

The New York City Social Impact Bond: A New Way to Finance Social Service Programs

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Evolving Payment Strategies

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- ❖ Traditional Procurement
 - Inputs (# of counselors)
- ❖ Performance Based Contracting
 - Outputs (# of counseling sessions)
 - Outcomes (# of participants that stay out of jail)
 - Risks and Advantages
- ❖ Pay for Success
 - Outcomes (# of participants that stay out of jail)
 - Impacts (# of participants that stay out of jail compared to a control group)
 - Hybrid models
 - Risks and Advantages of different strategies

What is a Social Impact Bond (SIB)?

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- ♣ Investors finance a program
- ♣ Non profit service providers operate the program
- ♣ Government agrees to pay back investors if specific predetermined outcomes (ideally impacts) are achieved
- ♣ Government pays nothing if desired outcomes/impacts are not achieved
- ♣ Independent evaluation determines payment

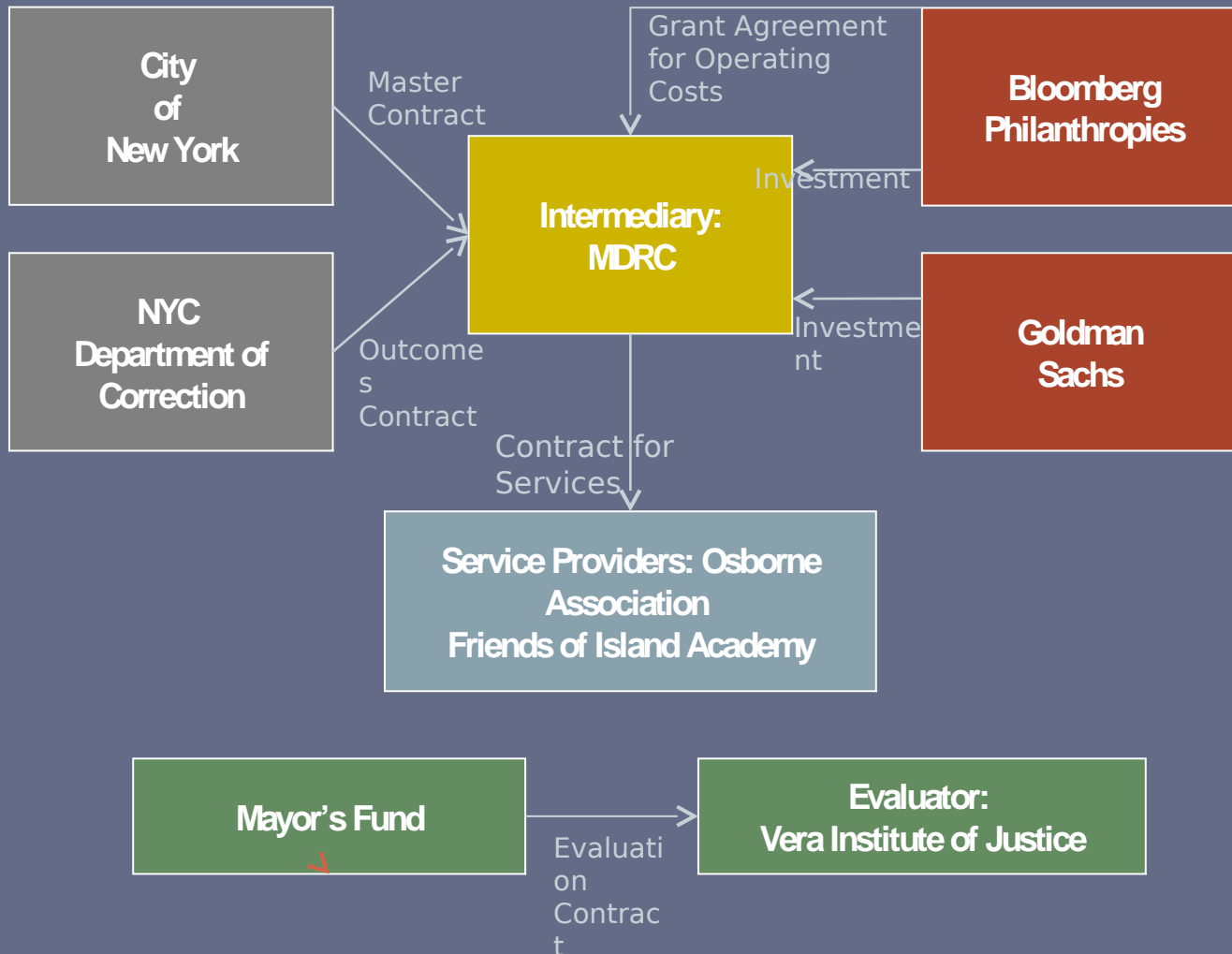
NYC SIB: Program Partners

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- ✦ **Goldman Sachs** funds the project's delivery and operations through a \$9.6 million loan
- ✦ **Bloomberg Philanthropies**, as part of its government innovation program, provides a \$7.2 million grant to guarantee the investment
- ✦ **MDRC** oversees the day-to-day implementation of the project and manages the Osborne Association and Friends of Island Academy, the nonprofit service providers who deliver the intervention
- ✦ **The Department of Correction** pays MDRC based on the level of recidivism reduction achieved and the associated cost savings, and MDRC then pays the private investor
- ✦ **The Vera Institute of Justice**, an independent evaluator, determines whether the project achieves the targeted reductions in recidivism

NYC SIB: Contracting Structure

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The Policy Context: Reducing Recidivism

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- ♣ Individuals who enter the City jail system as adolescents (16- to 18-year-olds) have a high likelihood of reentering the system as adults.
 - Nearly half of all youth in custody will return within one year of their initial release.
