

# FINANCING PROMISING EVIDENCE-BASED PROGRAMS

EARLY LESSONS FROM  
THE NEW YORK CITY  
SOCIAL IMPACT BOND

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December 2013



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Bond**

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## Overview

A Social Impact Bond (SIB) relies on initial financing from private investors to produce outcomes governments value. This report describes the first operational SIB in the United States and the program financed by it, the Adolescent Behavioral Learning Experience (ABLE). ABLE aims to equip adolescents ages 16 to 18 incarcerated in the New York City jail system with the social and emotional skills to help them make better life choices when they leave jail, yielding financial savings to city government by reducing readmissions to Rikers Island. During their time on Rikers adolescents participate in Moral Reconciliation Therapy, a cognitive behavioral program designed to help offenders reevaluate their choices and enhance their decision-making abilities. Those who leave Rikers before completing the program have the opportunity to resume participation afterward when they return to their communities.

Bloomberg Philanthropies and the Urban Investment Group of Goldman Sachs Bank USA are providing the funding for ABLE: Goldman Sachs provided a loan to pay the cost of operating the program, and Bloomberg Philanthropies guaranteed part of the loan amount in the event the program is not successful. If the program is successful and meets its benchmarks, the resulting reductions in future incarceration days should save the City of New York money, and the city will use a part of those savings to pay back the investment. If the program fails to meet the required benchmarks, the city will not achieve any savings and will not pay back the investment. MDRC serves as the intermediary managing the deal, and is responsible for designing the intervention, negotiating and coordinating the financial terms, and overseeing the operations of the ABLE program. The Osborne Association and Friends of Island Academy are the service providers delivering the program in Rikers Island jail.

The New York City SIB is the first public-private partnership following a Social Impact Bond model to involve a large financial institution. It is also the largest implementation of a Moral Reconciliation Therapy program to date. This report attempts to illustrate the merits and challenges of each, and touches on some important lessons that have emerged from these early stages:

- A committed government partner is especially important to a SIB arrangement.
- Investors will have more confidence in a SIB if small differences in program performance do not cause sharp distinctions between gaining a return on investment and experiencing a loss. They will also have more confidence in SIBs that incorporate early performance indicators, and in those whose transaction costs are lower.
- Holding repayment until clear evidence that savings are in fact being achieved increases the government partner's confidence in the effectiveness of the program.
- Spreading out repayment to align with the value produced by the program increases the government partner's ability to pay.



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## Preface

Governments often lack the financial resources to try and expand promising social services. Social Impact Bonds (SIBs) have the potential to overcome that problem by attracting private investment as public risk capital, thereby revealing what does and does not work while improving government effectiveness and the lives of individuals.

In a SIB, private investors finance the cost of operating a promising or innovative social program with the potential to save the government money or achieve some other valued goal — for example, increasing citizens’ productive capacity. If the intervention achieves its desired outcomes, the government repays the initial investment plus a return.

The SIB concept is still in its earliest stages. Although the first SIB was introduced in the United Kingdom in 2010, to date the only operational SIB in the United States is the project described in this report, the New York City SIB, launched in 2012 along with the program financed by it, the Adolescent Behavioral Learning Experience. With financial support from the Urban Investment Group of Goldman Sachs Bank USA and Bloomberg Philanthropies, MDRC partnered with the City of New York and two nonprofit organizations to provide a large-scale intervention designed to reduce recidivism among young people in custody at Rikers Island jail.

For too many young people, the first time they enter the criminal justice system will not be the last. In New York City, nearly half of all adolescents incarcerated in Rikers Island jail will return within one year of being discharged. Incarceration interrupts education, weakens employment prospects, and puts additional strain on vulnerable young people, families, and communities. It is also costly: the City of New York budgets over \$1 billion each year to operate its jails. Reducing recidivism among young people would benefit society and government.

If an independent evaluator determines that the intervention (a cognitive behavioral therapy program) reduces recidivism by at least 10 percent, the project will be deemed a success and the Department of Correction will pay back the investors for the cost of operating the program. If that happens, adolescents will have spent less time in jail and the city will have saved a substantial amount of money over and above the amount of the investment.

This project demonstrates that it is feasible to use private capital to finance social programs. In the coming years the concept will be adapted to a number of other policy areas. Early projects may be built around government savings and have high transaction costs, but over time as governments get better at estimating their willingness to pay, transaction costs should decrease, and SIB arrangements could become more commonplace. To get there from here, how-

ever, governments, private investors, philanthropies, and nonprofit service providers will face many complex issues. It will be essential that the earliest deals be carefully constructed with ample due diligence, a pilot period to identify and resolve challenges, and sound research designs to ensure that reliable learning results.

