

# **Social Impact Bonds: An Evolving Tool for Financing Social Innovations**

**Richard Wansley, Mental Health Association Oklahoma**

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# Social Impact Bond (also known as Pay For Success)

## Basic Definition

An agreement or contract with the public sector or governing authority, whereby it pays for improved social outcomes and part of the savings achieved is passed along to the original investors.

- Not a true bond, per se (no guaranteed return of principal)
- Investors are typically those who interested in not just return on investment but also social impact or benefit

# Why?

## There are:

- Increasing demands for money to fund public sector programming and services,
- Decreasing revenues (era of “no new taxes” or even reduced taxes)
- Increasing pressures on private philanthropic funding for social programs with evidence-based solutions

## Therefore:

“A market-oriented funding solution to government expenditures...”

*Forbes, 2014*

## Thus:

An era of the convergence of capitalism with government and social services begins....

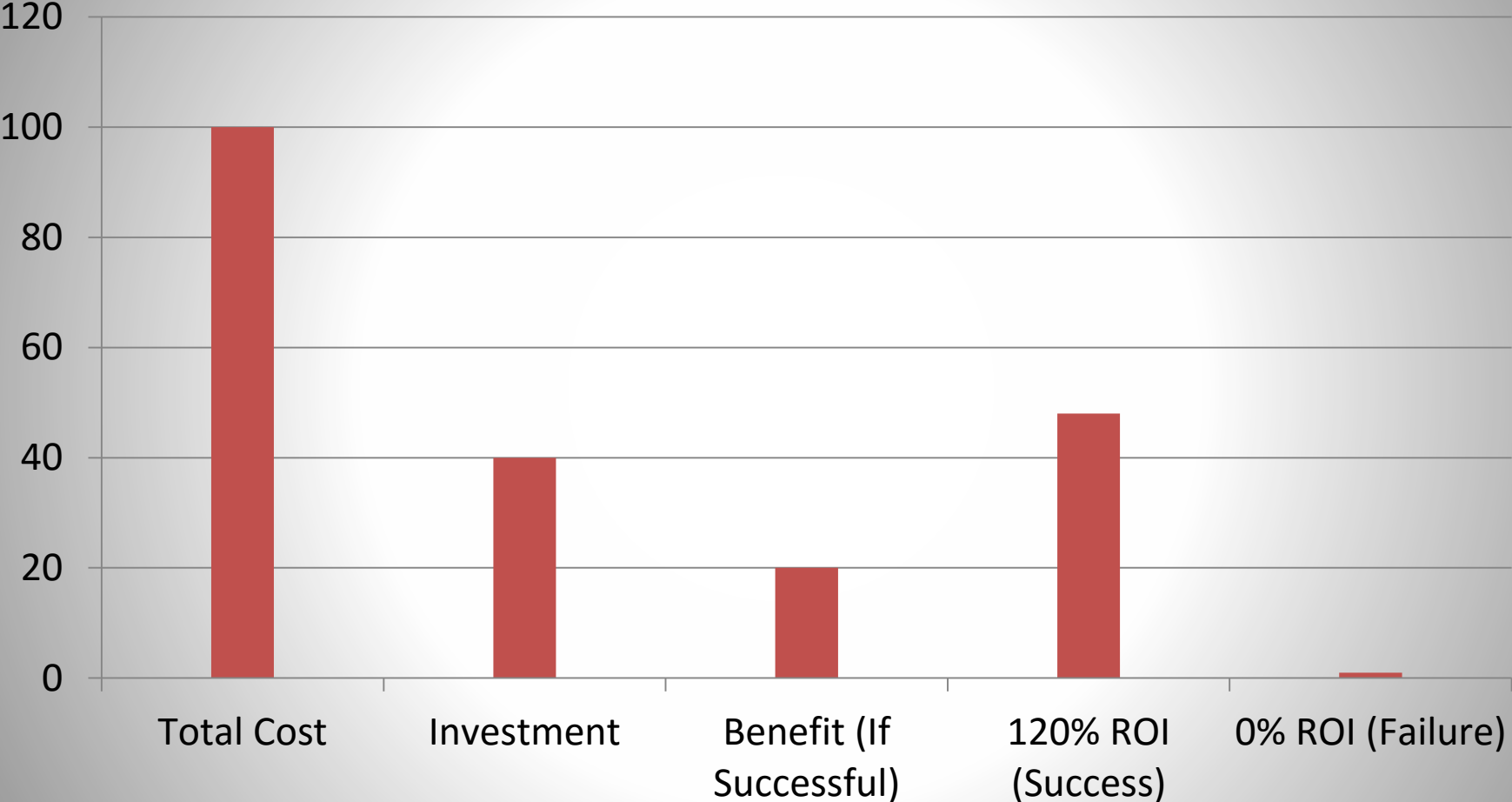
# SIBs – A Short History (2011)