 - The typical adolescent who passes through Rikers will spend more than 200 days in jail during the next six years (in addition to the current stay), an average of 34 days in jail each year.
- ♣ Criminal justice involvement has a highly corrosive impact on individuals, families, and communities.
 - The high rate of incarceration among low-income, minority youth is particularly troubling.
 - In 2011, Mayor Bloomberg launched the Young Men's Initiative, a cross-agency enterprise that seeks to address disparities between young black and Latino men and their peers by investing millions of dollars in programs and policies that support this mission.
- ♣ Incarceration is extremely costly to government and taxpayers.
 - The City of New York spends more than \$1 billion a year on jails.
 - The average operating cost per inmate is more than \$85,000 per year.

NYC SIB: Intervention

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Cognitive Behavioral Therapy (CBT)

- ✦ Distorted thinking can lead to criminal behavior
- ✦ CBT restructures thinking to change behavior
- ✦ CBT programs improve social skills, problem solving, moral reasoning, self-control, and impulse management
- ✦ CBTs have been evaluated extensively and have been found to reduce arrests, convictions and incarcerations among adults and youth

The Intervention

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- ♣ **Moral Reconciliation Therapy (MRT)**
 - MRT was developed by Correctional Counseling Inc. in 1985, and has been widely and successfully implemented in prisons, jails, drug courts, probation offices, and schools
 - MRT has been used with adults and adolescents alike
 - MRT addresses beliefs and moral reasoning by taking participants through a 12-step curriculum that is self-paced and workbook based

The Intervention

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* **Why Moral Reconciliation Therapy (MRT)?**

- Aligns with environment at Rikers: high turnover rate, high number of participants to serve
 - Inmates have great variability in length of stay
 - MRT can be incorporated into the school day
- Open groups
 - Inmates are moved frequently
 - Participants can enter a group at any time
- Flexibility
 - Participants can move through the program at their own pace