Gordon L. Berlin  
President

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MDRC appreciates the strong partnerships and continued collaboration of the New York City Mayor's Office, the Department of Correction, East River Academy, the Vera Institute of Justice, the Osborne Association, and Friends of Island Academy. We are particularly grateful to Deputy Mayor for Health and Human Services Linda Gibbs, Correction Commissioner Dora Schriro, Erik Berliner, Jim Parsons, Elizabeth Gaynes, and Christine Pahigan, all of whom made time to share their perspectives and experiences with us.

We are tremendously thankful to the people who reviewed this report and advised us on it: Gordon Berlin, Dan Bloom, David Butler, John Hutchins, Therese Leung, Brock Grubb, Shane Crary-Ross, and Alice Tufel at MDRC. We are especially thankful to Cindy Redcross at MDRC, who provided guidance and thoughtful, extensive feedback over multiple drafts.

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The Authors



## Executive Summary

Lack of money has long kept promising preventive programs from expanding. Existing government-funded programs are furthermore subject to budgetary cutbacks or complete loss of funding. Moreover, preventive programs traditionally offer no accountability for success or failure. This leaves government entities in a bind where if they invest their limited funding in preventive programs that turn out to be ineffective, they end up paying for both the ineffective program and the services the program was intended to prevent.

Social Impact Bonds (SIBs) aim to combat chronic underinvestment in preventive programs while promoting increased accountability. This report details the structure of the New York City SIB and the program that it finances, the Adolescent Behavioral Learning Experience (ABLE). Specifically, readers can expect to find answers to the following questions: How did this project (SIB and ABLE) emerge as a priority in New York City? What exactly is a SIB? How was this SIB structured? What challenges arose in negotiating the financing arrangement? What are the main components of ABLE and what is it trying to accomplish? What have been the main accomplishments and challenges in designing and implementing the program? Finally, what has been learned from the project and how can this knowledge be applied to similar initiatives that pay for success?

### Project Background

In January 2010, Mayor Michael Bloomberg announced a new effort to improve the lives of young black and Latino men, who experience much higher rates of poverty, unemployment, and homicide than their white and Asian peers.<sup>1</sup> Agencies and thought leaders were charged with finding ways to make a difference in the lives of these young men, which led to the creation of the Young Men's Initiative (YMI). The YMI focuses on programs and policies designed to improve outcomes for this population in education, health, employment, and the criminal justice system.

Given that approximately 20 percent of New York City's black and Latino young men fell within its target age range of 16 to 24,<sup>2</sup> the YMI promised to be a large undertaking requiring a significant amount of funding. During the planning process for the YMI, agencies had identified a number of bold ideas that exceeded the total funding available for the YMI initia-

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<sup>1</sup>David Banks and Ana Oliveira, *Young Men's Initiative: Report to the Mayor from the Chairs* (New York: New York City Office of the Mayor, 2011).

<sup>2</sup>New York City Department of City Planning, *Total Population by Age, Sex, and Mutually Exclusive Race, 2010* (New York: New York City Department of City Planning, 2010).

tive.<sup>3</sup> City leaders then learned about a cutting-edge financing strategy being tried in the United Kingdom called a Social Impact Bond.

A SIB is a form of “Pay-for-Success” financing in which public and private partners collaborate to provide initial private investment support for a public program. Pay-for-Success contracts base payment to providers on outcomes (for example, achieving a goal related to community job placement or retention) rather than just costs. The concept makes investment in innovation possible during a period of constrained government funding, because it lessens the risk that taxpayers will pay for ineffective programs. Bloomberg Philanthropies’ government innovation team was exploring the SIB concept and was interested in bringing it to the United States. The team, focused on spreading proven and promising ideas among cities, saw great potential in this innovative financing model. Bloomberg Philanthropies was also committed to the YMI, and joined the city in efforts to find a YMI effort that could benefit from a SIB.

The Office of the Deputy Mayor for Health and Human Services and the government innovation team at Bloomberg Philanthropies reviewed over 40 projects being considered for the YMI portfolio to determine which fit the SIB criteria. Specifically, they looked for:

- Services that were largely funded by the city (as opposed to the state or the federal government), where there could be enough city savings generated to pay for a successful program
- Programs that focused on prevention rather than core services
- Programs with evidence of success
- Programs with measurable outcomes
- Programs that would result in government savings large enough to sustain the program beyond the funder’s investment

The New York City Department of Correction (DOC) was interested in implementing a large-scale program for adolescents incarcerated in Rikers Island jail (Rikers), with the goal of reducing future recidivism (that is, the rate at which they return to jail in the future) and better preparing them for release during their stay. Adolescents incarcerated on Rikers are 91 percent black and Latino and have a 47 percent chance of returning to jail within one year, making it a

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<sup>3</sup>The mayor announced a total funding commitment of \$127 million to support YMI work, including \$30 million from the Open Society Foundation, \$30 million from Bloomberg Philanthropies, and up to \$67.5 million from the City of New York. ABL is one of over 40 programs being supported by this funding. See New York City Office of the Mayor, “Mayor Bloomberg Launches Nation’s Most Comprehensive Effort to Tackle Disparities Between Young Black and Latino Males and Their Peers” (news release, August 4, 2011).

fitting place to focus a YMI program.<sup>4</sup> As the city and Bloomberg Philanthropies identified and evaluated the merits of potential projects across agencies, it became clear that a project on Rikers had the most promise to become a SIB. Bloomberg Philanthropies provided funding to support the ABLE program, and the SIB was seen as a strategy to expand upon these initial commitments by attracting private investment.

