



Date: September 13, 2016

To: Honorable Mayor and Members of the City Council

From: Councilwoman Suzie Price, Third District *SP*
Councilmember Daryl Supernaw, Fourth District *DS*
Councilmember Roberto Uranga, Seventh District *RU*

Subject: Social Impact Bonds

INTRODUCTION:

Social Impact Bonds are an innovative financing tool for social programs based around the Pay for Success model. In this model Government agencies define an outcome they want to achieve, for example, homelessness or workforce development. The Government then partners with private sector investors who provide up-front funding for creative ways to achieve the Government's defined outcomes. If the creative approach is successful then the Government repays the investor, but if it is not successful then the Government is not required to pay. Because governments pay only if the programs work, the Pay for Success model has the potential to more effectively allocate taxpayer dollars while increasing funding for programs that deliver improved social outcomes.

We understand there may be some city departments who have started the dialogue with experts in this field and we hope that staff can build upon those relationships.

History and Implementation of Social Bonds in some cities

On January 25, 2016, Denver City Council approved a supportive housing program aimed at helping up to 250 of the city's chronically homeless people. Denver will use funds from lenders to serve chronically homeless individuals who frequently use the city's emergency services – police, jail, the courts and emergency rooms -- at a cost of approximately \$7 million per year. The savings and benefits from reduced costs in the criminal justice system will be captured by the city and used to repay lenders for their upfront investment to cover the cost of the program.¹

On December 8, 2014, Governor Deval Patrick announced the launch of a Massachusetts Pay for Success initiative that will provide 500 units of stable housing for up to 800 chronically homeless. The program will leverage philanthropic and private capital investments from Santander Bank, the Corporation for Supportive Housing, and the United Way of Massachusetts Bay and Merrimack Valley.² This program will operate as a Pay for Success initiative, whereby

¹ <https://www.denvergov.org/content/denvergov/en/mayors-office/newsroom/2016/denver-ready-to-provide-new-housing-and-services-to-homeless-wit.html>

² http://www.payforsuccess.org/sites/default/files/mass.gov-massachusetts_launches_pay_for_success_initiative_to_reduce_chronic_individual_homelessness.pdf

initial funding is raised from private investors and the state repays the investment only if certain benchmarks are achieved.³

In 2012, New York City started a nearly \$10 million jail program with Goldman Sachs designed to reduce recidivism.⁴

In Salt Lake City, the local United Way and two school districts have started a \$7 million expansion of preschool for at-risk children, predicting a reduction in special education cost later.⁵

RECOMMENDATION:

The City Council is requesting the City Manager to report back regarding Social Impact Bonds and provide recommendations to the City Council for the implementation of any policy reforms or additional programming that is consistent with the goals that this opportunity could provide.

FISCAL IMPACT:

There is no immediate financial impact as a result of the recommended action.

³ <http://www.mhsa.net/news/mhsa-launches-pay-success-program-combat-chronic-homelessness>

⁴ http://www.nytimes.com/2012/08/02/nyregion/goldman-to-invest-in-new-york-city-jail-program.html?_r=0

⁵ <http://archive.sltrib.com/story.php?ref=/sltrib/news/56457077-78/preschool-social-education-private.html.csp>