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The Center for Public Policy and the Social Sciences

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SOCIAL IMPACT BONDS

A Comprehensive Review

Presented to the Vermont House Human Services Committee

PRS Policy Brief 1617-07

April 25, 2017

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This report was written by an undergraduate student at Dartmouth College under the direction of professors in the Rockefeller Center. Policy Research Shop (PRS) students produce non-partisan policy analyses and present their findings in a non-advocacy manner. The PRS is fully endowed by the Dartmouth Class of 1964 through a class gift in celebration of its 50th Anniversary given to the Center. This endowment ensures that the Policy Research Shop will continue to produce high-quality, non-partisan policy research for policymakers in New Hampshire and Vermont. The PRS was previously funded by major grants from the U.S. Department of Education, Fund for the Improvement of Post-Secondary Education (FIPSE) and from the Ford Foundation and by initial seed grants from the Surdna Foundation and the Lintilhac Foundation. Since its inception in 2005, PRS students have invested more than 50,000 hours to produce more than 150 policy briefs for policymakers in New Hampshire and Vermont.



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EXECUTIVE SUMMARY

Social Impact Bonds (SIBs) are a new and innovative method of funding public programs. In these programs, an investor provides funding for a public program and is repaid by an outcome funder, usually a government entity, upon the successful completion of the program. This funding structure reduces the risk of government funding being spent on ineffective programs and prioritizes evidence-based approaches to public policy. This report compiles and analyzes the structures, programs, and target populations of past SIBs in order to inform future discussions in the Vermont Legislature about their potential applications.

1. INTRODUCTION

As of April 2017, at least twenty-four states¹ have considered Social Impact Bond legislation. SIBs have been implemented successfully both in the United States and abroad to fund a variety of social programs such as those related to criminal justice and maternal health. Legislatures find SIBs attractive because of the manner in which the programs result in purposeful, data-driven programs that are likely to succeed.

In a SIB, an investor provides the program funding upfront and is repaid by a government only if the program is deemed successful by pre-established metrics. This structure results in programs that allocate taxpayer dollars effectively because the government only pays when the outcomes are achieved. If the pre-established metrics are not met, no government funds are paid out and are not wasted on an ineffective program.

2. METHODOLOGY

The small number of completed Social Impact Bond programs and the wide variety of contexts in which they were applied makes definitive conclusions about their usage difficult. Instead of drawing broad conclusions from a limited number of cases, we will instead comprehensively review existing literature and survey ongoing SIB projects in order to demonstrate the many ways of structuring these programs and to identify the methods that appear to be the most empirically sound. Following a general overview of how SIBs are structured, we will present a number of case studies applicable to the state of Vermont in order to illustrate how other states have implemented these programs. Throughout this report, we will include insight from researchers, consultants for state agencies, and intermediaries involved in recent projects.



3. OVERVIEW: WHAT ARE SOCIAL IMPACT BONDS?

3.1 History and context

In 2010, the first Social Impact Bond program began in England and, driven by Social Finance UK, aimed to reduce recidivism in a county prison. Within two years, various agencies within the British government had authorized thirteen other SIB projects that addressed unemployment and chronic homelessness across England. SIBs made their first appearance across the Atlantic in 2012 in a high-profile project that provided behavioral therapy to incarcerated adolescents at Rikers Island Correctional Center in New York. The next major SIB initiative in the United States came the following year in Utah and, like the New York project, was funded by the Goldman Sachs Urban Investment Group. These programs were successful in inspiring other SIBs across the country. Indeed, as of September 2016, twenty-four states and the District of Columbia have considered implementing social impact bond projects, according to the National Conference of State Legislatures.² Of those twenty-four states, eleven have enacted legislation. Financial Institutions, such as Goldman Sachs, who provide funding for SIB projects are eligible to include such financing toward meeting their federal Community Reinvestment Act Requirements.³

Comment [EJS1]: Why is this here?

3.2 Basic structure

In a Social Impact Bond, a government, through an intermediary, contracts with a service provider and an investor; these groups then negotiate a contract for the program. This structure introduces the expertise of the service provider and the attentiveness of a private-sector investor, which when aligned with the commitments of a governmental agency, amounts to an effective, outcome-driven program. Once the contract has been agreed upon, the investor funds the service provider to enable the delivery of services to the target population, which is coordinated and overseen by the intermediary. The government sets aside the potential outcome payments at the start of the program, often in a dedicated special purpose vehicle. Once the SIB program has been completed, an independent evaluator examines the impact of the intervention on the target population. This analysis determines whether the intervention was successful according to the terms of the contract, the outcome funder, usually the government, repays the investors according to the agreed-upon terms. If unsuccessful, the investor takes a loss on the program; the government regains use of the funds it had set aside.

