



NATIONAL CONFERENCE *of* STATE LEGISLATURES

Social Impact Bonds

From NCSL's Web site:

<http://www.ncsl.org/research/labor-and-employment/social-impact-bonds.aspx>

Updated 9/22/2016

Overview

Social Impact Bonds (SIBs), a type of pay-for-success funding agreement, are a private financing mechanism used to fund social programs. SIBs are gaining interest from policymakers at all levels of government as a way to mitigate the simultaneous demands of tight budgets and rising social service costs. To date, state level SIB activity has centered on legislative efforts to authorize the process, create study committees, begin pilot projects, engage in feasibility studies and learn which types of programs this financing tool can be effectively used for.

How Do Social Impact Bonds Work?

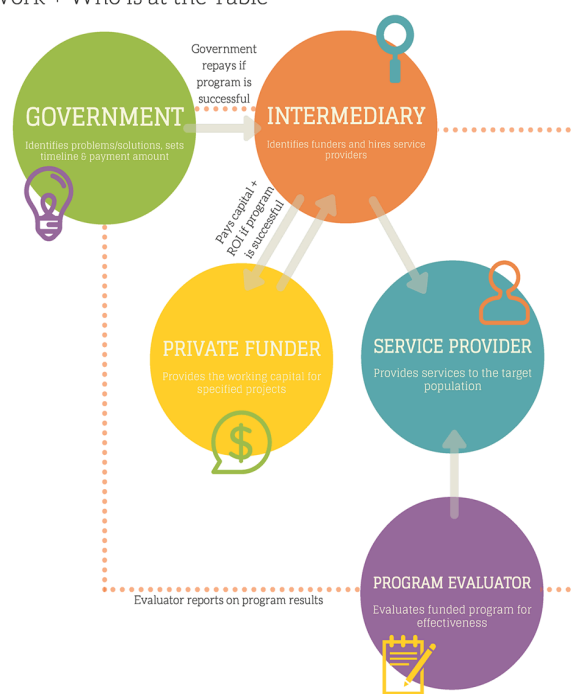
SIBs work by allowing private entities to provide upfront capital that government can repay later. This makes SIBs essentially a contract between a private entity and the public sector. The private party commits to pay for a program that leads to improved social results and public sector savings. The private investors are then repaid when contractually agreed upon objectives are achieved.

Social Impact Bond Implications

SIBs provide a new way to pay for social programs and have the potential to save money and improve accountability. In order for government to attract a private investor and for the SIB agreement to be successful, proposed programs have to be shown to be effective at addressing targeted social problems. Investors also need to know how much these programs will cost. Because these details need to be known prior to a SIB contract being agreed to, not all programs are eligible for SIB financing.

To date, SIBs in the United States have shown mixed results. For example, the Utah High Quality Preschool Initiative, a SIB funded program has shown promising results—more than 700 low-income preschoolers

Social Impact Bonds: How they Work + Who is at the Table



have improved their school achievement and investors are earning a return. In contrast, a SIB funded juvenile offender program in New York did not reduce recidivism as intended. In this New York program, the funding mechanism worked to shield government from risk. However, because the program did not produce the desired results, the investors are being repaid through a financial guarantee from another private foundation rather than by government. Without this guarantee, investors would have lost their money.

SIBs inherently involve private funding in public programs—and for policymakers who believe that government should be the sole funder of these programs, this can be cause for concern. Given that no two SIB projects must be the same and SIB funded projects are new, state and local governments will continue to pilot and study SIB initiatives across an array of sectors. These include early childhood education, health initiatives, human service programs and criminal justice efforts, among others.

Use of Social Impact Bonds at the State Level

At least 24 states and the District of Columbia have considered, are considering or are implementing SIB related projects. Of these, 11 states—Alaska, California, Colorado, Idaho, Maine, Maryland, Massachusetts, New Jersey, Oklahoma, Texas, and Utah—and the District of Columbia have enacted legislation. Legislative introductions and enactments range from establishing study committees to creating funds and supporting pilot projects. Enacted legislative actions are listed below.

Enacted Social Impact Bond Legislation in Various Sectors

Early Childhood Education and Care and Public Education

Programs aimed at providing prenatal education, increasing early childhood education readiness and supporting academic performance among young learners top the list of SIB efforts in early childhood education and care. Examples include:

- Idaho HB 170 (2015, Enacted): Allows the state Department of Education to enter into pay-for-success contracts designed to enhance student academic achievement. Outlines standards required to enter into pay-for-success contracts.
- Maine HB 285 (2015, Enacted): Directs the Education Research Institute to study the use of social impact bonds to fund extended learning programs and prekindergarten programs and submit report and any recommended legislation to the Joint Standing Committee on Education and Cultural Affairs by Dec. 2, 2015.
- Utah HB 96 (2014, Enacted): Establishes a School Readiness Board to negotiate results-based contracts with private entities to fund high-quality early childhood education programs. Creates a restricted account.