## Notable Characteristics of Social Impact Bonds

The SIB concept is still very new, and the limited number of actual SIB arrangements makes it difficult to identify the characteristics that will define SIBs. The idea is likely to evolve in the future based on the experiences of its adopters, and as it is adapted to local circumstances. But some noteworthy elements of SIBs can already be identified:

- **Committed government partners.** Without high-level support from the Mayor’s Office and dedicated staff to pursue the idea, the New York City SIB would not have been possible. Commitment from central, influential government partners is a major asset for early SIBs, potentially a necessity for them.
- **Agreement among all parties on the metric for success.** Service providers, investors, and government entities must all support a single metric, or there can be no deal. In the New York City arrangement, the city government made a clear commitment to repay based on a specific measure of success — a reduction in recidivism. That made it possible for all other stakeholders to determine whether the terms were acceptable. It was essential that the city government knew the cost per day of keeping an adolescent on Rikers Island, and thus what constituted a reasonable price to pay for its desired outcome, keeping adolescents from returning to jail.
- **Payment based on impact.** “Impact” refers to the difference between the outcomes of program participants and the outcomes of a comparison group (a similar or equivalent population that did not receive the program). Clear and measurable outcomes are important in designing a SIB, but by themselves they do not prove that programs are making a difference that translates into real value for the government. Impacts are a far more useful indicator of success because they provide information about what would have happened to program participants if they had not received the program’s services.

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<sup>4</sup>New York City Department of Correction, *NYC DOC at a Glance* (New York: New York City Department of Correction, 2012).

- **Withheld repayment.** SIBs identify the primary outcome(s) of concern and then spread repayment over a period of time long enough that a government entity can make its final payment after a program demonstrates success. This provides the government greater confidence in the effectiveness of the program than is available in the short term. Payments may be further delayed to allow the government entity time to realize the value of the outcomes produced. For instance, in the New York City arrangement repayment was delayed to allow the city government additional time to realize jail savings.
- **Large-scale programs.** SIBs may allow promising programs to be implemented at a scale that is not possible without private capital. Depending on the basis for savings, it may also be necessary for the program to serve a large number of people in order to reduce costs substantially (especially if a government entity is willing to pay more per unit when changes are large than when changes are small).
- **Outside investment.** Outside investment provides the initial funding to expand a program that shows promise. If successful, a SIB provides investors financial returns while achieving public good. The New York City arrangement includes both a commercial investor and a philanthropic one, in a structure designed to ensure that the commercial lender has money at risk at all times.
- **The presence of an intermediary.** The responsibilities of the intermediary organization may vary from deal to deal depending on the experience of the program operator, the level of evidence associated with the intervention to be used, and the scale on which it has been employed in the past. In a low-risk deal involving a program with a large amount of supporting evidence, the intermediary organization would identify funding partners, assist with the structuring of the SIB, and play a limited role in monitoring program implementation. For a higher-risk deal involving a program with less supporting evidence, an intermediary organization would need finance and negotiation skills and significant experience in program operations, implementation, and evaluation.
- **Robust independent evaluation.** Given the risk involved in implementing innovative approaches at an unprecedented scale, it is imperative that strong and thoughtful evaluation be incorporated into SIB arrangements. Robust evaluation offers proof that the program truly led to the desired difference.

## The New York City Social Impact Bond

The New York City SIB relies on a series of interrelated contracts among the following parties:

- **The Urban Investment Group of Goldman Sachs Bank USA**, the commercial lender, made a \$9.6 million loan to the intermediary for a program that provides cognitive behavioral therapy services to 16- to 18-year-old adolescents in Rikers Island jail.<sup>5</sup>
- **Bloomberg Philanthropies**, the philanthropic investor, provided a \$7.2 million grant that will be used to partially repay the commercial lender if the program fails. If the program is successful, the grant will be used to support future projects. Bloomberg Philanthropies also provided a separate grant to fund the intermediary's costs.
- **MDRC**, the intermediary, worked with partners to identify the intervention and negotiate the Pay-for-Success terms, hammered out contracts with the various partners, and currently oversees the day-to-day implementation of the program.
- **The Osborne Association (Osborne) and Friends of Island Academy (Friends)**, the nonprofit service providers, administer the intervention (ABLE).
- **The City of New York**
  - **The Mayor's Office**, initiator of the SIB idea, coordinated all other city entities to structure the contracts, negotiate the terms, and oversee the evaluation.
  - **The Department of Correction (DOC)**, the government payer, agreed to pay the intermediary based on reduced recidivism and the associated cost savings.
- **The Vera Institute of Justice**, the independent evaluator, will determine whether the project has achieved the intended reductions in recidivism, which will in turn determine repayment.