Payment Terms by Impact

Profits and Losses Are Both Capped

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Impact on Recidivism Rate	DOC Payment	Initial Investment	Investor Profit	Net Projected Taxpayer Savings*
≥20.0%	\$11,712,000	\$9,600,000	\$2,112,000	\$ 20,500,000
≥16.0%	\$10,944,000	\$9,600,000	\$1,344,000	\$ 11,700,000
≥13.0%	\$10,368,000	\$9,600,000	\$768,000	\$ 7,200,000
≥12.5%	\$10,272,000	\$9,600,000	\$672,000	\$ 6,400,000
≥12.0%	\$10,176,000	\$9,600,000	\$576,000	\$ 5,600,000
≥11.0%	\$10,080,000	\$9,600,000	\$480,000	\$ 1,700,000
≥10.0%	\$9,600,000	\$9,600,000	\$0	< \$1,000,000
≥8.5%	\$4,800,000	\$9,600,000	-\$4,800,000	< \$1,000,000

* Excludes city savings used to continue funding program delivery at Rikers.

Schedule

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- ✦ **Pilot Period:** May 2012 – August 2012
- ✦ **Program Launch**
 - September 2012: official program start and scale up
 - January 2013: program operating at full scale
- ✦ **Evaluation**
 - Evaluation period is one year: January 2013 through December 2013
 - The Vera Institute of Justice will assess the percentage of future jail days avoided as a result of the program
- ✦ **Evaluation Timing**
 - Initial evaluation looking at 12-month impacts will be completed by July 2015 (payment occurs July 2015)
 - Final evaluation looking at 24-month impacts will be completed in July 2016; the impact observed in the final evaluation will be used as the measure of success for purposes of payment (payment occurs July 2017)

Questions?

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Additional Slides

Key Terms

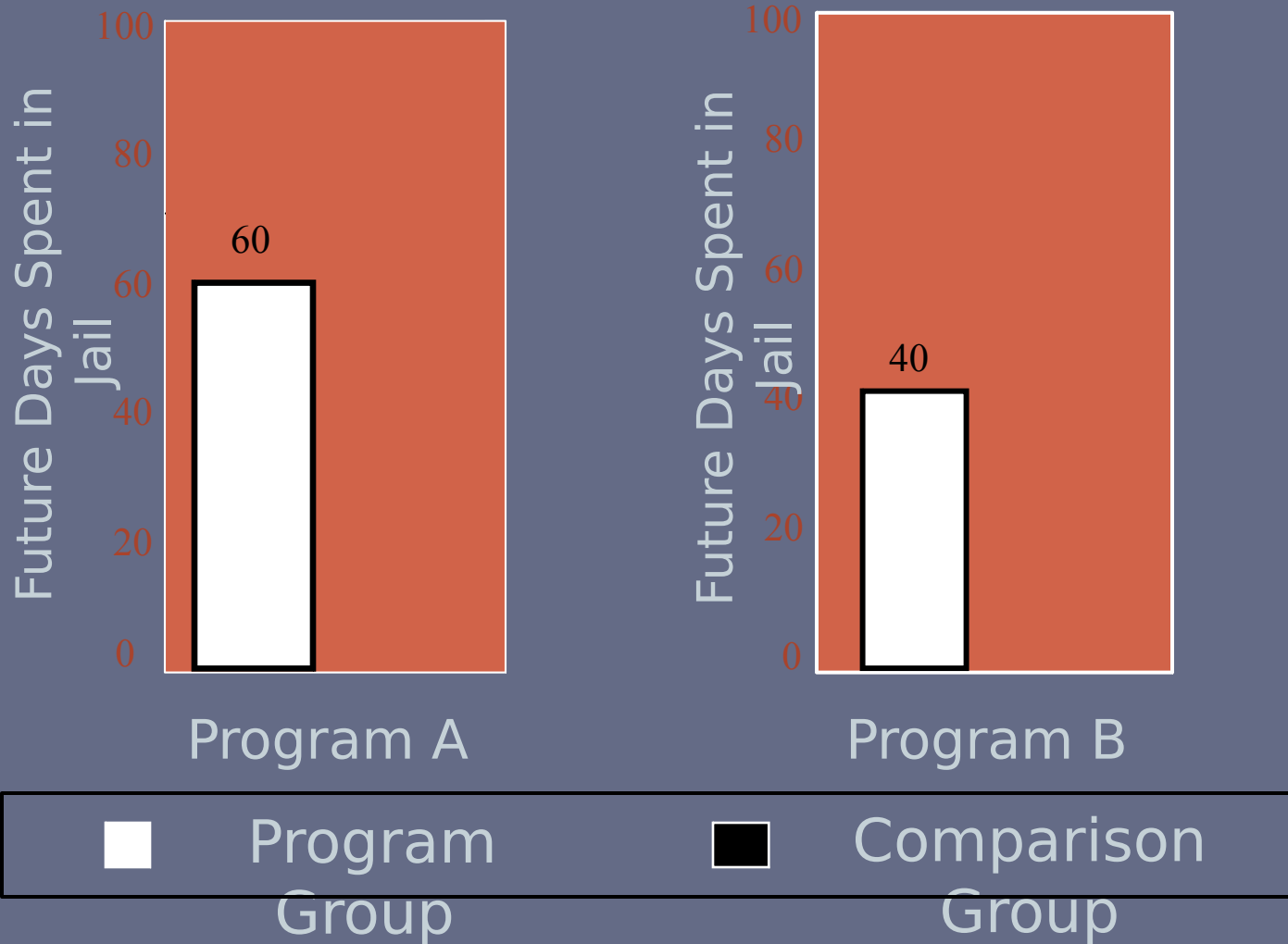
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- ♣ Pay for Success – pay for demonstrated success rather than services or promised success as is done now
- ♣ Financing – an arrangement that spreads payment over time
- ♣ Social Impact Bonds – a subset of Pay for Success Financing where risk is passed to private investors (not actually a bond)

