Social Impact Financing in Texas

OVERVIEW

Social impact bonds (SIBs; a.k.a. “pay for success” or “social innovation financing”), involve an agreement in which an entity – often government – decides on a social problem to address, and investors pay to finance that project. Investors may include private-sector financers, individuals, or foundations, among others. The project’s success inherently saves the government money when a social issue such as homelessness is reduced, and investors are paid out according to these savings. In order to execute this agreement, an intermediary is employed to find the investors and to hire the service providers. A program’s success is determined by its cost avoidance and its outcome improvements.

In Texas, early childhood and prenatal programs are effective targets for social impact financing. A successful SIB will begin to realize outcomes early in the program, and the savings for normal births and regular education give substantial returns and do so quickly.

Figure 1. Summary of social impact financing.

PROCESS

The process to develop a social impact bond begins with an exploration of current efforts, possible ideas, and government and stakeholder interest. In order to find programs that may work with this model, the first step is to issue Requests for Information or Requests for Proposals on the county.

and state levels and to survey potential providers of interventions, such as nonprofits and churches.\(^5\) Successful SIB programs are deemed to have the following characteristics: vital social needs, well-defined target populations, effective preventive interventions, experienced service providers, efficient programs that can show they will result in governmental savings, safeguards, and reliable and accessible administrative data.\(^6\) The program should provide prevention of a social issue to the extent that the need for crisis services and the cost to communities is reduced, thereby allowing investors to be repaid.

Next, a feasibility assessment of the potential program should occur. Feasibility studies should analyze: the proposed intervention; data about those served and those not served; previous services that potential program recipients may have received; longitudinal analyses of post-intervention results on those served, contrasted with those not served; cost avoidance in all areas, government and non-government; outcome improvements; contract workability; the capacity for third parties to evaluate cost avoidance and outcome improvements; potential funders and available capital; and the most likely timeline for success repayment. Randomized controlled trials are not necessary, though longitudinal outcome comparisons are; for SIBs, potential financial results trump scientific statistical significance.\(^7\) A SIB intermediary can be employed to vet programs and secure contracts. Overall, the stakeholders involved in a SIB may include government, nonprofits, recruited investors, SIB intermediaries, and evaluators. Evaluators will look at both the developmental aspect, to assess the performance of the program during its occurrence, and a summative assessment, to determine its success. A typical SIB lasts between five and ten years.\(^8\)

Figure 2. Simplified process of social impact financing.\(^9\)

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9 Ibid.
CURRENT EFFORTS

The United Kingdom brought attention to this method in 2010 with the Peterborough SIB, and the initial results have been promising: efforts to reduce prisoner recidivism through a post-prison support system have resulted in a reduction of re-offending by 8.4%. The project is on par with its aim to pay investors if the reduction rate falls above 7.5% in 2016.\textsuperscript{10}

In the United States, the Harvard Kennedy School developed the SIB Lab, which has partnered with Massachusetts, New York, Colorado, Connecticut, Illinois, Ohio, and South Carolina to develop social impact financing models.\textsuperscript{11} The issues involved include early childhood education, homelessness, and keeping seniors in their homes.\textsuperscript{12} In addition to Harvard’s efforts, New York has addressed juvenile re-incarceration, Utah was the first state to launch a SIB for early learning, and South Carolina is working to expand home visiting (Nurse-Family Partnership) through pay for success.\textsuperscript{13} Salt Lake City, Utah, has shown enough success in a pre-kindergarten expansion program to be able to repay funders, as the program has been able to avoid the higher costs of the alternative special education program.\textsuperscript{14} As of 2014, over 30 governments at the state, county, and municipal levels were in the feasibility or development stages of SIB projects.\textsuperscript{15} Legislation has involved either enabling officials to make these agreements or securing the rights of investors to receive their payments.\textsuperscript{16} See Appendix A for an example of SIB legislation.

The first proposed social impact financing structure in Texas targeted chronic homelessness with the intervention of permanent and supportive housing; this effort was catalyzed by Champion Impact Capital, in partnership with Dallas County, the City of Dallas, and various other entities.