## An Import from the United Kingdom

**Peterborough Prison in the United Kingdom** issued one of the first social impact bonds anywhere in the world. The bond raised 5 million pounds from 17 social investors to fund a pilot project with the objective of reducing re-offending rates of short-term prisoners. The relapse or re-conviction rates of prisoners released from Peterborough will be compared with the relapse rates of a control group of prisoners over six years. If Peterborough's re-conviction rates are at least 7.5% below the rates of the control group, investors receive an increasing return that is directly proportional to the difference in relapse rates between the two groups and is capped at 13% annually over an eight-year period.

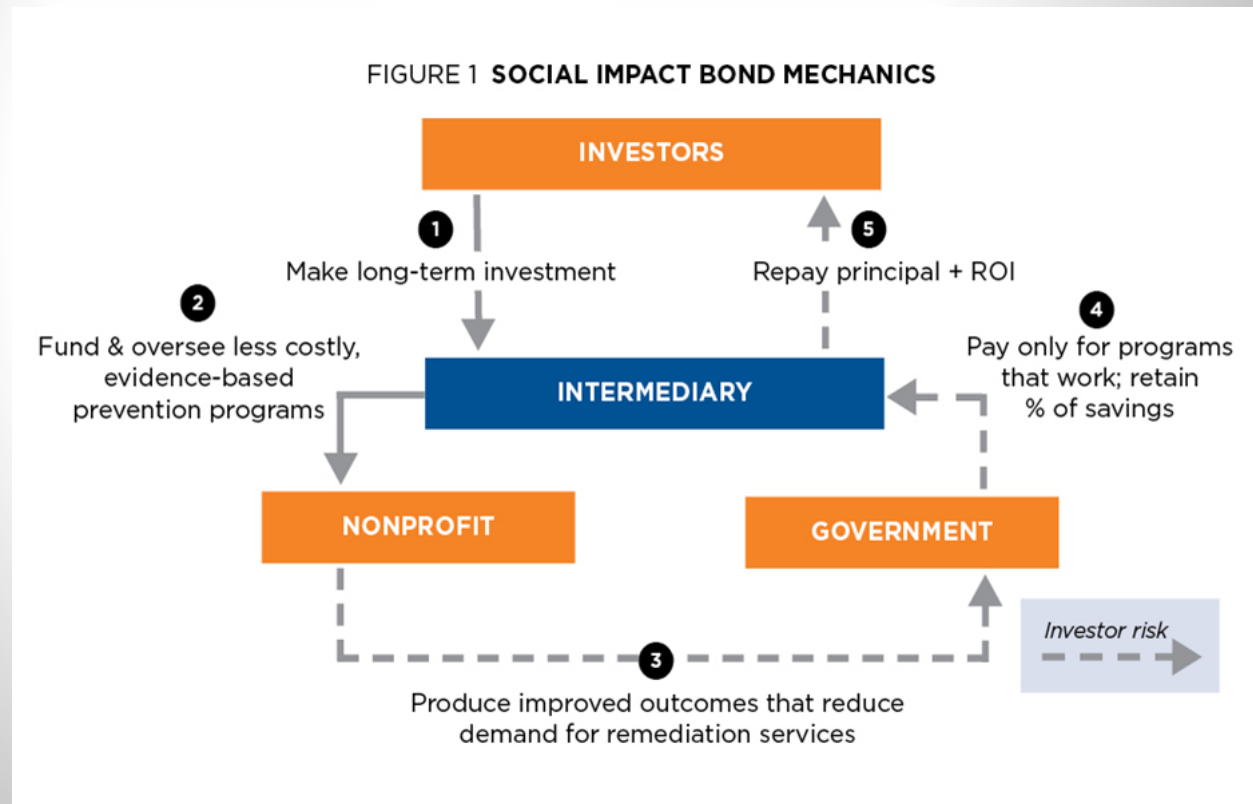
However, somewhat similar to **“performance contracts” in US** such as energy savings agreements in 70s and 80s where a company fronted costs of equipment and split savings with the owner.