SIBs Should Focus on Impacts, Not Outcomes

Minimizing Risk with Strong Evaluations

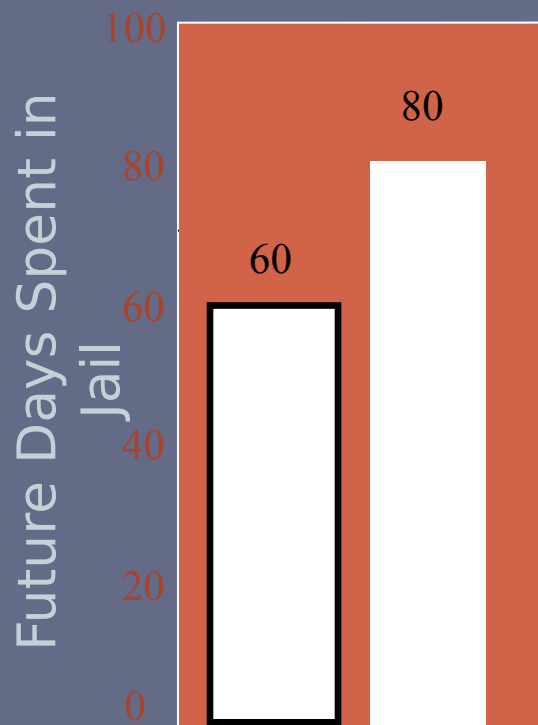
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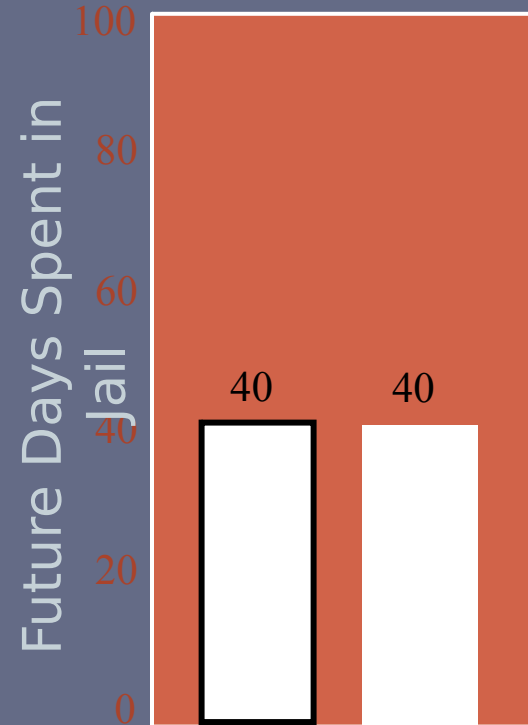
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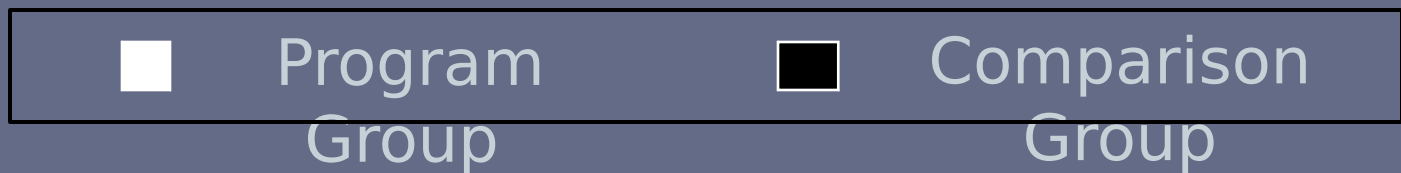
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Program A