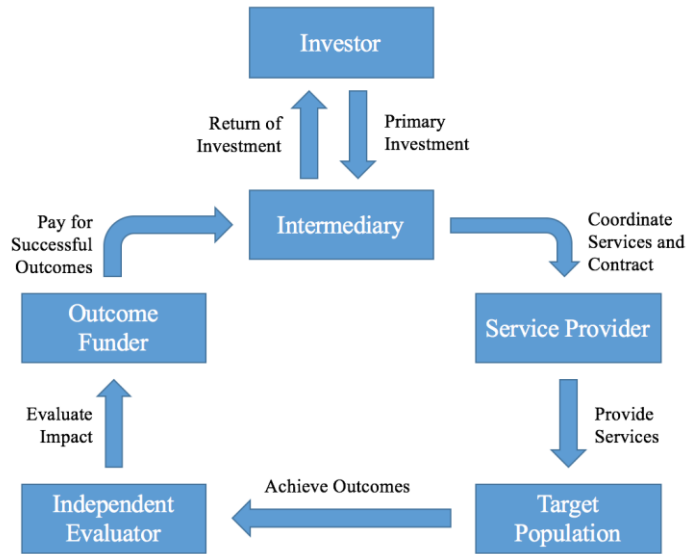


Figure 1: General Structure of Social Impact Bonds. This general structure incentivizes the adoption of evidence-driven programs that are likely to succeed by putting financial risk on the investor rather than the government and using a Pay for Success payment model.

3.3 Social Impact Bonds and Pay for Success

Often, academics, policymakers and the media will use the terms Social Impact Bond and Pay for Success interchangeably. To clarify, a Pay for Success program is any public program that receives government funding depending on the outcomes. Like SIBs, these programs are data driven, outcome oriented, and are often preventative interventions. Although all SIBs fall under the umbrella of Pay for Success, not all Pay for Success programs are SIBs. SIBs differ from other outcome-driven schemes in that an investor provides the upfront funding.

3.4 Requirements

The structure of Social Impact Bonds affords all parties the opportunity to ensure that money is allocated to programs with the highest likelihood of success. However, a number of elements must exist in order for a SIB to succeed.

SIBs necessitate programs that have quantifiable, tenable outcomes for a clearly identifiable target group. For example, previously enacted SIBs have had payments that are a function of the reduction in the short-term recidivism rate among prisoners.⁴



Another SIB in Utah repaid investors for every student that did not use remedial services through sixth grade who was deemed likely to, based on pre-kindergarten testing.⁵ In each of these instances, the program included a well-defined group and featured clear, measurable outcomes that were meaningful in the context of the program. Governments and impact investors alike have an interest in ameliorating social problems, and therefore will want to select metrics that demonstrate actual progress. Similarly, service providers will want metrics that provide substantive feedback on the success of their programs and are achievable within the scope of services they provide. Many programs, after establishing valid and meaningful metrics, compare these outcomes to the outcomes of a control group in a quasi-experimental study structure, in order to ensure that the changes are due to the intervention rather than an underlying trend. This introduces a greater degree of rigor into the evaluation process and shifts the attention away from quantifying the number of inputs. As a result, more scrutiny is applied to the efficacy of the interventions of service providers.

Furthermore, SIBs must have a duration that adequately allows the program to achieve the intended outcomes. Based upon a 2015 survey of SIBs by the Brookings Institution, SIBs ranged from 20 months to 120 months in duration. The length of the contract terms depends on the program itself, but it is absolutely necessary that programs are afforded a reasonable amount of time to achieve success.⁶ These programs last longer than most appropriations budget cycles, which means that the SIB requires full funding upfront and the long-term commitment of the governmental agency to the initiative.

There must also be some existing conditions in order to initiate a SIB. Most importantly, there must be a capable service provider in the target location of the SIB, ideally one with which the government already has contracts. Finding a new provider would take time and money and may jeopardize the success of the program, as the SIB would be put in the hands of a new and untested service provider. An existing relationship between a service provider and a government is an added benefit because of the ability to build upon established relationships and institutional knowledge.

3.5 Actors and their roles

Social Impact Bonds bring together many actors from the public and private spheres. The successful implementation of a SIB requires thoughtful negotiation and a significant degree of cooperation between parties over the duration of the project. Although there is a relatively fixed set of actors, the SIB model still allows for variation and experimentation in the type of actors incorporated.

3.5.1 Investors

Investors are minimally involved in the overall process of implementing the Social Impact Bond, but are important during its negotiation. These investors, known as impact



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investors are primarily motivated by the desire to have a positive social impact and have the actual returns as a secondary consideration. Impact investing is a strategy increasingly popular with millennials, who often consider the broader social impact of their investing. In addition to banks and corporations, impact investors are often regional foundations or individual philanthropists. Although the returns possible from social impact bonds are not particularly lucrative, these programs can fulfill community investment requirements and provide good publicity for large firms such as Goldman Sachs.