Figure ES.1 illustrates the agreements among the stakeholders in the New York City SIB and the ABLE program it finances. During their time on Rikers, adolescents participate in

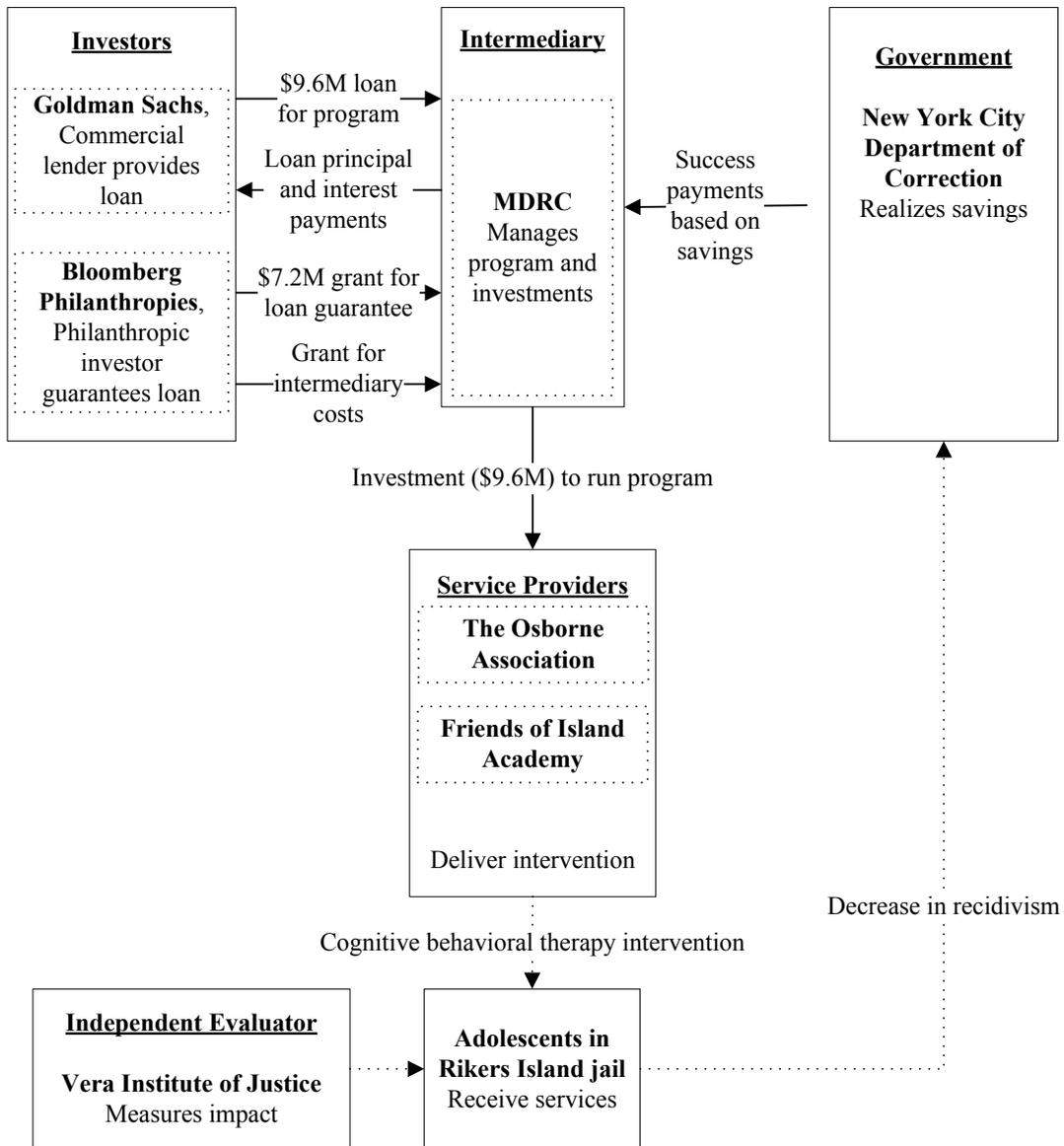
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<sup>5</sup>The loan to MDRC was designed by the Goldman Sachs Urban Investment Group and will be made from Goldman Sachs Bank USA. It is not structured as a program-related investment or foundation grant.

