

Social Impact Bonds

A promising tool for bringing private dollars to programs that create opportunity for low-income families

By John Griffith | April 2016

At a Glance:

- A Social Impact Bond (SIB) is a contract in which private investors cover the cost of a particular social service, while the government agrees to pay investors back if certain social outcomes are achieved. SIBs are a promising financial tool for promoting public-private partnerships and scaling innovative solutions to pressing social problems.
- Enterprise has helped to develop two SIB contracts: one to reduce chronic homelessness in Denver and one to reduce the number of days homeless children stay in foster care in Cuyahoga County, Ohio. We are also working with HUD to develop a similar “pay for success” pilot to finance cost-saving energy and water system improvements in government-assisted apartment buildings.
- As state and local governments across the country are exploring SIBs, lawmakers in Congress and the Obama administration are taking steps to support these initiatives. Additional federal partnership could significantly expand the number and type of SIB initiatives that are financially feasible, particularly for social services for populations that receive significant federal support.
- Bipartisan legislation has been introduced in both the House of Representatives and the Senate to increase federal support to state and local SIBs that are expected to yield significant federal savings. The legislation would create a new interagency council to identify and facilitate promising SIBs and establish a new \$300 million fund to support these initiatives. Enterprise strongly supports this legislation and looks forward to working with lawmakers to authorize and implement the proposal.

Introduction

In recent years, there has been increased public and private interest in Social Impact Bonds (SIBs), an innovative financial tool that harnesses private capital to support critical but underfunded public services. Enterprise sees SIBs as a promising tool for creating new public-private partnerships to tackle some of the most pressing social and economic problems facing low-income communities, all while ensuring that any taxpayer investment yields measurable results.

Under a typical SIB contract, private investors provide upfront capital to fund a particular program (e.g., services for families at risk of becoming homeless). Those investors are paid back by the government with a financial return, only if predefined social outcomes are achieved (e.g., a reduction in families entering homeless shelters). Often the financial return to investors comes from the money saved through a reduction in government spending. If the program falls short, the investors would not recoup their upfront investment and incur losses.

The contract is overseen by at least one intermediary, which is responsible for negotiating the terms of the deal, identifying service providers, raising capital from private investors and disbursing payments. In addition, all parties agree to have an independent evaluator track the program’s outcomes through a rigorous analysis.

A total of 11 SIB initiatives have been launched to date in the U.S., including projects aimed at reducing prison recidivism, improving workforce readiness and providing early childhood education.¹ A brief summary of each SIB can be found in [Attachment 1](#). There are currently dozens more contracts under development across the country covering a wide range of social issues, from preventing and curing asthma to reducing teenage pregnancy rates.²

This issue brief takes a close look at two SIB initiatives currently underway, each with Enterprise’s support. One initiative aims to reduce chronic homelessness in Denver while the other aims to reduce the number of days homeless children stay in foster care in Cuyahoga County, Ohio. The brief also looks at federal policy initiatives underway to promote SIBs and similar “pay-for-success” initiatives, including bipartisan legislation that would create a new federal fund to support state and local SIB contracts.

How Enterprise and Our Partners Are Using SIBs Today

For more than 30 years, Enterprise has developed innovative, catalytic solutions to some of the most pressing housing and economic problems facing low-income communities. Today we're continuing that legacy of innovation through the use of SIBs. Below are two examples.

Reducing Chronic Homelessness in Denver

In the city of Denver, an estimated 565 people are chronically homeless, meaning they live on the street or in a homeless shelter and suffer from a substance abuse or mental health problem. According to the Denver Crime Prevention and Control Commission, the city spends an average of \$38,000 annually on each chronically homeless individual, including nights in shelters, run-ins with the police and visits to detox facilities.³

It's well documented that investments in permanent supportive housing – which offers both long-term housing and services for physical and mental health, substance abuse and other problems common in the chronically homeless population – can actually reduce long-term spending while improving outcomes for chronically homeless individuals. For example, studies show that every dollar spent on permanent supportive housing saves up to two dollars elsewhere in public spending.⁴ However, despite mounting evidence, local governments often have trouble raising the funds necessary to invest in supportive housing.