3.5.2 Outcome Funder

In a Social Impact Bond, the outcome funder is the entity that provides the payments in return for successful programs. A governmental entity is the outcome funder in SIBs; various states have funded their SIBs through different mechanisms. In many cases, funds are allocated by the state explicitly for use in Pay for Success programs, although legislation does not specify the program. In other cases, a specific agency will have the authorization to retain funds in order to finance the SIB, and have discretion in their ability to enter into SIB contracts. The final strategy for funding a SIB is a state government passing an appropriation for a specific Pay for Success program. However, this method is usually not used, as the full, multiyear budget for the program would have to come from a single appropriation in a yearly budget for the state. These methods can also take place on a smaller scale such as a county level.⁷

3.5.3 Intermediary

Intermediaries primarily serve as organizational actors that provide operational expertise throughout the duration of a Social Impact Bond in return for compensation. These actors work extensively during the negotiation process to bring into accord the goals of all the actors, determine appropriate outcome measurements and repayments, and coordinate the services that will be provided. Furthermore, the experience of intermediaries allows them to find appropriate evaluators, investors, and service providers, as well as do much of the heavy lifting for the program, such as writing the contract and ensuring smooth operations. After the program begins, intermediaries are less involved, but still work at a lower level to ensure everything is running smoothly. Examples of intermediaries include Third Sector Capital Partners and Social Finance which specialize in SIB advising and coordination.

3.5.4 Service Provider

Service providers are non-profit organizations that provide some sort of social service to the target population. These groups generally rely on foundation funding or donations when they are not involved in a government contract. Often a government considering a Social Impact Bond already has a contract with a service provider, and will work to convert their contract into a Pay for Success contract when possible. Service providers do



not necessarily have to operate at scale before the SIB begins, but the providers must be able to grow easily.⁸ These groups are motivated by the opportunity to deliver their services to a larger population and to obtain greater funding, as well as to have the opportunity to offer a government service without committing to single year budgets or extensive bureaucracy during their operations.

3.5.5 Evaluator

The final standard actor is the evaluator who analyzes the treatment and control populations before, during, and after program implementation. The evaluator is often affiliated with an academic institution such as a college or university, or can be the government in question, if the data is administrative and within the state system. Both of these options have been widely used; the choice appears to be based mostly on what type of information is being analyzed.⁹

3.5.6 Other Actors

While most Social Impact Bond programs only have the aforementioned actors, there are supplementary actors that are sometimes present. In the United States, it is fairly common to see a philanthropic organization act as an insurer of the investment, guaranteeing that most of the investment would be returned to the primary investor regardless of the outcome. This incentivizes more investors to participate in SIBs, which many philanthropies view as an effective method to combat social problems. Another type of actor, a subordinate investor, is also seen in many cases. These investors typically invest less in the SIB than the primary funder, and have a lower repayment priority. These investments are repaid only if all of the outcome goals are met, and the primary funder has received the full extent of their success payments.¹⁰

3.6 The Negotiation Process

The most difficult part of Social Impact Bond programs is setting up the contract; it is the step at which many negotiations stall.¹¹ It is during this stage that the desired outcomes are established, as well as how they will be measured and what will be considered a successful outcome. Following this deliberation, repayment methods must be determined. SIBs have employed many different repayment structures that range from payment per event, such as a beneficiary getting a job, or payment at the end of the program for a change in some factor, such as a reduction in the recidivism rate. The incentive structure should also be examined at this point, in order to ensure that each actor is incentivized to provide the best service to the population in order to achieve the best results for the target population and the program as a whole in order to avoid incentive structures that lead to poor services being provided.



4. PAST USES

Social Impact Bonds are a relatively new phenomenon in municipal finance, as they were first introduced in the United States in 2012. To date, there are roughly two dozen SIBs in the United States. Very few of these have reached completion, making it difficult to draw conclusions about what makes a successful SIB. However, there are general trends in the size, structure, and function of these programs.

4.1 Target Issue

In the United States, SIBs have generally focused on addressing four main issues: family support, recidivism, homelessness, and education. Homelessness is an issue well-suited to SIB initiatives because homeless populations are easily identified, outcomes are easily measured, and successful programs have the potential to reduce government costs.¹² Family support programs have generally taken the form of family stability or maternal health support. In family stability programs, service providers work to keep families together through providing housing resources and counseling, in order to combat underlying issues such as such as homelessness or drug abuse. Maternal health programs work directly with young, low income mothers by supporting them through pregnancy in hopes of reducing pre-term births and the incidence of fetal alcohol syndrome.¹³ SIBs have addressed recidivism through programs for both currently incarcerated and recently released inmates. These programs instruct participants on how to obtain employment and avoid circumstances that might lead to recidivism. Education has been used less frequently as a SIB program, but when it has, it is generally a preventative intervention to reduce the need for resource-intensive remedial programs later in life.