# The New York City Social Impact Bond

Figure ES.1

## Structure of the New York City Social Impact Bond



NOTES: The figure illustrates the relationships among the stakeholders in the New York City Social Impact Bond. Solid lines represent flow of funds, while dotted lines represent activities and services.

The evaluation is funded by the Mayor’s Fund to Advance NYC, a nonprofit that promotes partnerships between the city and the private sector to support public programs.

Moral Reconciliation Therapy (MRT), a cognitive behavioral treatment designed specifically to help offenders reevaluate their choices and enhance their decision-making abilities. Those who are unable to complete the curriculum while on Rikers have the opportunity to complete it afterward by attending offices in the community run by the nonprofit service providers. If the program is successful and meets its predetermined benchmarks, the reductions in incarceration should save the City of New York money and the city will then pay back the investment. If the program fails to meet the required benchmarks, the city will not achieve any savings and will not pay back the investment.

Repayment to Goldman Sachs will be determined based on two factors: the impact on readmission bed days (RBDs, also called “future days in jail”) in DOC custody during the two years after each young person is released, and the number of participants served over a four-year period. If the program results in an average reduction in RBDs of at least 10 percent while serving a certain number of participants, the city will pay back the investor.

Table ES.1 shows the potential payments to be made in July 2017 based on 24 months of follow-up for the first year’s program participants. A reduction in RBDs of 11 percent or more will provide a return above the initial investment, and the city will not make a payment if the impact is less than 8.5 percent. The Vera Institute of Justice will use a quasi-experimental evaluation approach to determine the impact of ABLE: a cohort of adolescents incarcerated at Rikers during calendar year 2013 will be compared to a historical group that did not receive the program. In addition to reducing the rate of readmission, enough participants must benefit that the savings cover the program’s cost. While ABLE aims to serve all eligible young people admitted to Rikers,<sup>6</sup> it is not necessary that it do so. For full repayment to occur, the program must only serve 9,240 participants within four years (roughly 75 percent of the total projected population).

## Lessons for Negotiation and Implementation

The experience of structuring the United States’ first SIB and implementing ABLE has generated the following notable lessons:

- **Strong partnerships are highly valuable in a SIB arrangement.** The City of New York was a critical partner. In particular, the Mayor’s Office helped build the momentum necessary to secure the support of various city agencies, and the DOC was also a key partner throughout. This arrangement also brought together a diverse set of other stakeholders. For successful negotia-

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<sup>6</sup>“Eligible young people” includes all adolescents admitted to Rikers between the ages of 16 and 18 who are in custody long enough to enroll in school.

## The New York City Social Impact Bond

### Table ES.1

#### Summary of Payment Terms by Impact

Recidivism Reduction Rate	Department of Correction Success Payment (\$)	Net Projected Taxpayer Savings (\$)
≥20.0%	11,712,000	20,500,000
≥16.0%	10,944,000	11,700,000
≥13.0%	10,368,000	7,200,000
≥12.5%	10,272,000	6,400,000
≥12.0%	10,176,000	5,600,000
≥11.0%	10,080,000	1,700,000
≥10.0%	9,600,000	<1,000,000
≥8.5%	4,800,000	<1,000,000

SOURCES: MDRC calculations and NYC Task Order.

NOTES: The value of the initial loan to operate the program is \$9.6 million.

In addition to the minimum impacts described above, both success payments are subject to participation requirements. The program must serve a minimum of 9,420 participants over the course of its first four years of operation to trigger complete repayment. If fewer adolescents are served by the program, then success payments begin to be prorated.

Net projected taxpayer savings accounts for the DOC success payment and continued program operation for two additional years (Year 5 and Year 6). Gross taxpayer savings are purely operational savings within the jail system. A successful program would produce many other social benefits for participants, families, and local communities that are not accounted for in this agreement’s definition of success.

tions to occur, all parties had to understand each others’ organizational differences, find common ground, and be willing to compromise on individual preferences in order to reach consensus on important project objectives.

- **To be appropriate for a SIB, an intervention much be supported by evidence, be appropriate for the service environment, and be capable of being expanded to a large scale.** Moral Reconciliation Therapy (MRT) was chosen as the cognitive behavioral treatment in the ABLE program because of its evidence base and flexibility. Its curriculum is modeled on open groups participants can enter or exit at any time, is self-paced, and documents progress. These features made it expandable and appropriate to the constantly changing population on Rikers. Even so, it was necessary to adapt some elements of the program (with the permission of the developers) to implement it successfully.