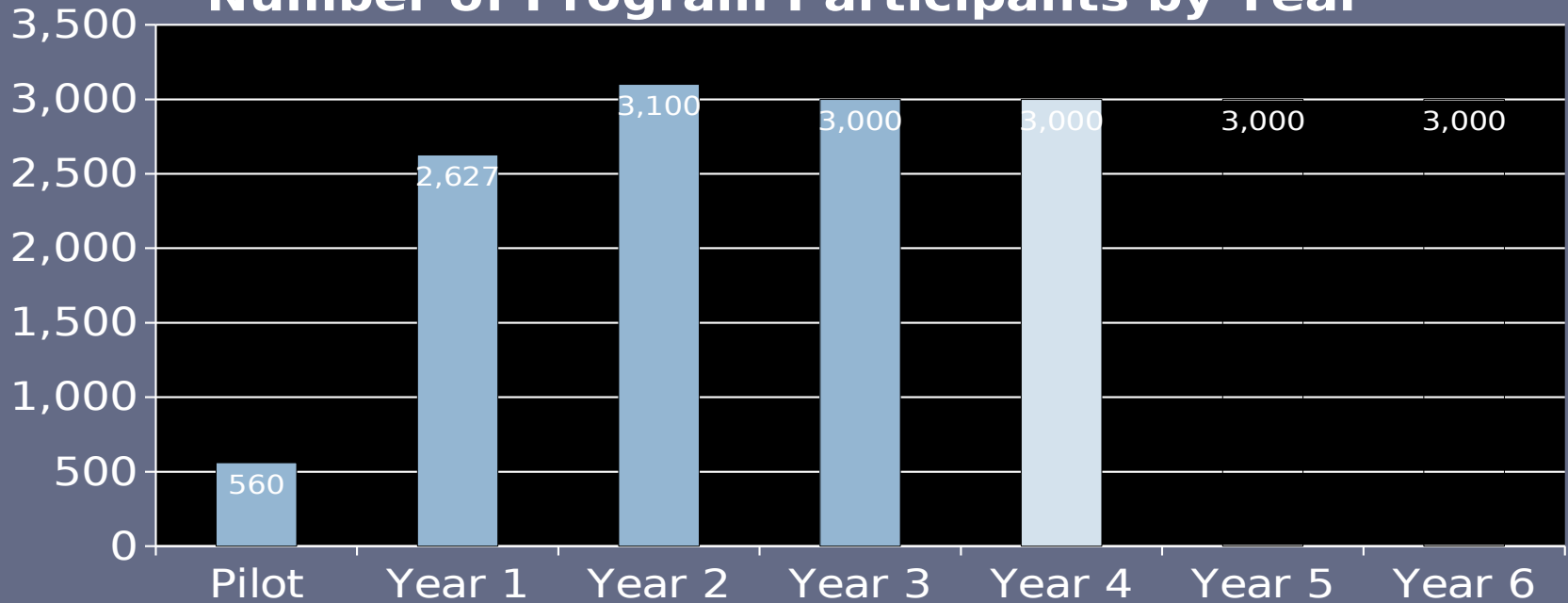
Program B



Participation by Year

Projecting the Impacts of One Cohort to Other Cohorts Creates Uncertainty

Number of Program Participants by Year