In February 2016, Denver Mayor Michael B. Hancock announced a new \$8.7 million SIB that will connect up to 250 chronically homeless individuals with supportive housing and intensive case management. The program, which is one of the first city-led SIB initiatives in the country, aims to address the underlying causes of homelessness, including mental illness and substance abuse, while also reducing costs in the city's criminal justice and emergency health systems. The majority of the SIB will help to cover the cost of providing supportive services to individuals enrolled in the program, while additional resources will be used to fill gaps in housing subsidies.⁵

The city is partnering with Enterprise, Corporation for Supportive Housing (CSH), Colorado Coalition for the Homeless, Colorado Access, Mental Health Center for Denver and the Urban Institute in this initiative. Key funders include the Denver Foundation, the Piton Foundation, the Ben and Lucy Ana Walton Fund of the Walton Family Foundation, the Laura and John Arnold Foundation, the Living Cities Blended Catalyst Fund, the Nonprofit Finance Fund, the Colorado Health Foundation and the Northern Trust Company. Enterprise played a leading role in conducting feasibility, structuring and transaction services for the contract. We currently serve as the project's intermediary and fiscal agent, providing day-to-day oversight of the program and ongoing financial management service.

Reducing the Number of Days Homeless Children Stay in Foster Care in Cuyahoga County, Ohio

In communities across the country, foster care is often a last-resort option for at-risk and vulnerable children. Children who are able to stay safely and stably with their family often have better health, education, economic and other outcomes, leading to an improved quality of life and reduced government spending – from health care costs to time spent in the criminal justice system.

However, in many jurisdictions, a child in foster care cannot be reunited with his or her family until the adult has a safe and stable home. As a result, children of homeless families are often kept in the foster care system for long periods of time, when a better – and potentially less costly – solution would be to help the entire family find an affordable home connected to the services they need.

Promoting Energy Efficiency Through “Pay For Success”

In December 2015, President Obama signed into law the Fixing America’s Surface Transportation (FAST) Act, which authorizes federal highway and transit funding for the next five years. Included in the law is a small but important provision that authorizes a new Pay for Success demonstration within the Department of Housing and Urban Development (HUD) to improve the efficiency of water and energy systems in government-supported apartments.

Here’s how the demonstration would work. The federal government currently spends about \$7 billion each year on energy bills in HUD-assisted buildings. Through certain renovations to improve energy and water efficiency, HUD could significantly cut utility costs while meaningfully reducing instances of asthma and other health problems for residents. But in today’s fiscal environment, it is highly unlikely that HUD will receive the federal funds necessary to make these cost-saving improvements on their own. HUD faces other barriers to these investments as well, including regulatory impediments and split incentives between building owners and the residents who make consumption decisions.⁷

The agency is now authorized to enter into contracts with outside entities, like Enterprise, who would raise private capital and work with energy service companies and others to make appropriate and economically justifiable upgrades for up to 20,000 units of HUD-assisted housing. HUD would only pay investors back – plus a financial return – if predetermined savings were achieved over a certain period. If the savings are not achieved for whatever reason, the investors would not recoup their upfront investment and would incur losses. Enterprise looks forward to working with HUD and our partners to successfully implement this innovative demonstration in the coming months.

In December 2014, the County of Cuyahoga, Ohio – which includes the city of Cleveland and its surrounding suburbs – announced the country’s first county-level SIB, which is intended to reduce the number of days children spend in foster care by connecting families to a safe and affordable home and necessary services. The \$4 million Partnering for Family Success Program will help to connect up to 135 mothers who have experienced homelessness and have at least one child in foster care to family-appropriate housing and crisis and trauma services. Specifically, FrontLine Service, a Cleveland-based social service provider, will provide eligible families with an intensive case management system known as “Critical Time Intervention,” which helps homeless and housing insecure families slowly reconnect to community support networks and settle successfully in stable housing.⁶

In addition to FrontLine, the county is partnering with Enterprise, the County’s Office of Homelessness and Division of Children and Family Services, Cuyahoga Metropolitan Housing Authority, Emerald Development and Economic Network Inc., Famicos Foundation, the Domestic Violence & Child Advocacy Center, Third Sector Capital Partners and Case Western Reserve University on the initiative. Key funders include the Reinvestment Fund, the George Gund Foundation, the Nonprofit Finance Fund, the Cleveland Foundation and the Sisters of Charity Foundation of Cleveland. Enterprise serves as the project manager and fiscal agent for the initiative.