Outside of the United States, many programs address issues surrounding unemployment. A series of programs in England, for example, works to build skillsets and assist the chronically unemployed to find stable jobs. Other than this difference, the applications of SIBs outside of the United States have been relatively similar to the applications within the United States.

Each of these interventions approaches the respective problems from a preventative standpoint, and intends to address the foundation of a social issue. This focus relates to one of the key advantages of a SIB structure: its longer timeframe allows for multi-year programs that can have a more substantial impact of prevention on at-risk populations.

4.2 Target Population

There is no right size for a Social Impact Bond program, although the population must be large enough for the project to be meaningful and have the momentum to get through the negotiation process. Existing programs have ranged in size from fewer than 100 to up to



10,000 beneficiaries.¹⁴ Nevertheless, the stakeholders of a SIB should recognize the possible economies of scale present inherent in larger scale projects. Ideally, the target population should also have an easily comparable counterpart to use as a control, but this is not necessary in all cases, especially if the payment method is based on individual outcomes.

4.3 Funding and Returns

Social Impact Bonds often make headlines for being programs with multimillion dollar investments which, by and large, is true, but this does not hold true in all cases. Globally, the median initial capital investment of a SIB program is only \$1.5 million. In the United States, this investment is closer to \$5 million. This funding comes from various sources, the majority of which comes from primary investors, with additional funds coming in the form of grants from philanthropic organizations and/or subordinate investments.

Returns on investment across SIBs in the United States typically generate maximum returns of five to seven percent. However, while returns are usually capped at some level, actual returns may be much lower depending on the payment structure. There are two general structures for paying investors for successful programs: paying for individual outcomes and paying for cohort improvement. Many programs use individual improvement as a basis for outcome payments, whereby an individual taking a certain action leads to a payment to the investor. These SIBs are usually smaller, and this structure appears most often in homelessness and unemployment SIBs. The independent outcomes are validated by administrative data and recorded by the intermediary or the independent evaluator. In contrast, larger programs generally use the cohort model in which the “treatment” cohort is compared to a “control” group. Investors are paid based upon the relative improvement of the treatment group versus the control group. This approach in some regards is more “scientific”, and includes an academic partner to confirm statistical significance. Some programs use both methods, using individual payments for some outcome measures and looking at cohort improvement for others.

4.4 Case Studies

4.4.1 New York City ABLE Program for Incarcerated Youth, 2012

The New York ABLE Project for Incarcerated Youth was the first Social Impact Bond enacted in the United States. The evidence-based program aimed to reduce recidivism among incarcerated youth in Rikers Island Correctional Center through an intervention that focused on improving personal responsibility and decision making, which had previously experienced success in other populations.

In order to implement this program, the City of New York partnered with Goldman Sachs Urban Investment Group to obtain an initial investment of \$9.6 million in return for



possible success payments totaling \$11.7 million from the Department of Corrections. Seventy-five percent of the Goldman Sachs investment was secured by Bloomberg Philanthropies, mitigating the risk assumed by Goldman Sachs. The initial duration of this program was five years, with an evaluation after four in order to gauge outcome progress.¹⁵

This project was determined to be unsuccessful: the progress report released after four years did not show any significant reduction in recidivism, and Goldman Sachs ended the program early through using an exit clause in their contract. While the intervention failed to reduce recidivism meaningfully, the SIB structure prevented this ineffective program from wasting taxpayer dollars, allowing instead private companies and charities to shoulder the cost. This program, therefore, reflects merely the failure of a particular intervention rather than the failure of SIBs.¹⁶

4.4.2 South Carolina Nurse-Family Partnership, 2016

More than twenty-seven percent of children in South Carolina live below the poverty line, and over half of all children in South Carolina are born to low-income mothers. Many of these low-income mothers suffer poor maternal health; this population also has a high rate of smoking and drinking during pregnancy, both of which can lead to preterm births and complications. In this Social Impact Bond program, the South Carolina Department of Health and Human Services will partner with the Nurse-Family Partnership program in order to bring home-based medical care to many of these low-income mothers. This service provides medical exams, advice, and support, all of which has been shown to reduce the incidence of preterm births and improve infant health. As many of the low income mothers are covered by Medicaid, the costs of their health problems and birth complications are paid for in part by the state. By expanding a service that reduces future medical costs, the state of South Carolina hoped to combat issues at an earlier stage and reduce costs in the long term.