FUNDING AN EARLY CHILDHOOD SIB IN TEXAS

Early childhood and home visiting programs are likely to be effective targets for social impact financing due to the cost avoidance of remedial education and the improvement of costly birth outcomes, and the quickness with which these returns can be realized. Special education costs $25,000 per child per year,\textsuperscript{17}

\textsuperscript{12} Ibid.
\textsuperscript{14} Ibid.

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while regular education costs $12,000. This assignment is typically made by second grade, meaning effective pre-kindergarten programs will show returns within 36 months. In addition, a low birth-weight birth can run a cost of $100,000, while a normal-weight birth averages $5,000. As such, effective prenatal programs could begin showing returns just in a matter of days.\textsuperscript{17}

Given the current focus, momentum, and successful implementation of early childhood and family support home visiting programs in Texas, the state is in a position to engage in a social impact financing structure in this realm. Potential outcome goals for a SIB could include those outcomes Texas is currently realizing as a result of the implementation of a variety of family support home visiting programs including: a decline in premature births, child visits to the emergency room, infant deaths, closely spaced subsequent births, an increase in number of children who have received all their immunizations, and an increase in maternal employment.\textsuperscript{18,19} Other possible outcomes could include a decline in child abuse and neglect, subsequent births, subsequent premature births, special education, and juvenile crime.\textsuperscript{20} South Carolina is currently employing a SIB using a family support home visiting model, Nurse-Family Partnership, and has targeted improved birth outcomes, early childhood health, school readiness and maternal health and project outcome goals in which the savings is to be realized.\textsuperscript{21}

Family support home visiting programs in Texas have already demonstrated effectiveness and providing a return on investment, yet these programs are only reaching 10% of families that qualify and our in high-need for services.\textsuperscript{22} Thus, expanding these programs and bringing them to scale using social impact financing would benefit the state, potential investors, and recipients of these much-needed services.

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TexProtects’ mission is to reduce and prevent child abuse and neglect through research, education, and advocacy. TexProtects effects change by organizing its members to advocate for increased investments in evidence-based child abuse prevention programs, CPS reforms, and treatment programs to heal abuse victims.

Appendix A: Massachusetts’ Legislation Enabling Social Impact Financing

The Commonwealth of Massachusetts
In the Year Two Thousand Twelve
An Act Establishing the Social Innovation Financing Trust Fund and Authorizing the Lease of the Henderson Boat House.23

Be it enacted by the Senate and House of Representatives in General Court assembled, and by the authority of the same, as follows:

SECTION 1. Chapter 10 of the General Laws is hereby amended by inserting after section 35UU the following section:-

Section 35VV. (a) There shall be established and set up on the books of the commonwealth a trust to be known as the Social Innovation Financing Trust Fund for the purpose of funding contracts to improve outcomes and lower costs for contracted government services, hereinafter referred to as “pay for success contracts”, subject to the requirements of subsection (b).

(b) Notwithstanding any general or special law to the contrary, the secretary of administration and finance, may enter into pay for success contracts. Each contract shall include: 5 (1) a requirement that a substantial portion of the payment be conditioned on the achievement of specific outcomes based on defined performance targets; (2) an objective process by which an independent evaluator will determine whether the performance targets have been achieved; (3) a calculation of the amount and timing of payments that would be earned by the service provider during each year of the agreement if performance targets are achieved as determined by the independent evaluator; (4) a sinking fund requirement under which the secretary shall request an appropriation for each fiscal year that the contract is in effect, in an amount equal to the expected payments that the commonwealth would ultimately be obligated to pay in the future based upon service provided during that fiscal year, if performance targets were achieved; and (5) a determination by the secretary that the contract will result in significant performance

improvements and budgetary savings across all impacted agencies if the performance targets are achieved.

(c) The secretary may provide that payments in future years under any such contracts shall constitute a general obligation of the commonwealth for which the full faith and credit of the commonwealth shall be pledged for the benefit of the providers of the contracted government services, but the total amount of payments under such contracts secured by a pledge of the full faith and credit of the commonwealth shall not exceed, in the aggregate, $50,000,000.

(d) The secretary shall be the trustee of the trust, shall administer the trust and shall ensure that all funds appropriated as described in this section are deposited in the trust and shall make payments from the trust in accordance with the terms and conditions of the contracts, without further appropriation. The secretary shall provide an annual status report on all contracts not later than February 1 to the house and senate committees on ways and means.