



Executive Summary

Pay-for-Success: Analyzing and Evaluating a New Way of Government Contracting for Environmental Projects

Pay-for-Success (PFS) is a government contracting model whereby the commissioning agency offers payment to a contracted firm only upon successful completion of a project, unlike traditional payment models that offer payment regardless of outcomes. PFS-based contracts for environmental outcomes have been gaining traction in the United States, as the PFS model incentivizes the contracted firm to efficiently complete the project at reduced costs and risks to the commissioning agency. As payments are withheld until predetermined outcomes are achieved, this approach encourages firms to work at a faster pace while maintaining the desired level of quality.

PFS-based contracts for environmental outcomes are being implemented in various parts of the U.S ranging from Anne Arundel County, Maryland to Sacramento County, California for projects such as land restoration and stormwater management. Today, governments and organizations have seen PFS as a means of generating the most cost-effective environmental benefits.

Ongoing data from these projects shows a 63% cost reduction in environmental outcomes over a 5-year period, ultimately creating a cleaner and better-managed environment.

To assess and showcase the overall results of PFS, the Environmental Policy Innovation Center (EPIC) has partnered with a research team at the UCLA Luskin School of Public Affairs to conduct an analysis on PFS. The research team aimed to address the policy question of: **How do PFS contracts benefit states or municipalities that utilize them, and how do they generate more benefits, whether it be in cost savings or environmental outcomes, compared to the traditional design-bid-build method?**

This report was put together after conducting several interviews with experts in the field of PFS and government contracting. The research team spoke with 17 organizations and 20 interviewees with expertise in PFS and other alternative contracting models on and examined 13 contracts and Requests for Proposals covering a diverse range of projects. Through this approach, the team was able to develop an understanding of the benefits and drawbacks of PFS, and how it compares to other contracting methods. The overall data and information collected and analyzed form the basis of our evaluation on the comparison of PFS and other potential contracting methods.

Given the unorthodox nature of PFS, the analysis conducted in this report focuses on categorizing and evaluating the risks that agencies and firms must deal with when it comes to government contracting. From the interviews conducted and contracts reviewed, a major emphasis was placed in these main criteria:

- **Financial:** Overall costs and cost-savings of the project;
- **Time:** Involving time spent on the project and if it was completed under the set deadline;
- **Outcome:** What goals were achieved and did the firm complete what it set out to do;
- **Reputation:** How did the agency and firm look coming out of this project;
- **Management:** Did oversight and implementation of the contract satisfy everyone and lead to a successful performance result.

By comparing PFS with the traditional design-bid-build method for government contracting, along with two hybrid versions of PFS involving third-party investors and stepwise payments, the overall conclusion was that PFS is the most effective contracting method for environmental projects. For a government agency, the cost savings generated from PFS could make an agency pay 63% less than what was paid under the original contracting method over a 5-year time frame, a percentage calculated from the total average cost reduction seen from four active PFS projects over the past 5 years. PFS further enables the agency to withhold payment to the contracted firm until a satisfactory job is completed, while ensuring efficient project completion, optimal outcomes, and minimal administrative burden on the agency.

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For expanding the use of PFS in the future, this report recommends that state statutes be amended to rectify the legal ambiguity of agency participation in PFS contracts. Additionally, this report recognizes the need for model PFS contracts customized to fit specific project types and state laws. **This report recommends streamlining the contract design to reduce the upfront administrative burden of local agencies who lack the technical knowledge or capacity to design PFS contracts.**

While these results are limited by time and data constraints, this report does generate a framework for evaluating government contracting models in a way that is designed to lower the risks an agency faces and determines if they can achieve the performance results that they are looking for. It follows then that for future environmental projects governments are pursuing, PFS may be the contract model more states and even the federal government will use more frequently. Moving forward, with more data coming out on PFS, the overall cost savings of this method can be quantified with greater certainty while agencies can help build the best contract model for PFS if they want to reduce the risks and workforce required for a project while still getting the outcomes they desire.

**For more information,
email Harry Huntley: hhuntley@policyinnovation.org**