The Nurse-Family Partnership Program began in 2016 to provide 3,200 low income, first-time mothers with their medical services for six years in 29 of the state's 46 counties.¹⁷ Social Finance US will serve as the intermediary, while J-PAL North America will act as an independent evaluator. While \$30 million has been committed to this program from various funding sources, only \$7.5 of this investment acts as a true SIB investment, with the remainder of the funding coming from Medicaid payments or philanthropic donations. A \$13 million Medicaid waiver was granted by South Carolina and the National Medicaid Office, offsetting many of the costs of providing these services. \$12.2 million of the remaining \$17 million was contributed by philanthropic sources, most notably \$8 million from the Duke Endowment, a source that had previously been funding the program and joined the SIB program in order to bring outcome based evaluations into the process. Private investors contributed \$4.8 million, with no primary investor



disclosed.¹⁸ This funding structure clearly demonstrates the ability to run a Social Impact Bond program without the use of a single large impact investor.

Evaluated outcomes, infant health measures such as preterm births, infant injuries, and healthy birth spacing, will be measured and evaluated over a five-year period by J-PAL North America. The intervention is determined to be successful if preterm births are reduced by 15 percent, child injuries reduced by 26 percent, and healthy birth spacing improved by 20 percent in comparison to a control group. If these criteria are met, the Health and Human Services Department of South Carolina will make success payments of up to \$7.5 million from funds appropriated by the state legislature for this specific program.¹⁹

This program demonstrates the process of converting a charity that was already operating using some public funding into a Pay for Success program using Social Impact Bond funding. This program continued to use existing payment sources, but used SIB funds to incentivize program growth and outcome policies. In this case, a SIB program was successfully negotiated without a single large impact investor and revealed the capabilities of SIBs and Pay for Success programs to bring semi-private organizations into a more governmental role without forcing them to use the same funding structures as the annual budgets of many state governments.

4.4.3 Cuyahoga County Partnering for Family Success, 2014

The Cuyahoga County Partnering for Family Success Program was the first county-level Pay for Success project in the United States. Despite this unique aspect of the program, the Cuyahoga PFS program nevertheless exemplifies the complex process of bringing a social impact bond project to fruition. The support for the program began in July 2011 at the urging of a senior official at the George Gund Foundation, a local charitable organization. This idea gained traction in the government due to the effort of the Cuyahoga County Executive, who made a Pay for Success project a primary element of his agenda and actively solicited the participation of other governmental agencies. The county government needed to form partnerships with local and state agencies such as the Cuyahoga Metropolitan Housing Authority and the Emerald Development and Economic Network.

Over the next three years, an intensive structuring and negotiating process took place. The government needed to create a program budget, pass corresponding legislation, and create a project development team devoted to the project. Local foundations helped the government evaluate and select the particular intervention the program would fund. This process adds an element of competition to the proposals submitted by charitable organizations, which ensures that these organizations have the incentives to cut costs and foundations are able to have a say in what they fund from the start.



Stakeholders ultimately selected FrontLine Services as the service provider. FrontLine will provide “Critical Time Intervention,” which is an evidence based homelessness transition therapy program that aims to stabilize family dynamics and work towards family reunification. The Cuyahoga County project team made sure to evaluate the academic literature that underpins the approach suggested by FrontLine in order to guarantee that the intervention was indeed evidence-based. FrontLine was able to dedicate staff to finalizing the program design and modifying existing programs, much in the same way that the county had its own staff dedicated to the project. This staff holds weekly meetings with other stakeholders to resolve any issues that may have arisen and to share data and results. Furthermore, FrontLine, as part of the contract, needed a “ramp-up” period of administrating the intervention. This ease into the program allowed the organization to train staff and case managers adequately as well as troubleshoot any unexpected problems.

The success of the program will be based on the extent to which the intervention lessens the length of stay in out-of-home foster care for participating children. To evaluate the program, stakeholders reached out to Case Western Reserve University’s (CWRU) Center on Urban Poverty and Community Development, an entity with which the county had an ongoing relationship. The program evaluation includes two groups: one group of 135 families who receive 12-15-month intensive treatment and one control group. This division will allow CWRU to conduct a randomized control trial in order to determine the efficacy of the intervention implemented by FrontLine.

If successful, Cuyahoga County will pay \$75 dollars per reduced foster care day versus the control group for a maximum total of \$5 million. The funders include a number of senior and subordinate lenders, both national and local. Given the specifics of the SIB contract, a 20 percent reduction in out-of-home placement will provide Cuyahoga a net savings of \$130,000. A 50 percent reduction would result in the awarding of the full \$5 million allotted, but would also save Cuyahoga County \$3.5 million. The project evaluation will take place in the first quarter of 2021.

The lessons learned by stakeholders are lessons applicable to all social impact bond projects. All stakeholders in the project noted the importance of dedicated staff to ensure the project is moving forward. Staff members can help fight project fatigue as well as develop institutional knowledge that can facilitate a successful contract. As such, Pay for Success projects require the mobilization and coordination of multiple agencies over multiple years, so the role of a “project champion” is critical. Another common reflection across stakeholders is the importance of communication. The program has biweekly meetings with all stakeholders to ensure all issues are addressed and all voices are heard.²⁰

4.4.4 Denver Supportive Housing Program, 2016



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Many of the costs of homelessness are hidden, such as those states incur due to healthcare costs for chronic illnesses, emergency room visits, and the jail time. In the city of Denver, estimates conclude that, on average, a homeless individual costs taxpayers \$29,000 per year. In addition to this steep cost, the availability of supportive housing services had decreased in the Denver area, reducing housing opportunities for the chronically homeless and making it more difficult for service providers to operate due to difficulties finding funding sources.