- **Ideally, the program should be pilot-tested at full scale.** SIBs attract money that allows innovative programs to expand rapidly, but this expansion is likely to come with challenges. It may therefore be desirable to pilot-test a program at full scale, and only evaluate it after it achieves a steady state of operation. On the other hand, pilot programs require time and money, both of which are likely to be constrained in SIB arrangements. In this case, the trade-offs of money and time allowed for a pilot test at half scale. The experience was valuable, but certain issues came to light only after the program was expanded to full scale. Future SIBs will also probably need to weigh the benefits of full-scale pilot tests against the limitations of time and money.

## Lessons for Structuring Future SIB Deals

The more attractive SIB arrangements are to private investors, the more investment in social programs they can generate. Three primary lessons learned in the New York City deal could help attract investors to future SIB deals:

- **Sharp drop-offs in repayment increase investor risk.** To attract investment, it is probably necessary to eliminate sharp distinctions between program success and failure — or from the investor’s point of view, sharp distinctions between repayment and a total loss. If a government entity truly believes that small changes in effect size represent an absolute difference between success and failure, then it may be necessary for benevolent funders to step in to “smooth the curve” for more traditional investors.
- **Early performance indicators increase investor confidence.** It is more appealing to invest in a SIB if the program it funds offers early indicators of success or failure. New, simplified methods that allow evaluators to analyze administrative data without sacrificing robustness may make these types of early assessments possible. But it will probably always be a challenge to identify short-term measures that reliably predict long-term outcomes, as was the case with recidivism.
- **Transaction costs must come down dramatically if SIBs are to become more common.** As the SIB model becomes increasingly known and accessible, standards for evidence will develop, investors will see SIBs as less new and risky, and transaction costs are likely to decrease. In the long term, if they are to be widely used SIBs will need to include set-up, evaluation, and intermediary costs in the financing of a program. In the short term, it will

probably remain necessary for some party to bear these costs outside the financing of the program.

- **Investors would far prefer SIB arrangements for interventions backed by rigorous evidence.** However, proven intervention models are likely to be in short supply. The SIB framework will therefore be more sustainable if it can incorporate rigorous evaluation, helping to build the body of evidence for various models.

## Looking Ahead

SIBs have been proposed for programs that are intended to realize government savings in a relatively short time. Such projects may be a good starting place to build support for SIBs, yet the goal of most social programs is not primarily to save money, but to improve the lives of low-income and at-risk individuals and families.

Fortunately, SIBs do not inherently require that a government save money. They could be structured to encompass other goals that do not lead to government budget savings, so long as a government can identify what it is willing to pay to achieve those goals. SIBs could be designed to finance programs to increase high school graduation rates, boost college completion, improve young children's cognitive and behavioral skills, or produce better mental health outcomes for adolescents. All of these areas have promising interventions — in some cases proven ones — that could be adopted on a large scale. Additional funding for these kinds of programs is at least as hard to find as funding for programs that may generate short-term savings, and the potential benefits to society, though harder to measure, are similarly appealing.

Thus far, though, government entities have not seriously considered what they are willing to pay for outcomes in these fields. It is worth exploring whether those amounts would be sufficient to cover program costs and pay an acceptable return to investors. Current efforts to shift social and educational programs toward performance-based and incentive funding provide a foundation for this type of exploration. If SIBs are to realize their full potential, then they should be expanded beyond immediate government savings to other socially desirable goals.

## Chapter 1

# Introduction

### Overview

A Social Impact Bond (SIB) uses initial financing from private investors to produce outcomes governments value. This report describes the first operational SIB in the United States and the program financed by it, the Adolescent Behavioral Learning Experience (ABLE). ABLE aims to improve the lives of adolescents ages 16 to 18 incarcerated in the New York City jail system and produce financial savings to city government by reducing readmissions to Rikers Island (Rikers).<sup>1</sup> During their time on Rikers, adolescents participate in Moral Reconciliation Therapy (MRT), a cognitive behavioral treatment to help offenders reevaluate and enhance their decision-making abilities.<sup>2</sup> Those who are unable to complete the program while on Rikers have the opportunity to complete it afterward by attending offices in the community run by the nonprofit service providers.

Bloomberg Philanthropies and the Urban Investment Group of Goldman Sachs Bank USA are providing the funding for ABLE: Goldman Sachs provided a loan, and a grant from Bloomberg Philanthropies guarantees part of the loan if the program is not successful. If the program is successful and meets its benchmarks, the reductions in incarceration should save the City of New York money, and the city will then pay back the investment. If the program fails to meet the required benchmarks, the city will not achieve any savings and will not pay back the investment. MDRC serves as the intermediary, and is responsible for coordinating the financial deal and overseeing the operations of the ABLE program. The Osborne Association and Friends of Island Academy are the service providers delivering the program in jail.

