An Introduction to Social Impact Bonds

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Innovations in Public Health Financing

INTRODUCTION TO SOCIAL IMPACT BONDS
Significance of Social Impact Bonds (SIBs)

- Social ills and public health problems cost money
  - Example: Homelessness ($6–7 billion)\(^1\)
    - Shelter costs
    - Welfare
    - Medicaid
    - Etc.
  - Many governments lack the funding needed to address problems

- SIBs can transform those costs into potential profit
  - If profitable, SIBs can leverage large amounts of private capital into Social and Public Health Programs

- Can create a public policy trifecta
  - Win-win-win for government, private sector, and vulnerable populations

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What Are SIBs?

- **Definition**
  - Financing mechanisms used to raise upfront funding for social and public health preventative interventions from private investors
  - Leverage the anticipated savings due to prevention as a source for financial rewards to the investors
  - Rewards due if and only if the intervention succeeds in reaching predetermined benchmarks, thereby shifting the financial burden of success to the investors
Why Is This Model Attractive?

- **Governments**
  - Limited financial risk
  - Funds prevention/outcomes
  - Potential budget savings
  - Encourages efficiency

- **Intervention providers**
  - Stable multiyear funding
  - Builds relationship with government
  - Amplify impact

- **Investors**
  - Philanthropic investors
    - Performance evaluated
    - Opportunity to scale initiatives
    - Fosters collaboration
  - Commercial investors
    - Promising new market for commercial profit
    - Growth to social services

- **Intervention recipients**
  - Access to needed programs

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A Structural Example

SOCIAL IMPACT BONDS
An intermediary negotiates with SIB backer for SIB repayment terms

Intermediary/Bond Issuers

Typically a Non-Profit

SIB Backer

Typically a Government
Intermediary seeks initial financing from private investors by issuing SIBs
To make investment more attractive, intermediary can seek credit enhancement (CE) to lower the risk of failure to investors.
Similar to insurance, CE returns a portion of investment if SIB program fails

- Credit Enhancement
- Investors/Bond Holders
- Intermediary/Bond Issuers
- SIB Backer
Intervention
Provider
Intermediary/Bond Issuers
Credit Enhancement
Investors/Bond Holders

Intermediary contracts with intervention provider

Intermediary/Bond Issuers
Intervention Provider
SIB Backer
Intervention to Target Population

Provides intervention to target population
At pre-determined times, independent entity evaluates the program’s success or failure.
If SIB Program Fails . . .
Evaluation reveals that program failed to reach benchmarks for success.
Backer not obligated to reimburse
If used, CE partially repays investors, reducing impact of failure.
Program Failure

Investors suffer any additional loss

Credit Enhancement

Investors/Bond Holders

Independent Evaluator

Intermediary/Bond Issuers

SIB Backer

Target Population

Intervention Provider
If SIB Program Succeeds . . .
Evaluation reveals that program has reached success benchmarks.

- Credit Enhancement
- Investors/Bond Holders
- Independent Evaluator
- SIB Backer
- Intermediary/Bond Issuers
- Target Population
- Intervention Provider
SIB backer pays intermediary the cost of initial investment plus any agreed upon premium.
Intermediary/Bond Issuers

Investors/Bond Holders

Intermediary repays SIB holders plus any due premium

Program Success

Credit Enhancement

Independent Evaluator

SIB Backer

Target Population

Intervention Provider
Promising SIB Applications

- Recidivism
  - UK, NYC, MA, NY
- At-risk youth services
  - UK, NY, MA, Australia
- Homelessness
  - UK, MA
- Workforce development
  - U.S. Dep’t of Labor
- Early childhood services and education
  - Salt Lake City, Utah
- Pre-natal care
  - SC
- Asthma reduction
  - Fresno, CA
- Diabetes
  - Israel
- Elderly services
  - UK, S. Korea
- Others likely in the future

SIB Considerations

- **Legal issues**
  - Appropriations
  - Government “silos”

- **Standardization**

- **Other critiques**
  - Shifting attention and resources away from other important problems
  - Possible investor influence over intervention delivery
  - Inherent inefficiencies
Selected Resources

- **Expanded Public Health Law Program resource guide**
  - In development

- **Descriptive**

- **Technical guides**

- **Commentary**
Thank you!

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SOCIAL IMPACT BONDS

Legislative Update
State Legislative Activity
Trends in State Legislation

• Define SIB or pay for success contract
• Create a task force or steering committee
• Study the feasibility of SIBs
• Establish pilot projects
• Authorize state agencies to enter into SIB agreements
• Establish contract requirements
• Establish a trust fund from which appropriated funds could be spent on SIB contracts
• Appropriate funding for SIB projects
Social Investment Steering Committee

Develop a plan for at least 1 pilot project that uses SIBs or other public-private financing mechanisms to deliver prevention-focused social or health care services.

Committee will identify:

• Financing model
• Target population/services
• Measurable outcomes
• Process to measure outcomes
• Legislative actions needed for implementation

July 2015, issue RFP to implement pilot programs.
5-year Social Innovation Pilot Program

- Focus on preventive/early intervention health care
- NJ Economic Development Authority would guarantee loans to eligible organizations
- Requires a method of measurement and verification that ensures services were performed, calculating public sector savings, and determining any interest rates or payments
- Establishes a non-lapsing, revolving “social innovation loan fund” to be used to guarantee pilot program loans to fund the program.