Denver agencies came to the decision that some broader program should be implemented after receiving reports of this problem and, with assistance from the Harvard Kennedy School Government Performance Lab, created a program that pursues the dual goals of providing stable housing and case management assistance for the chronically homeless. These two objectives were kept completely separate and, in form, created two separate Social Impact Bonds. The Denver Supportive Housing Program incorporates existing programs and service providers that had previously partnered with state and local governments. Over five years, this program will provide 250 permanent housing units as well as drug and alcohol abuse treatments, peer counseling, and mental health support.

The City of Denver contracted with two intermediaries, Social Impact Solutions and the Corporation for Supporting Housing, to oversee the project and advise on funding structures. While Social Impact Solutions took a broader role in overseeing the project as a whole, the Corporation for Supportive Housing specifically managed the contracting and logistics of building housing units. The Government Performance Lab also played an advisory role in the initial steps of this project.

The Denver Supportive Housing Program identified 250 chronically homeless individuals as the target population, a group which the cost taxpayers upwards of approximately \$7 million annually, as estimated by the Government Performance Lab. This population was both geographically defined and had specific needs that could be met by the program intervention for housing insecurity and drug and alcohol abuse.

Initial funding for this program came from both private and public sources, with a large fraction of the costs of building new housing units coming from housing vouchers provided by the Denver Housing Authority and the State Division of Housing. These vouchers are estimated to amount to a contribution of approximately \$10 million, an investment by the state that is not involved in success payments. In addition to this public funding, \$5.2 million was provided by Medicaid in order to cover health treatment programs that were already supported by Medicaid. Approximately \$5 million dollars in low-income tax credits and gap funding were also applied to cover operational costs. The \$8.7 million of private capital was divided between one pay for success investment in the reduction of jail time and another investment in the increase of stable housing status. It is important to note that the public costs are not part of the pay for success structure, and are



investments by the government that were originally planned, and were simply carried out in a manner complementary to the SIB program.

Outcomes will be evaluated by the Urban Institute starting in the fall of 2017. Outcome payments for housing stability are based on individual outcomes, and jail time reduction are evaluated on a cohort level improvement in comparison to a control group. A total of \$11.3 million in outcome payments is available, although payments for jail reduction are only made when there is a decrease in time spent in jail of more than 20 percent in the treatment population in contrast to the control group. The expected return is approximately \$9.6 million, or about 3.3 percent per year over five years. This funding will come from the city and county of Denver.

This SIB is a program that successfully incorporated existing government spending into a Pay for Success structure. The combination of state funding, housing vouchers, and Medicare funding allowed for a large-scale program that utilizes a pay for success structure to attract in outside funding and outcome based evaluation.

5. LEGISLATION

Ten states have enacted legislation regarding Social Impact Bonds. Two of these states have simply enacted legislation that calls for further research, while two others have enacted legislation that allows for state actors to enter into pay for success contracts but do not set aside funding. The remaining six states have passed legislation, for the most part in the same bill, to allow for these contracts and set aside funding for SIB programs. The states of Maine and Alaska, both small and with smaller budgets than many other states, opted to only request further information on SIBs from specific departments that had expressed interest in utilizing SIBs. In Colorado and Idaho, the state legislatures voted to allow SIB contracts, within specific limits, and did not provide funding, while California, Massachusetts, Utah and several other states both set aside several million dollars for use in SIB programs and authorized entrance into SIB contracts.

Whether legislation establishes a funding source or merely authorizes an agency to enter into SIB contracts can lead to different outcomes. While the end result of both options is the ability to initiate a SIB, the different forms of legislation change the incentives to find a program, which can influence the negotiation process. For example, when legislation sets aside funds for a SIB program, agencies will want to put the money to productive use quickly, and therefore run the risk of initiating a suboptimal SIB. However, this method has the advantage of allowing for a broader application of SIB programs and ensuring that funding remains regardless of management changes. This approach is preferred by states who are open to SIB programs in any area, and simply want to implement and a program in some capacity.



In contrast, authorizing a particular agency to enter into Pay for Success contracts creates an entirely different structure. In this case, the outcome funder will likely be the agency, either from money that the agency itself set aside or from a specific appropriation that the agency requests from the state. This legislation also restricts the areas in which SIBs can be applied, as the SIB must fall under the areas of concern of the agency. This type of legislation is preferred by states that are unsure about committing to SIB programs, but are open to the idea in the appropriate circumstance because this legislation changes little at the state level, and decisions can be made on a case by case basis when SIB programs are proposed, rather than allowing departments with funding to enter into contracts without explicit legislative approval.