# Hypothetical Social Impact Bond Cost – Benefit Diagram



Opinion: Sep 15, 2014

## “Impact Bonds Are Going Mainstream”



# Example: New York City (Rikers Island Project) 2012

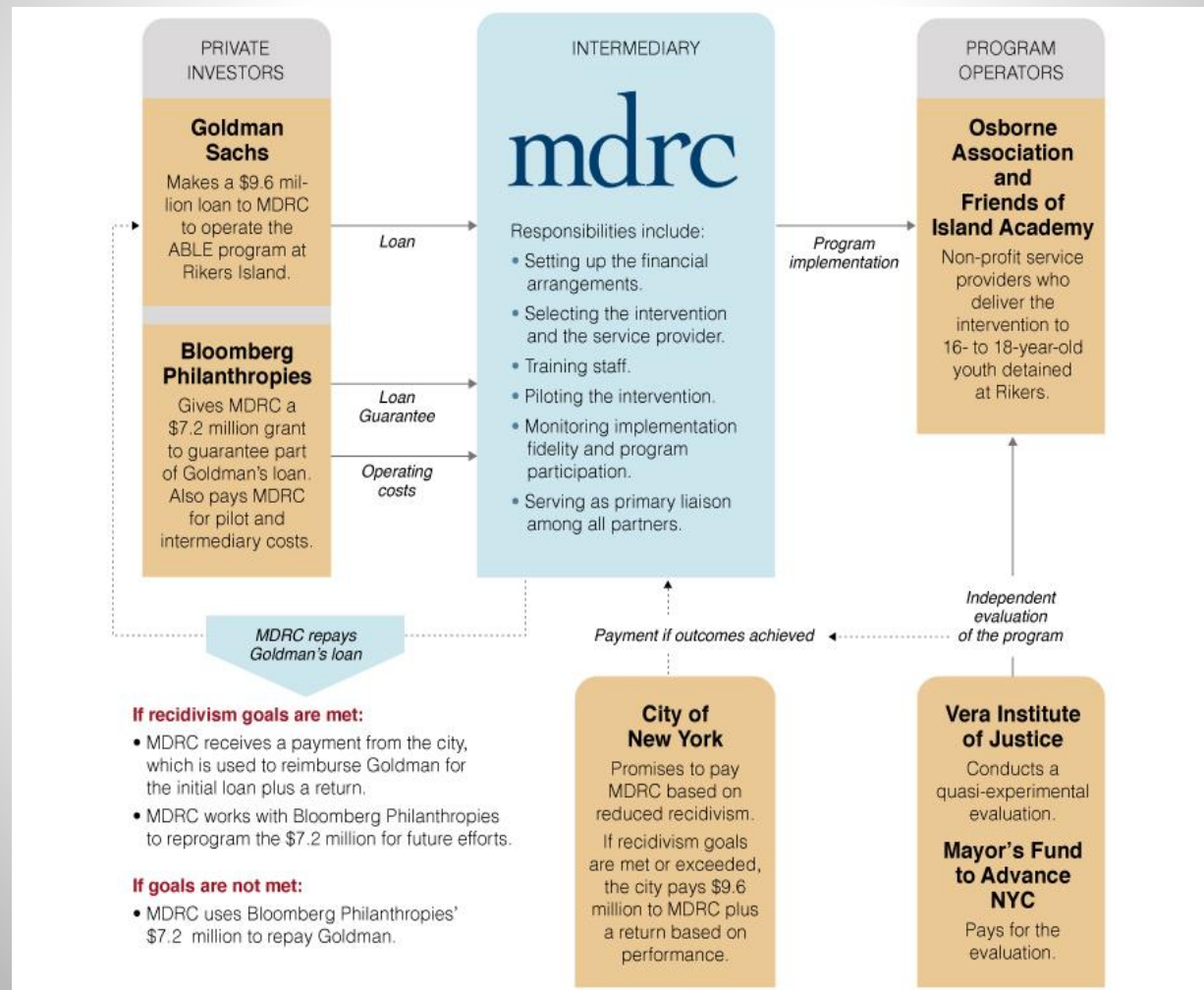
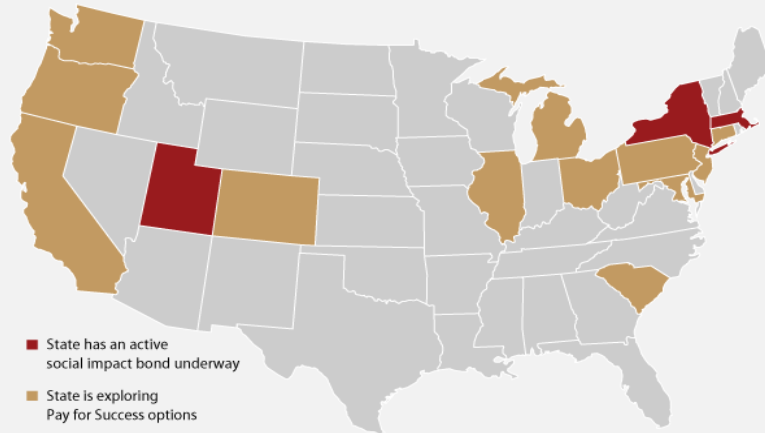


