evidence-based intervention results both in a more optimal outcome for the individual and saves society a lot of money over the long-run.

We have seen significant traction with these projects at the state and local levels—nearly a dozen have launched in recent months / years, with another 50 in various stages of development across the country, spanning both Republican and Democratic states.

I would also note the tremendous power of the model to bring together stakeholders from across the government, nonprofit, academic, philanthropic, and for-profit sectors to collectively problem-solve and serve individuals and families in need.

While the federal government has, thus far, played an important role in all of this by encouraging and developing the capacity of various stakeholders to help build a pipeline of projects, it has been conspicuously absent in one critically important respect:

> In many of these state and local projects, the lion's share of the societal value and economic benefit generated actually accrues to the federal government budget, not the local budgets.
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> We call this a "wrong pockets" problem in the industry because there's effectively a mismatch between who gets asked to pay for a program and ultimately who stands to benefit most from that program.

This is why I am so thankful for Chairman Hatch's and Senator Bennet's introduction of the Social Impact Partnership Act, S 1089, legislation that directly addresses this issue by enabling the federal government to pay for a portion of the project outcomes that deliver the government direct federal savings or value.

Because state and local government cannot, in most cases, tap federal funding to pay for outcomes, they currently have no ability to leverage federal savings to pay for positive outcomes that benefit federal budgets alongside state and local budgets. Consequently, state and local governments today are severely limited in the number and scale of pay for success projects that can be developed.

Two examples are worth highlighting in this context:

1) An evidence-based asthma prevention program drives significant savings to the federal Medicaid budget by cost-effectively addressing the key causes of asthma in low-income homes and thereby reducing the incidence of emergency department hospitalizations due to acute asthma attacks.
    a. However, in many states, local / state governments will realize only pennies on the dollar of overall cost savings to society.
    b. The federal government, on the other hand—through Medicaid in this instance—is the primary beneficiary of the program. Yet federal agencies currently do not have the ability to negotiate success payments for outcomes with local stakeholders.
    c. As a result, promising projects like these don't happen, children don't receive proven preventive solutions to debilitating problems like asthma, and the federal government keeps paying for costly emergency room visits.
2) A highly evidence-based nurse home visitation program that works with low-income, first-time mothers results in tremendously positive (and valuable) outcomes, like reductions in the incidence of pre-term births, domestic violence, etc.—thanks to the tireless work of healthcare providers like Teisha who is with me on the stand from Nurse Family Partnership.
    a. As with the asthma program, state and local government budgets benefit to a certain degree, but the bulk of the overall benefit accrues to the federal government.
    b. Again, without the ability to leverage those federal savings, it is very difficult for state or local dollars alone to fund an intervention like Nurse-Family Partnership at scale.

Tying taxpayer dollars to actual performance in the social sector—and securing measurable results in individuals' and families' lives—is a pretty remarkable innovation, and pay for success financing is becoming an important tool to address some of society's most chronic and persistent social problems.

What's also remarkable about the model is the level of bipartisan support in state governments and city halls around the country – people from across the political spectrum agree that it makes sense to be more results-oriented, data-driven, and, ultimately, more accountable in the way we address social problems in this country.

This level of bipartisan support is a tribute to the fact that the Senate bill is itself a bipartisan effort by Senators Hatch and Bennet, as is its companion bill in the House. This legislation has also been cosponsored by Republican Senator Kelly Ayotte and Democratic Senator Cory Booker. Further, the legislation's companion bill in the House has 41 cosponsors and is publicly supported by Chairman Ryan.

In my experience, pay for success financing really resonates with policymakers, partly because they take seriously their role as stewards of precious taxpayer resources; it also resonates with many who hold out hope that if we are deliberate and thoughtful enough and partner with a range of stakeholders along the way, these problems can, in fact, be solved.