6. MOVING FORWARD

The question of implementing Social Impact Bonds in Vermont is very complicated, and involves many factors. Is it possible for a state the size of Vermont to make a SIB program work? Will there be a large enough target population in a small enough area to effectively implement an intervention? What kind of intervention could be used? How will investors be recruited? Do service providers exist? And how will a small state with a small government handle the negotiation process?

6.1 Areas of Application

There are many possibilities for a SIB program in Vermont, from a preventative intervention in the opioid crisis to a program that supports family health. However, the most reliable way to locate a program that would be a successful SIB is to identify a service provider that has the capability to expand in a manner that is desirable for the state or the agency.

The Vermont Agency of Human Services has been consulting with Kennedy School Government Performance Lab at Harvard about the possibilities of SIBs in Vermont,. Meeting with either Sarah Allin, their contact, or with officials in the agency who would be valuable in determining what they see as possibilities for SIBs in Vermont.

6.2 Applicable Legislation

The state of Vermont could implement one or more of the legislative options that are already in place in other states, depending on how invested the state government is in SIBs. The first step that many states have taken is simply passing a bill to look into SIBs more thoroughly in order to get a very in depth view of what is possible. This can be done through contracting directly with a university to request a more in depth study, asking an agency for a report, or working with external researchers and experts to determine the possibilities of SIBs in Vermont.



Authorizing an agency to enter into Pay for Success contract is a concrete step towards utilizing SIBs without committing the state as a whole to anything. This allows for agencies who truly believe that they have a well set up SIB that is likely for success to either internally fund the program or come to the state government to ask for an appropriation, which then allows for a case-by-case decision to be made by the legislature.

However, if the legislature believes that these programs are very promising and could help address problems across the state, then enacting legislation that sets aside funds for these programs is a possible option. This would take funds directly out of a yearly budget to be set aside for Social Impact Bond programs allowing for more flexibility in what possible SIBs will be investigated, and giving more power to the agencies and other bureaucratic bodies in deciding what programs should go forward.

6.3 Target Population

While having a larger population is common in many Social Impact Bond programs, it is not necessary, as long as the population is meaningful on the scale of the overall program. If a \$5 million project has only 100 beneficiaries, then that project is likely not appropriate. However, if a \$500,000 project has 100 beneficiaries, then the project is significantly more appropriate. Vermont will likely not have many multi-million dollar SIBs with thousands of beneficiaries, but that does not preclude the state from having any SIBs.

6.4 Investment Sources

Vermont is very different from many places where SIBs have been implemented in the United States. It does not have a major financial center and is not the home to large banks. However, this does not mean that funding for Social Impact Bonds cannot be found. In many cases, lots of smaller investors have pooled their funds to fund a SIB program. In other cases, foundations and other philanthropic organizations have provided funding, either as a grant or as part of the Social Impact Bond itself. If these options do not seem to be working, it is also possible to get funding from out of state organizations, especially if the program is promising.²¹

7. CONCLUSION

Social Impact Bonds are a new and innovative funding method for social programs; and have many possibilities in the United States. These programs protect public funds and promote evidence-driven programs, with emphasis on outcomes and preventative interventions. These programs have already been widely used to combat social issues like homelessness and maternal health. While SIBs have traditionally been quite large,



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smaller programs have been seen, with innovative funding structures that place less emphasis on the investor, as well as programs with as few as 16 beneficiaries. Social Impact Bonds are a possible option for the State of Vermont, the remaining question is how the state should address them. With options ranging from simply more investigation, to agency authorization, to setting aside funding for these programs, Vermont has many possibilities. For a small state with smaller scale problems, the most prudent approach, depending on the views of agencies and other factors, may be to investigate further, or possibly to grant certain agencies permission to negotiate these contracts, without committing funding at this point in time.



APPENDIX

Table A: Existing Social Impact Bonds²²

	Launch Year	Service Delivery Term (Years)	Project Motivation	Project Objectives	Individuals Served	Geography	Issue Area	Initial Private Investment (\$ millions)
NYC ABLE Project for Incarcerated Youth	2012	4	Nearly half of all adolescents incarcerated at Rikers Island jail will return within one year of being discharged.	Reduce recidivism by at least 10 percent	4,000	New York City, NY	Recidivism	\$9.6
Utah High Quality Preschool Program	2013	5	Children from low-income families have limited access to high-quality early childhood education.	Increase school readiness and academic performance; Reduce the need for special education services	3,500	Salt Lake County, UT	Early Childhood Education	\$7.0
New York Increasing Employment and Improving Public Safety	2013	4	44% of formerly incarcerated individuals who are under community supervision and without employment return to prison within two years.	Increase employment by at least 5 percent; Reduce recidivism by at least 8 percent	2,000	New York City and Rochester, NY	Recidivism	\$13.5