The New York City SIB is the first public-private partnership following a Social Impact Bond model to involve a large financial institution. It is also the largest implementation of a Moral Reconciliation Therapy program to date. In this report readers can expect to find answers to the following questions: How did this project (SIB and ABLE) emerge as a priority in New York City? What exactly is a SIB? How was this SIB structured? What challenges arose in negotiating the financing arrangement? What are the main components of ABLE and what is it trying to accomplish? What have been the main accomplishments and challenges in designing

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<sup>1</sup>New York law requires that 16- to 18-year-olds be treated as adults in the criminal justice system.

<sup>2</sup>“On Rikers” is used throughout this report to mean “in Department of Correction (DOC) custody,” but not all DOC facilities are on Rikers Island. The DOC operates 10 facilities citywide, including 7 on Rikers Island.

and implementing the program? Finally, what has been learned from the project and how can this knowledge be applied to other “Pay-for-Success” initiatives?

## Background

As indicated in Figure 1.1, in January 2010 Mayor Michael Bloomberg announced in his State of the City speech a new effort to improve the lives of black and Latino men, who “have a poverty rate that is 50 percent higher than white and Asian young men ... [and] unemployment that is 60 percent higher.... And most troubling of all, more than 90 percent of all young murder victims and perpetrators are black and Latino.”<sup>3</sup> Agencies and thought leaders were charged with finding ways to make a difference in the lives of these young men. This commitment led to the creation of the Young Men’s Initiative (YMI), which focuses on programs and policies designed to improve outcomes for this population in education, health, employment, and the criminal justice system.

Given that approximately 20 percent of New York City’s black and Latino men fell within its target age range of 16 to 24,<sup>4</sup> the YMI promised to be a large undertaking requiring a significant amount of funding. During the planning process for YMI, agencies identified a number of bold ideas that exceeded the total funding available for the YMI initiative. Then leaders in city government and Bloomberg Philanthropies learned about a cutting-edge financing strategy in the United Kingdom called a Social Impact Bond. This concept seemed to make it more realistic to invest in prevention during a period of constrained government funding, because it lessened the risk that taxpayers would pay for ineffective programs. The city government and Bloomberg Philanthropies set out to see how the SIB concept might be able to support the YMI.

After an initial review of the concept, they decided to review the projects being considered in the YMI portfolio to see if any would be suitable for a SIB. The Office of the Deputy Mayor for Health and Human Services and the government innovation team at Bloomberg Philanthropies considered over 40 projects to determine which fit the SIB criteria, if any. Specifically, they looked for:

- Services that were largely funded by the city (as opposed to the state or the federal government), where there could be enough city savings generated to pay for a successful program
- Programs that focused on prevention rather than core services

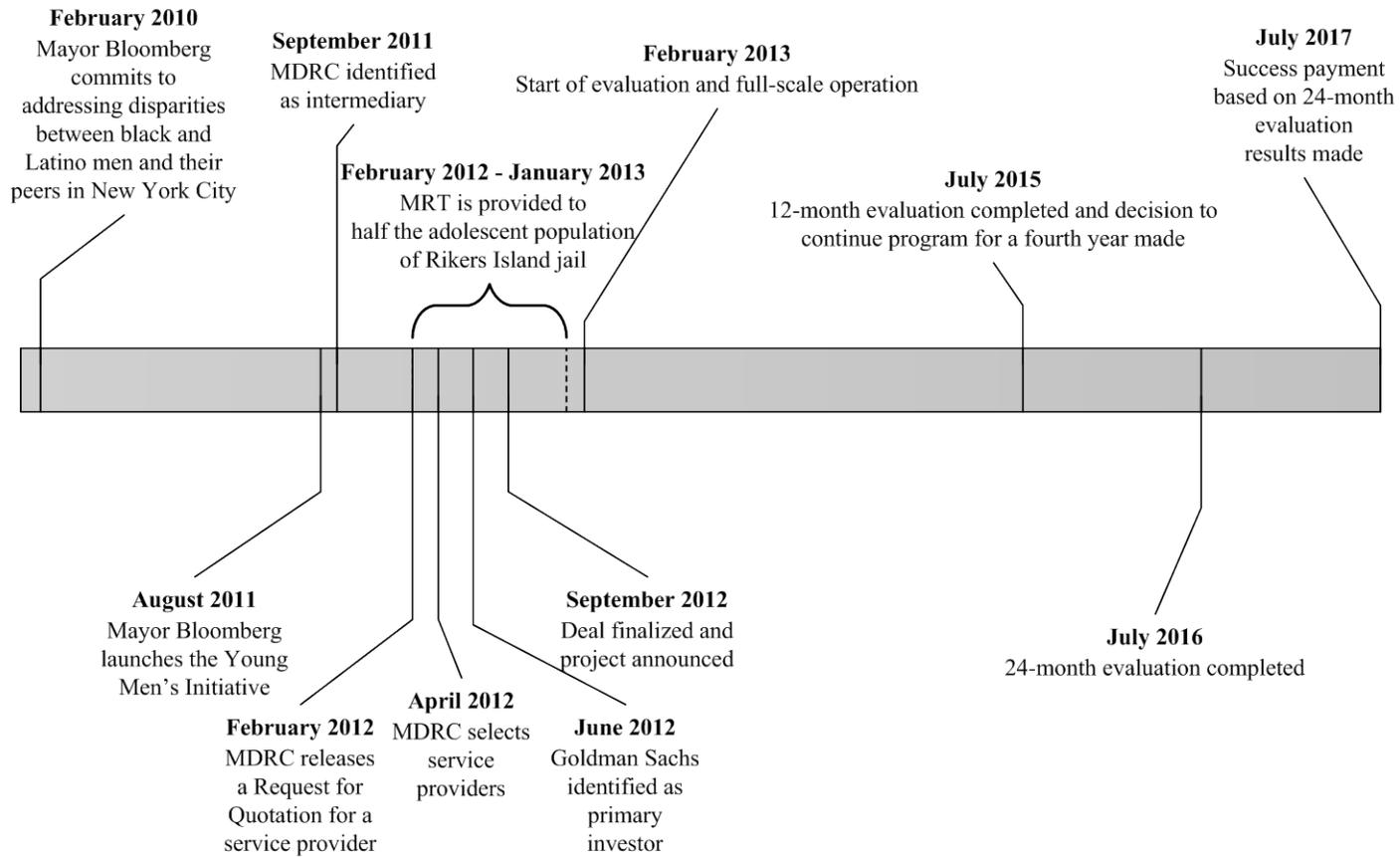
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<sup>3</sup>Banks and Oliveira (2011).

