

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 is currently involved in the development of 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 closely with our national partners to help HUD 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 partnerships could significantly expand the number and type of SIB contracts 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. One bill would create a new fund to identify and support promising SIB contracts. Another would authorize HUD to explore “pay-for-success” contracts to fund cost-saving energy and water retrofits. Enterprise strongly supports both bills and looks forward to working with lawmakers to approve and implement the proposed programs.

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. For more on how the basic model works, see [this helpful primer from Social Finance](#), the organization that launched the first SIB in the U.K. in 2010.

Four SIB contracts have closed to date in the U.S.: one to reduce prison recidivism, one to expand early childhood education and two to improve employment retention for people leaving incarceration. There are several other contracts under development across the country, covering an array of social issues, from preventing and curing asthma to reducing teenage pregnancy rates.

This issue brief takes a close look at two SIB initiatives currently in the development phase, 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 fund at the Department of the Treasury to support 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 and suffer from a substance abuse or mental health problem. According to the Denver Crime Prevention and Control Commission, the city spends roughly \$11 million each year on chronically homeless individuals, including nights in shelters, run-ins with the police and visits to detox facilities.

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. However, despite mounting evidence, local governments often have trouble securing the funds necessary to invest in supportive housing.

At the Clinton Global Initiative meeting in June, Denver Mayor Michael B. Hancock announced a new \$8 million SIB that will connect up to 300 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 city will partner with Enterprise, Social Impact Solutions and the Corporation for Supportive Housing (CSH) in this initiative. To date, Enterprise has played a leading role in conducting feasibility, structuring and transaction services and helped to identify the housing strategy that will most effectively serve the target population, working closely with CSH, Social Impact Solutions, the city and local investors.

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 the 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 less costly) solution would be to help the entire family find an affordable home connected to the services they need.

The County Executive's office in Cuyahoga County, Ohio, is looking to the SIB model as a possible solution to this problem. In July, the Cuyahoga County Council approved the country's first county-level SIB, 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 proposed pilot would raise \$5 million in private funds to help FrontLine, a Cleveland-based social service provider,

Promoting Energy Efficiency Through “Pay-For-Success”

The U.S. Department of Housing and Urban Development (HUD) currently spends about \$7 billion each year on energy bills in government-supported buildings. Through certain renovations to improve energy and water efficiency, HUD could potentially cut utility costs by an estimated 20-25 percent (before accounting for upfront costs), while [meaningfully reducing instances of asthma and other respiratory and cardiovascular problems for residents](#). However, 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.

In July, a bipartisan group of members of Congress led by Reps. Dennis Ross (R-Fla.) and Jim Himes (D-Conn.) [introduced a bill](#) that would permit HUD to launch a “pay-for-success” demonstration to help pay for cost-saving energy and water efficiency upgrades. The legislation builds off of recent progress in the Senate toward the same goal, led by Sens. Sheldon Whitehouse (D-R.I.) and Susan Collins (R-Maine). Under the proposed program, intermediaries would raise private capital and work with energy service companies and others to make appropriate and economically justifiable upgrades. HUD would only pay investors back if predetermined savings were achieved over a certain period.

Enterprise has worked with HUD, Stewards of Affordable Housing for the Future (SAHF) and the Low Income Investment Fund (LIIF) to help design and advance this important legislation. If enacted, we look forward to working with HUD and our partners to help implement the demonstration to maximize both the financial savings to taxpayers and the broader benefits to residents and the environment.

connect 135 mothers who have experienced homelessness and have at least one child in foster care to housing, crisis and trauma services.

Enterprise is now working with FrontLine, the county’s Division of Children and Family Services, the Cuyahoga Metropolitan Housing Authority, Case Western Reserve’s Center on Urban Poverty and Community Development, the George Gund Foundation and Third Sector Capital Partners to work through the details of the program and transaction. If enacted, Enterprise will serve as the program’s intermediary, providing day-to-day oversight of the program and ongoing financial management services.

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. Since the federal government is not a partner in the contract, those 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.

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 June 2014, Reps. Todd Young (R-Ind.) and John Delaney (D-Md.) [introduced the Social Impact Bond Act](#), intended to help mitigate these issues and clarify the federal government’s role in future SIB initiatives. The bill would create a \$300 million fund within the Department of the Treasury to support state and local SIB contracts. It would also establish a new interagency council to identify, support and monitor local SIB initiatives that are expected to save federal dollars and have a measurable,

Advancing SIBs and Other Impact Investing Tools Through Sound Federal Policy

Last year, Enterprise helped launch the [Accelerating Impact Investing Initiative \(AI3\)](#), the first hub for policy topics related to impact investing in the U.S. Since then, Enterprise and our AI3 partners – Pacific Community Ventures and Harvard’s Initiative for Responsible Investment – have helped spark a national conversation about the federal government’s role in expanding and improving the marketplace for impact investments, including SIBs. Among other things, our team has published original research and thought leadership to help guide the debate, participated in a G8-sponsored international task force on social impact investing and organized several high-profile convenings to help identify potential policy recommendations.

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. We are still developing the specifics of AI3’s policy platform, but one pillar will be the expansion of SIBs and other “pay-for-performance” initiatives at the local, state and federal level.

clearly defined social benefit (covering a variety of possible issues). A [similar bipartisan bill was introduced in the Senate](#) by Sens. Michael Bennet (D-Colo.) and Orrin Hatch (R-Utah) in July 2014.

The proposed fund 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.

The Path Forward

Enterprise strongly supports both the Young-Delaney and Bennet-Hatch bills to increase federal support to state and local SIBs, as well as efforts underway in the House and Senate to authorize the HUD pay-for-success pilot. 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 proposals.

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. 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. 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 – which is an [unprecedented number](#). But for every low-income family that receives federal rental assistance, [there are three eligible families that need assistance but cannot access it](#).

Now more than ever, we need the public and private sectors to work together to tackle these and other pressing social and economic problems. SIBs 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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