The Need for Federal Support

To date, all closed SIB contracts have been devised and negotiated at the state or local level, with little financial support from the federal government. However, many of these initiatives have the potential to yield meaningful long-term federal savings.

For example, the Denver SIB initiative mentioned above is expected to improve health outcomes for chronically homeless individuals, which is expected to significantly reduce federal health care spending through Medicaid. A recent Enterprise-supported study from Providence Center for Outcomes Research & Education found that providing permanent supportive housing to a chronically homeless individual decreases that person’s use of emergency room care by an average of 37 percent, increases their use of primary care by 23 percent and decreases overall Medicaid costs by 14 percent.⁸ Since the federal government is not a partner in the SIB contract, those Medicaid savings are not captured in the current financial model, and the federal government is not contributing any money to help pay back investors if the program is successful.

Advancing SIBs and Other Impact Investing Tools Through Sound Federal Policy

In 2013, Enterprise and Pacific Community Ventures co-founded the Accelerating Impact Investing Initiative (AI3), one of the first groups dedicated to policy topics related to impact investing in the U.S. Since then, the AI3 has helped spark a national conversation about the federal government's role in expanding and improving the market for impact investments.¹¹

In the coming months, Enterprise and our AI3 partners will work to identify high-priority policy recommendations, build cross-sector coalitions around those recommendations and engage key policymakers to usher in meaningful reforms. One of the AI3's top policy priorities is to expand SIBs and other "pay for performance" initiatives at the local, state and federal level.

The lack of a federal partnership limits the number and type of SIB deals that are financially feasible. Many SIB initiatives today suffer from the so-called "wrong pocket" problem, where one government entity takes risk or incurs a cost while another government entity reaps financial benefits. Sometimes this happens laterally at the state or local level – e.g., when a local housing agency invests in a stable home for a homeless person, while the local health or law enforcement agency sees a reduction in spending as a result. Other times it happens vertically, where the local government covers the cost of the program, but the savings are experienced at the state or federal level. This is particularly true for any program that serves a population that receives significant federal support, such as aging adults, disabled individuals or veterans.

In March 2015, Reps. Todd Young (R-Ind.) and John Delaney (D-Md.) introduced the Social Impact Partnership Act, intended to help mitigate these issues and clarify the federal government's role in future SIB initiatives.⁹ A similar bipartisan bill was introduced in the Senate by Sens. Orrin Hatch (R-Utah) and Michael Bennet (D-Colo.) in April 2015, and President Obama has offered similar proposals in each of his congressional budget requests since 2012.¹⁰

The bills would establish a new interagency council to identify, support and monitor state and local SIB initiatives that have the potential to yield long-term savings to the federal government. The bills would also create a 10-year, \$300 million fund to support eligible SIBs in three ways:

- **Paying for successful outcomes.** The federal government would be authorized to enter into contracts with state and local governments and pay for certain successful outcomes. This would give the federal government a seat at the negotiating table, allowing state and local practitioners to quantify and capture federal savings as part of a SIB's financial model.
- **Supporting feasibility studies.** Before a SIB can get off the ground, the first step is to test whether the basic financial model is feasible. The bill would make available up to \$10 million to support these studies.
- **Supporting rigorous evaluations.** A key part of any SIB is a rigorous, third-party evaluator to track the program's efficacy and impact. Unfortunately, these evaluations are often difficult to fund fully in the SIB's financial model. To help mitigate this problem, the bill makes available up to \$45 million to support evaluations.

While the basic structure of the fund and interagency council are similar, there are a few key differences between the House and Senate versions of the bills. A side-by-side comparison of the two bills can be found in [Attachment 2](#).