FIGURE 2

## U.S. progress on social impact bonds



### California

- First pilot program testing feasibility of social impact bonds in preventive health

### Colorado

- Received support from Harvard Kennedy School Social Impact Bond Lab, or HKS SIB Lab

### Connecticut

- Passed legislation enabling the state to enter into social impact bond contracts, June 2012
- Received support from HKS SIB Lab

### Illinois

- Received support from HKS SIB Lab

### Maryland

- Bill introduced in House of Delegates to create a task force to study social impact bonds

### Massachusetts

- Launched social impact bond to reduce recidivism among juvenile offenders in December 2013
- Negotiating a second social impact bond for chronic homelessness
- Received support from HKS SIB Lab
- Passed legislation, January 2012

### Michigan

- Received support from HKS SIB Lab

### New York state

- Launched social impact bond to reduce recidivism and increase employment in January
- Received support from HKS SIB Lab

### New York City

- Launched first social impact bond to reduce recidivism among juvenile offenders in August 2012

### New Jersey

- Bill in state legislature to administer five-year social impact bond pilot program and study on health care

### Ohio

- Received U.S. Department of Justice Second Chance Act grant
- Received support from HKS SIB Lab

### Oregon

- Pay-for-Success pilot included in governor's 2013-2015 budget proposal

### Pennsylvania

- Pay-for-Success legislation introduced in 2013

### South Carolina

- Pay-for-Success legislation introduced in 2013
- Received support from HKS SIB Lab

### Utah

- Launched social impact bond to fund early childhood education in 2013

### Washington, D.C.

- Issued procurement for feasibility study in 2013

### Washington state

- Bill introduced in the House of Representatives to enable the use of social impact bonds and other pay-for-performance vehicles