I-----Guaranteed
-----I----Conditional
---I-----Funded by City-----

Participation and Projected Impacts

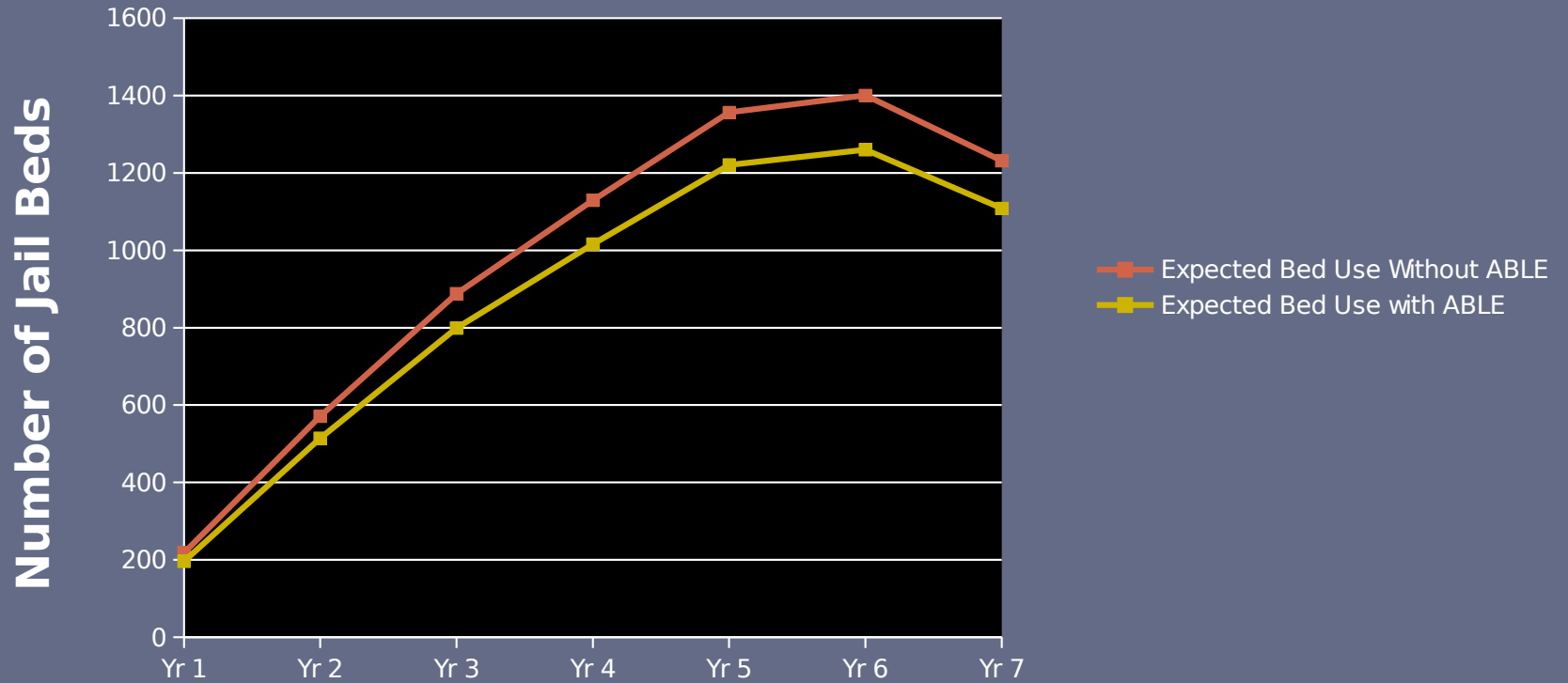
Projecting Sustained Impacts Over Time Creates Uncertainty