This proposal has tremendous potential. First, it would give the federal government a seat at the negotiating table, allowing state and local practitioners to quantify and capture federal savings as part of a SIB's financial model. This alone could meaningfully expand the number of SIB deals that are economically feasible, especially those that intend to serve aging adults, persons with disabilities, veterans and other vulnerable populations. Second, the fund could bring significant savings to the federal government, all while improving economic, health, educational, environmental and other outcomes for low- and moderate-income families. Third, the fund would provide crucial funding to key components of the SIB, including feasibility research and rigorous independent evaluations.

The Path Forward

Enterprise strongly supports both the Young-Delaney and Hatch-Bennet bills to increase federal support to state and local SIBs. We look forward to working with the authors of each bill, other lawmakers in Congress, members of the Obama administration and our partners to strengthen, approve and implement these bills.

This legislation comes at a critical moment. In communities across the country, wages are stagnating, the cost of living is rising and demand for many social services is at an all-time high. For example, more than one in four renter households in the U.S. are housing insecure – meaning they're either homeless or paying more than half of their monthly income on rent – and absent meaningful policy changes that number is expected to increase dramatically in the coming years.¹² Meanwhile, thanks to austerity measures in Washington and statehouses across the country, public support to low- and moderate-income families is falling well short of the need.¹³

Now more than ever, we need the public and private sectors to work together to tackle these and other pressing social and economic problems. Social Impact Bonds and other “Pay for Success” models are definitely not a panacea, but they are an important tool to have at our disposal.

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ATTACHMENT 1: LIST OF SIB INITIATIVES CURRENTLY UNDERWAY (AS OF MARCH 2016)

Enterprise-supported SIBs:

- **Cuyahoga (Ohio) Partnering for Family Success Program** (December 2014). Reduce the number of days in foster care by providing intensive case management services and access to family-appropriate housing to 135 homeless and housing insecure families.
- **Denver Social Impact Bond Program** (February 2016). Provide permanent supportive housing for 250 homeless individuals who frequently use the city's emergency services, including police, jail, the courts and emergency rooms.

Other SIBs:

- **New York City ABLE Project for Incarcerated Youth** (August 2012–August 2015). Reduce recidivism rates among adolescents at Rikers Island through the Adolescent Behavioral Learning Experience (ABLE).
- **Utah High Quality Preschool Program** (June 2013). Reduce use of special education through a targeted curriculum that increases school readiness and academic performance among 3- and 4-year-olds.
- **New York State Recidivism and Workforce Development Project** (December 2013). Reduce recidivism and increase employment for 2,000 formerly incarcerated individuals in NYC and Rochester through training, transitional employment and placement services.
- **Massachusetts Juvenile Justice Pay for Success Initiative** (January 2014). Reduce recidivism and increase employment for over 900 high-risk young men on probation or exiting the juvenile justice through intensive street outreach, life skills training and employment services.
- **Chicago Child-Parent Center Pay for Success Initiative** (October 2014). Reduce use of special education, increase kindergarten readiness and improve third grade literacy for up to 2,620 students.
- **Massachusetts Chronic Homelessness Pay for Success Initiative** (December 2014). Reduce chronic homelessness by providing 500 units of permanent supportive housing.
- **Santa Clara (Calif.) Project Welcome Home** (December 2014). Provide permanent supportive housing for 150-200 chronically homeless individuals.
- **Connecticut Family Stability Project** (February 2016). Better serve families struggling with substance use by expanding an intensive, in-home treatment program to 500 families.
- **South Carolina Nurse-Family Partnership Project** (February 2016). Improve health outcomes for mothers and children living in poverty by expanding the Nurse-Family Partnership's services to an additional 3,200 first-time mothers.

SOURCE: Nonprofit Finance Fund, "Pay for Success Projects," available at: <http://www.payforsuccess.org/provider-toolkit/pfs-projects>.