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	Launch Year	Service Delivery Term (Years)	Motivation for Project	Project Objectives	Individuals Served	Geography	Issue Area	Initial Private Investment (\$ millions)
Massachusetts Juvenile Justice PFS Initiative	2014	7	55% of young adults who age out of juvenile justice system or are on probation will return to prison at least once within three years. Only 30% are employed within one year of their release from prison or jail.	Reduce incarceration by 40%; Increase job readiness and employment	929	Boston, Chelsea and Springfield, MA	Recidivism	\$21.7
Chicago Child-Parent Center Pay for Success Initiative	2014	4	Chicago Public Schools serving low-income families have a shortage of publically-funded, high-quality pre-kindergarten seats available.	Increase school readiness and academic performance; Reduce the need for special education services	2,620	Chicago, IL	Early Childhood Education	\$16.7
Cuyahoga Partnering for Family Success Program	2014	4	Children of families who struggle with homelessness experience longer stays in foster care.	Reduce the length of stay in foster care and achieve permanency and/or family reunification	135 caregivers and their families	Cuyahoga County, OH	Child Welfare	\$4.0



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	Launch Year	Service Delivery Term (Years)	Motivation for Project	Project Objective(s)	Individuals Served	Geography	Issue Area	Initial Private Investment (\$ millions)
Massachusetts Chronic Homelessness Pay for Success Initiative	2014	6	1,500 chronically homeless people in Massachusetts lack access to stable housing and are high-cost users of temporary shelters, Medicaid and other emergency services.	Provide 500 units of stable supportive housing for up to 800 chronically homeless individuals	800	Boston, MA	Homelessness	\$3.5
Santa Clara Project Welcome Home	2015	6	More than 2,200 chronically homeless individuals in Santa Clara County lack access to stable housing and long-term supportive services.	End homelessness, increase stability and improve health by achieving 12 months of housing stability	150-200	Santa Clara County, CA	Homelessness	\$6.9



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	Launch Year	Service Delivery Term (Years)	Project Motivation	Project Objectives	Individuals Served	Geography	Issue Area	Initial Private Investment (\$ millions)
Denver Housing to Health Initiative	2016	5	The City of Denver spends \$7 million annually on emergency and criminal justice services for 250 chronically homeless people who lack access to affordable housing and supportive services.	Achieve housing stability; Decrease jail bed days; Access to affordable housing and supportive services	250	Denver, CO	Homelessness	\$8.7
South Carolina Nurse Family Partnership	2016	6	27 percent of children in South Carolina live in poverty, which can be harmful to a child's cognitive development, health, school performance, and social and emotional well-being.	Support the health and development of first-time mothers and their children; Build a pathway to sustainability for NFP in South Carolina; Evaluate effectiveness of efficiencies in NFP model	3,200 mothers and their children	South Carolina	Maternal and Child Health	\$17.0



Table B: Current Legislation²³

Enacted State Legislation	
Massachusetts HB 4219 (2012)	-Creates the Social Innovation Financing Trust Fund, a \$50million fund authorized to enter “pay-for-success contracts”
California AB 1837 (2014)	-Creates Social Innovation Financing program - Authorizes specific state entities to draft pay-for- success contracts
Oklahoma SB 1278 (2014)	-Authorizes the Office of Management and Enterprise to contract with non-governmental service providers - Authorizes the \$2 million “Criminal Justice Pay for Success Revolving Fund”
Utah HB 96 (2014)	-Installs a “School Readiness Board” with the authority to negotiate pay for success contracts with private entities -Appropriates an ongoing \$3 million to the board’s restricted account
Colorado HB 1317 (2015)	-Endows authority to enter pay for success contracts based upon guidelines
District of Columbia B 750 (2015)	-Authorizes pay-for-success contracts, creates pay- for-success fund, and gives mayor authority to administer the fund
Massachusetts HB 3650 (2015)	-Instructs various government entities to devise pay- for-success program to improve employment among recipients of programs administered by Department of Transitional Assistance -Authorizes Executive Office to solicit advice from SIB Assistance Lab at Harvard University on feasibility
Maine HP 285 (2015)	-Instructs the Education Research Institute to create a report on the use of social impact bonds to fund pre-kindergarten and “extended learning programs”
Idaho HB 170 (2015)	-Authorizes state Department of Education to conduct pay-for-success programs
Texas HB 3014 (2015)	-Creates the “Success Contracts Payment Trust Fund”
Alaska SB 91 (2016)	-Instructs Alaskan Criminal Justice commission to issue a report on the potential uses of SIBs to reduce recidivism
Maryland SB 1005 (2016)	-Allows the Justice Reinvestment Oversight Board to make recommendations about public-private partnerships like SIBs



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