Cohort	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	
Pilot	560	560	560	560	560	560		
Cohort 1	2,627	2,267	2,267	2,267	2,267	2,267		
Cohort 2		3,100	3,100	3,100	3,100	3,100	3,100	
Cohort 3			3,000	3,000	3,000	3,000	3,000	
Cohort 4				3,000	3,000	3,000	3,000	
Cohort 5	Impacts are not applied equally to all cohorts: for example, the impact for the Pilot and Cohort 1 is counted for six years, whereas the impact of Cohort 4 is only counted for four years.						3,000	3,000
Cohort 6	Cohort 5 and Cohort 6 are not paid for by SIB financing but will be funded by the City using savings.						<u>3,000</u>	3,000
Total	3,187	6,287	9,287	12,287	15,287	18,287	15,106	

Effect of Intervention at 10% Reduction

Impacts are Spread Evenly Over Time

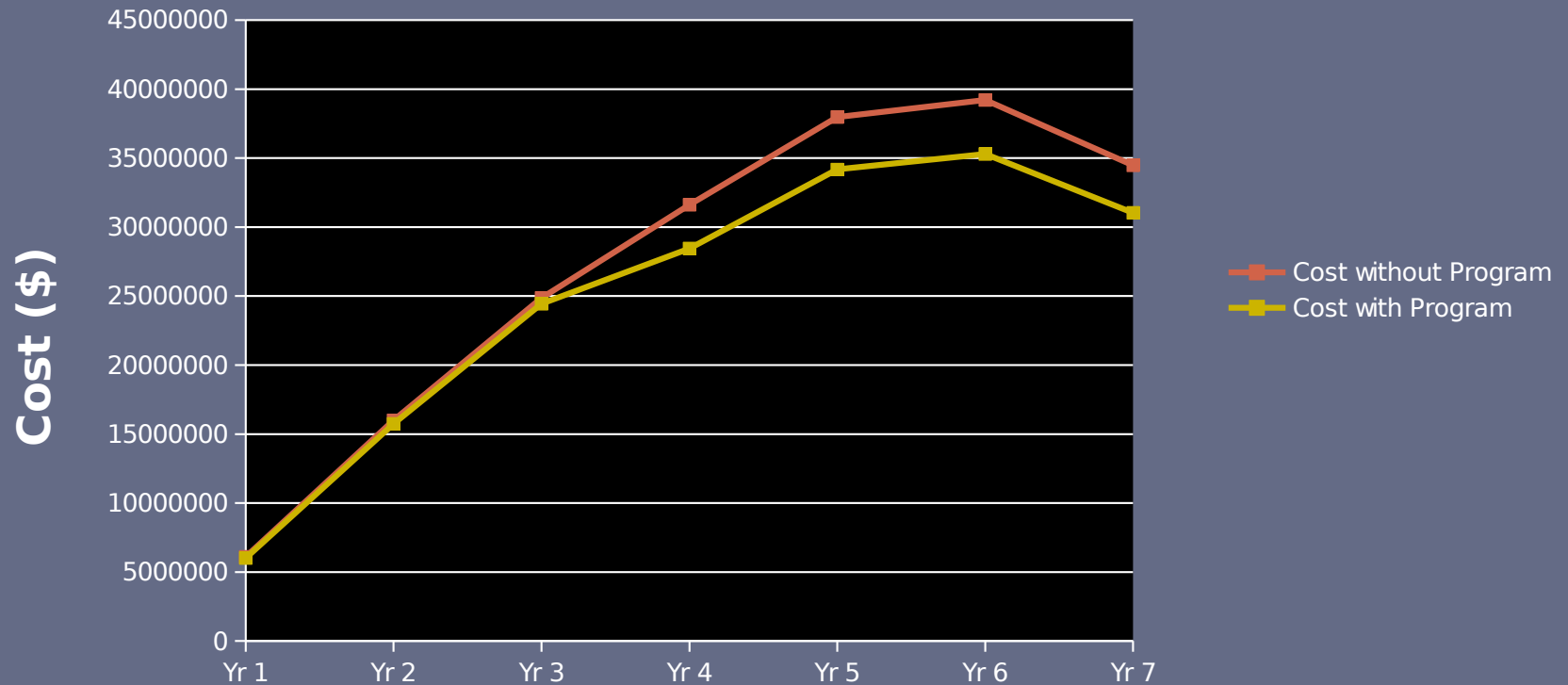
Future Jail Beds Associated with Program Participants