Sources: Sonal Shah and Kristina Costa, "Social Finance: A Primer" (Washington: Center for American Progress, 2013), available at <http://www.americanprogress.org/issues/economy/report/2013/11/05/78792/social-finance-a-primer>; Kristina Costa and Sam Ungar, "Social Impact Bonds Make Progress in Massachusetts, New York State" (Washington: Center for American Progress, forthcoming); and House Bill 2337, State of Washington, 63rd Legislature (2014), available at <http://apps.leg.wa.gov/documents/billdocs/2013-14/Pdf/Bills/House%20Bills/2337.pdf>.





## Example: Denver

***“Denver homeless initiative would be latest to tap social impact bonds”***

DenverPost.com - 01/26/2015



*“Sammy B. Taylor stands outside the Renaissance Stout Street Lofts in Denver on Thursday. Taylor moved into the Colorado Coalition for the Homeless.”*

# Colorado: Pay for Success – House Bill 15-1317

Signed by Governor Hickenlooper, May 20, 2015

Pay for Success (PFS) contracts enable governments to

\* partner with service providers and private sector investors or philanthropists to fund and provide

\* interventions to increase economic opportunity, support healthy futures, and promote child and youth development. PFS contracts are typically used for preventative programs and are

\* intended to generate reductions in government spending for other programs. HB 15-1317 outlines the timeline and required elements of a Pay for Success contract.

## House Bill 15-1317 (Continued)

The bill authorizes the Office of State Planning and Budgeting (OSPB) to

\***enter into PFS contracts with a lead contractor**, which is an organization, or one or more local governments, to provide these interventions directly or via subcontracts with other providers.

\***A new state Pay for Success fund containing the government's cost savings would be used to pay the lead contractor**

\***if the contract's performance targets are met. The bill requires an independent evaluation** to determine if the intervention met the performance targets.

\*\*The **lead contractor uses its funding or otherwise raises private capital to pay the costs of delivering services.**

## Who's structuring these financing tools?

Federal? Yes

States? Yes

Cities? Yes

Other? Maybe Counties, Townships, Health/Hospital Districts, etc.

# **Pros/Cons/Tax Issues**

# Pros/Cons/Tax Issues

## Pros?

- New sources of dollars on the table
- Shifts financial risk to private sector; ideally lowers cost to government in long-run
- Demands evidenced-based approach
- Encourages creative solutions, rather than status-quo (or “tweaking” usual with government)
- Recycles limited philanthropic dollars

## Cons?

- Unfamiliar cultures – government, social services, philanthropies, and corporate investors
- In general, more likely benefits larger non-profits that can respond to the “big issues”
- Transaction costs, excessive guarantees, legislative concessions or modifications to concept reducing probable positive outcomes
- Demands government to “set aside” funds for payout / ties up even more dollars
- May cut into outright granting by foundation donors and/or corporate giving
- Risks reputations for failed ventures (creative solutions may carry greater risk)
- Focus on short-term solutions to secure “pay off” – little data on longer term outcomes

## Tax Implications?

- Corporate lobbying for tax incentives that may further reduce government revenue
- Private Benefit Implications on the Tax Exemption Status may be at-risk for not for profit agencies depending upon role and government rulings

## Selected References

Social Impact Bond Technical Assistance Lab Harvard Kennedy School, <http://siblab.hks.harvard.edu/>

Nonprofit Finance Fund, <http://nonprofitfinancefund.org/pay-for-success>

Or, just search for “Social Impact Bonds” or Pay for Performance”



# Questions/Comments?

**Richard Wansley, PhD**  
**Oklahoma State University Center for Health Sciences**  
**1111 West 17<sup>th</sup> Street**  
**Tulsa, Oklahoma 74107**

[richard.wansley@okstate.edu](mailto:richard.wansley@okstate.edu) or [rawansley@gmail.com](mailto:rawansley@gmail.com)

**918.520.8787 (Cell)**