NJ A. 2771 & S. 452 (2014)
Criteria for awarding SIB Contract

• It is for specified services: education, health, human care, or social services.
• Services are provided directly to specified populations… disabled, disadvantaged, displaced, elderly, indigent, mentally ill, etc…
• Services are intended to mitigate and reduce social and health related problems in DC
• Procurement is for services that an agency typically purchases as needs arise, but cannot be accurately estimated at the outset.
• The agreement is in the best interest of DC, based on an analysis of the statement of requirements, service provider’s qualifications, and a judgment that cost is reasonable.
Contract Requirements

- Payment based on reaching quantifiable outcomes;
- Independent evaluator’s objective determination regarding performance benchmarks;
- Calculation of amount and timing of payments if performance benchmarks are reached;
- Provision authorizing the request of an appropriation each FY of the contract equal to expected amount state would be obligated to pay if targets are reached; and
- A fiscal analysis of projected savings related to the achievement of performance benchmarks.
Trust Fund - Pay for Success Contracts

There is established in the State Treasury the trust fund for Performance Accountability for the purpose of funding pay for success contracts to improve outcomes and lower costs for government services.

The State Treasurer is the trustee and administrator of the trust fund, which must be maintained separately from the general fund of the state and all other funds.

The Treasurer shall make payments from the trust fund in accordance with the terms and conditions of the contracts.

SC S 763 (2013)
Authorize Pay for Success Initiatives

State agencies, including but not limited to the department of health, the office of children and family services and the division of criminal justice services are authorized to enter into contracts for services and expenses of pay for success initiatives to improve program outcomes in the areas of health care, early childhood development, child welfare and public safety.

NY AB 3007 & SB 2607 (2013)
Pay for Success Contingency Reserve

$53 million appropriated for services and expenses of initiatives to improve outcomes in the areas of early childhood development and child welfare, health care or public safety. May include:

- contract payments to intermediary organizations responsible for raising funds to support project costs and managing the delivery of services,
- contract payments for the verification and validation of program outcomes achieved, and
- payments based on the achievement and validation of specific performance targets as agreed upon in contracts and other agreements that may be part of pay for success initiatives.

NY AB 8553 & SB 6853 (2014)
Finalists: Pay for Success Programs NY

- **Nurse-Family Partnership:** provides nurse home-visiting services to first-time expectant, low-income mothers to improve pregnancy outcomes, child health, development, and self-sufficiency. This proposal plans to serve approximately 2,200 families in Monroe and Onondaga Counties and NYC.

- **Primary Care Development Corporation (PCDC):** The National Diabetes Prevention Program aims to reduce diabetes for at-risk populations. The proposal plans to serve approximately 3,570 pre-diabetic patients in Westchester, Putnam, Rockland, Ulster, Dutchess, Sullivan, and Greene counties and in NYC.

- **Montefiore Medical Center / Children’s Aid Society:** Enhanced school-based health centers would reach high-risk students with asthma care and pregnancy prevention services. The proposal plans to serve approximately 8,500 students at high schools located in the Bronx and North Shore of Staten Island.

- **Hillside Children’s Center:** The Intensive Community Asset Program (I-CAP) provides diversion alternatives to Probation Officers and Family Court Judges for placement and detention of high-risk youth. The proposal plans to serve approximately 835 youth in Onondaga, Monroe and up to three additional counties.
South Carolina Pay-for-Success

• **Existing Efforts to Improve Birth Outcomes**
  • Multi-year success leveraging broad stakeholder group
  • Build on success of existing philanthropic-funded efforts

• **Collaborative Approach**
  • Stakeholders
  • Office of the Governor
  • Department of Health & Human Services

• **Support & Acceleration**
  • Culture for innovation
  • Harvard Kennedy School SIB Lab Technical Assistance
South Carolina Pay-for-Success

• Visitation Programs for At-risk Pregnant Women
  • Improve birth outcomes, maternal health and newborn health
  • Impact childhood health and school readiness

• Key Components
  • Assessment and targeting of most at-risk Medicaid women
  • Visitation program as Medicaid managed care benefit
  • Evaluation criteria

• Investor Potential & Concerns
  • Broad interest in program
  • Simplicity in model, measurements and evaluation
Project Challenges

• Building the Strategy for Investment
  • Investors focus on straightforward and clear projects

• Data, Analytics and Measurement/Evaluation
  • Establishing baseline data and measurements
  • Determining evaluation methodologies

• Medicaid and Federal Partners (CMS)
  • Understanding how pay-for-success fits
  • Shared state and federal benefits

• Investing, Funding and Procurement
  • Understanding of state financial and procurement impacts
Considerations & Reflections

• Considerations
  • Learning from early pay-for-success efforts (state collaboration)
  • Shifting the mindset
    • Clear and easy to articulate program goals and approach
    • Measurement-driven program design
  • Working through regulatory, procurement, policy issues

• Reflections
  • Why pay-for-success?
  • When is pay-for-success an effective tool?
  • How do you get a pay-for-success project started?