Savings of Intervention at 10% Reduction

Savings Disproportionately Accrue in More Distant Future, Creating Uncertainty

Cost of Jail Beds and Savings



Marginal cost with less than 100-bed decrease = \$4,600 per bed
Marginal cost with greater than 100-bed decrease = \$28,000 per bed

Hypothetical SIB in Education

Moving from “Ability to Save” to “Willingness to Pay”

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Learning Communities at Kingsborough

Community College Outcome	Program Group	Control Group	Difference
Net cost per student (\$)	33,990	30,410	3,580
Earned a degree (%)	35.9	31.3	4.6*
Sample size (N=1,534)	769		
Cost per degree earned (\$)	94,680	97,160	-2,480
Value of additional degrees (\$)	3,436,938	(769 * \$97,160 * 35.9%)	
Potential return to investors (\$)	683,918		
Annual interest rate	3.8%		

Key Features of the NYC SIB

Some Are More Replicable Than Others

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- ✦ There is a substantial delay between program operation and realization of savings
- ✦ Selected intervention had more evidence than most but is not “proven”
- ✦ Program required quick implementation and scaling
- ✦ Government contract to pay for impacts and foundation support to “backstop” attracted private capital
- ✦ Addition foundation support allowed:
 - Intermediary services to be paid outside of program financing
 - Evaluation services paid outside of program financing

Takeaways

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- ✦ SIBs can reduce but not eliminate risk for government. Savings depend on timing and how they are measured.
- ✦ SIBs can do more than bring proven programs to scale; they can test promising models and encourage innovation and sustainability.
- ✦ SIBs can move beyond government savings to social benefits; from “ability to save” to “willingness to pay.”
- ✦ SIBs with strong evaluations benefit all stakeholders, but reliable evidence doesn’t come cheap.
- ✦ SIBs are a financing tool; if they are successful and produce strong evidence, then they may look more like conventional debt financing.

Why I'm excited about SIBs

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- ✦ Encourages collaboration between philanthropic innovation and government
- ✦ Forces government to consider what they are willing to pay for various outcomes
 - We know what to pay for a teacher
 - We generally don't know what to pay for a graduate
- ✦ Funding vs Financing
 - Is a teachers salary so different from the construction of a school; is human capital a viable investment?
- ✦ GS \$9.6 million bet on youth staying out of jail

Expanding beyond “proven” programs

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+ Three Tiered Risk Structure

- Proven programs
 - Scaling the elite set of programs with strong evidence of effectiveness in diverse settings, strong replication system
 - Limited need for intermediary; routine evaluation/validation
- Programs w Mixed Evidence
 - Risk of failure higher, requiring different mix of investors including foundation backstop, richer evaluation focused on scaling, and larger intermediary program management role
- New Programs
 - High risk innovation for areas without good evidence
 - Demonstration mode requires strong intermediary role, in-depth what works research, lower likelihood of payback

Design your own SIB

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- ♣ What outcomes are you willing to pay for?
- ♣ How much are additional outcomes worth?
- ♣ How much will the program cost?
- ♣ How much change is needed to make the program worth the cost?
- ♣ Why is it reasonable to achieve that impact?