ATTACHMENT 2: SIDE-BY-SIDE COMPARISON OF THE HOUSE AND SENATE VERSIONS OF THE SOCIAL IMPACT PARTNERSHIP ACT

	Young-Delaney (H.R.1336)	Hatch-Bennet (S.1089)
Eligible housing-related outcomes for federally supported SIBs	<ul style="list-style-type: none"> • Reducing the rate of homelessness among our most vulnerable populations • Increasing the financial stability of low-income families • Reducing rates of asthma, diabetes, or other preventable diseases among low-income families • Improving the health and well-being of those with mental, emotional, and behavioral health needs • Improving the educational outcomes of special-needs or low-income children • Reducing the number of youth in out-of-home foster care and group homes • Other measurable outcomes that result in positive social outcomes and federal savings 	<ul style="list-style-type: none"> • Improving the housing security of individuals experiencing homelessness or at imminent risk of becoming homeless • Reducing rates of asthma, diabetes, or other preventable diseases among low-income families • Reducing the number of youth in out-of-home foster care and group homes • Other measurable outcomes that result in positive social outcomes and federal savings
Head of the fund and interagency council	<ul style="list-style-type: none"> • Director of the Office of Management and Budget 	<ul style="list-style-type: none"> • Secretary of the Treasury
Composition of the interagency council	<ul style="list-style-type: none"> • Chair is a member of the National Economic Council or the Domestic Policy Council • Council is composed of one designee from each relevant federal agency, as selected by the head of each agency. Relevant agencies include OMB, DOL, HHS, SSA, USDA, DOJ, HUD, ED, VA and Treasury 	<ul style="list-style-type: none"> • 3 presidential appointments, one of which serves as the chair. At least one appointee must come from the Treasury Department and at least one must come from outside government • 8 additional members selected by the president from a list provided by Democratic and Republican congressional leaders • Appointments do not need to be confirmed by the Senate
Restrictions on the definition of federal savings	<ul style="list-style-type: none"> • No similar restriction 	<ul style="list-style-type: none"> • In evaluating program success, evaluators cannot take into account indirect savings to the federal government from increased income, employment, output or other economic measures that are external to the specific outcome metrics

REFERENCES

1. Nonprofit Finance Fund, "Pay For Success Projects," available at: <http://www.payforsuccess.org/provider-toolkit/pfs-projects>.
2. Nonprofit Finance Fund, "Pay for Success U.S. Activity," available at: <http://www.payforsuccess.org/pay-success-deals-united-states>.
3. Jon Murphy, "Denver Homeless Initiative Would Be Latest to Tap Social Impact Bonds," *The Denver Post*, available at http://www.denverpost.com/news/ci_27388251/denver-homeless-initiative-would-be-latest-tap-social.
4. Dennis Culhane, Stephen Metraux and Trevor Hadley, *Public Service Reductions Associated with Placement of Homeless Persons with Severe Mental Illness in Supportive Housing*, available at: http://repository.upenn.edu/cgi/viewcontent.cgi?article=1067&context=spp_papers.
5. For more details on the Denver SIB, see: <http://www.enterprisecommunity.com/news-and-events/news-releases/denver-launches-social-impact-bond-program>.
6. For more details on the Cuyahoga County SIB, see: <http://www.enterprisecommunity.com/news-and-events/news-releases/pay-for-success-cuyahoga><http://executive.cuyahogacounty.us/en-US/PayforSuccessProgram.aspx>.
7. For more on the HUD Pay For Success pilot, see: <http://blog.enterprisecommunity.com/2015/12/pfs-program-passed>.
8. Center for Outcomes Research and Education & Enterprise Community Partners, *Health in Housing: Exploring the Intersection between Housing and Health Care*, available at: <http://www.enterprisecommunity.com/resources/ResourceDetails?ID=0100981>.
9. For more details on the House and Senate versions of the Social Impact Partnership Act, see: <http://blog.enterprisecommunity.com/2015/04/inside-expand-impact>.
10. For more details on the Obama administration's earlier Pay For Success proposals, see: <https://www.whitehouse.gov/omb/factsheet/paying-for-success>.
11. To learn more about the AI3, visit <http://www.acceleratingimpactinvesting.org>.
12. Enterprise Community Partners and the Joint Center for Housing Studies, *Projecting Trends in Severely Cost-Burdened Renters*, available at: <http://www.enterprisecommunity.com/resources/ResourceDetails?ID=0100886>.
13. For more information on America's rental housing crisis and the policy changes needed to address it, see Enterprise's long-term policy platform, *An Investment in Opportunity*, available at: <http://www.enterprisecommunity.com/resources/ResourceDetails?ID=0100943>.