Health Initiatives

2015 health related SIB efforts included efforts to target public expenditures related to preventive and early intervention care. Examples include:

- New Jersey A 2771 (2015, Vetoed by the Governor): Establishes a five-year social innovation loan pilot program to encourage private investment in preventive and early intervention health care to reduce public expenditures related to those services. **Note:**

For more information, please see the [Statement from the Budget and Appropriations committee](#) and the [Governor's veto message](#).

- [New Jersey A 3289](#) (2012, Pocket Vetoed): Establishes a five-year social innovation loan pilot program to encourage private investment in preventive and early intervention health care to reduce public expenditures related to those services. Also creates a social innovation loan fund. Note: *Bill pocket vetoed—no veto message available*

Human Service Programs

Human service programs that could be funded with SIBs include employment readiness, workforce development services and preventing homelessness. Examples include:

- [Massachusetts HB 3650](#) (2015, Enacted): Directs the Executive Office for Administration and Finance to coordinate with Health and Human Services to develop a pay-for-performance model to promote employment among recipients of programs administered by the Department of Transitional Assistance. Also gives permission for the Executive Office to coordinate with the Social Impact Bond Technical Assistance Lab at the Harvard University Kennedy School to develop the pay-for-performance model and requires a report on the model and feasibility of implementation.

Criminal Justice Efforts

Use of SIBs to reduce recidivism among offenders and provide services for at-risk youth have been explored across the nation. Examples include:

- [Alaska SB 91](#) (2016, Enacted): Requires the Alaska Criminal Justice Commission to prepare a report regarding the potential use of social impact bonds to reduce recidivism rates. Also outlines requirements of the content of the report, who it must be delivered to and when this must be completed by.
- [California AB 1837](#) (2014, Enacted): Creates the Social Innovation Financing program and authorizes grants by the Board of State and Community Corrections to enter into a pay-for-success or social innovation financing contract.
- [Maryland SB 1005](#) (2016, Enacted): Permits the Justice Reinvestment Oversight Board to make recommendations about entering into public-private partnerships including social impact bonds.
- [Oklahoma SB 1278](#) (2014, Enacted): Creates the Criminal Justice Pay for Success Initiative and authorizes the Office of Management and Enterprise Services to contract with social service providers that provide diversion and reentry programs to persons not under the custody or control of the Department of Corrections.

General Social Impact Bond Efforts

Legislatures have introduced legislation to study the feasibility and applicability of using social impact bond financing. Examples include:

- [California SB 593](#) (2013, Vetoed by the Governor): Authorizes the Governor to enter into social impact partnerships to address policies or programs not currently funded by the state, to address state programs in order to improve outcomes or lower state costs or to reduce recidivism, reduce child abuse and neglect or to assist foster children. **Note:** For more information, please see the [Governor's veto message](#).

- Colorado HB 1317 (2015, Enacted): Establishes the Pay for Success Contracts Program in order to authorize the state to enter into pay for success contracts pending specific requirements.
- Massachusetts HB 4219 (2012, Enacted): Establishes the Social Innovation Financing Trust Fund for funding contracts to improve outcomes and lower the cost of government spending.
- Texas HB 3014 (2015, Enacted): Establishes the Success Contracts Payments Trust Fund for the purpose of making success contract payments.
- District of Columbia B 750 (2015, Enacted): Authorizes Pay-for-Success contracts in D.C. and establishes a Pay-for-Success Contract Fund that is administered by the Mayor.

Contact: Jessica Hathaway (Jessica.Hathaway@NCSL.org), NCSL's Family Opportunity Project

Additional Resources

-
- National Conference of State Legislatures, LegisBrief: Funding Social Programs with Social Impact Bonds
 - National Conference of State Legislatures: Video interview with Phil Peterson of KidSucceed, LLC that discusses which projects are appropriate for pay for success, how pay for success is changing the way government operates and why this is of interest to legislators
 - Corporation for National and Community Service, Report: State of the Pay for Success Field: Opportunities, Trends, and Recommendations
 - Government Performance Lab at the Harvard Kennedy School, Report: Social Impact Bonds, a Guide for State and Local Governments
 - Pay For Success Learning Hub (<http://www.payforsuccess.org/>)