<sup>4</sup>New York City Department of City Planning (2010).

# The New York City Social Impact Bond

Figure 1.1  
Project Timeline



- Programs with evidence of success
- Programs with measurable outcomes
- Programs that would result in government savings large enough to sustain the program beyond the funders' investment

The New York City Department of Correction was interested in adopting a large-scale program for adolescents incarcerated on Rikers, with the goal of reducing future recidivism (that is, the rate at which they commit crimes in the future) and better preparing them for release during their stay. Adolescents incarcerated on Rikers are 91 percent black and Latino and have a 47 percent chance of returning to jail within one year, making it a fitting place to focus a YMI program.<sup>5</sup>

To evaluate the feasibility of SIB financing for an initiative on Rikers, the Mayor's Office worked with DOC to model historical data, seeking to understand how many adolescents return to Rikers within five years and how many days they stay on subsequent returns. The Mayor's Office and DOC then brought that information to the Office of Management and Budget, and all three government entities worked together to estimate the costs of recidivism and the potential savings associated with reducing it. Eventually it became clear that a project on Rikers had the most promise to become a SIB.

In August 2011 the mayor announced a total funding commitment of \$127 million to fund over 40 YMI programs and policies, including \$30 million from Bloomberg Philanthropies, \$30 million from the Open Society Foundation, and up to \$67.5 million from the City of New York. Part of Bloomberg Philanthropies' commitment would be used to support the ABLE program on Rikers Island through a SIB.<sup>6</sup> This SIB allowed Bloomberg Philanthropies to advance its focus on government innovation and commitment to spreading proven and promising ideas. The foundation was eager to help pilot the SIB concept in the United States and to share lessons from that experience with other jurisdictions.

Ultimately, the SIB concept enables incarcerated young men of color at Rikers to receive \$2.4 million worth of rehabilitative services each year, for at least the next three years. Although the arrangement required considerable in-kind support from city government leaders and staff, it does not include any up-front financial support from the city. The arrangement relies on the city government's promise to pay for impacts on measurable outcomes in the future.

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<sup>5</sup>New York City Department of Correction (2012).

<sup>6</sup>New York City Office of the Mayor (2011).

## What Is a Social Impact Bond?

Broadly speaking, a SIB is a type of “Pay-for-Success” financing involving a government entity, a service provider, an investor, and an evaluator. A SIB may also feature an intermediary to manage the contracts and the program, as is the case in New York City.<sup>7</sup> To better understand how the stakeholders in the New York City SIB describe the concept, the authors of this report asked each of them, “What is a SIB?” Their answers are shown in Box 1.1.

Pay for Success is far from a novel idea; government agencies have been writing performance-based contracts with social service providers for many years. Pay-for-Success contracts base payment to providers on outcomes (for example, achieving some goal related to community job placement or retention) rather than costs.

But SIBs are noteworthy because they attract private investment to adopt evidence-based preventive models on a large scale. They encourage higher levels of investment overall and increased accountability. Budget constraints have historically made it difficult for governments to invest in innovative preventive services, and SIBs help to address that problem.

In SIBs, investors provide financing for programs likely to produce desired outcomes. Currently, most SIBs focus on outcomes that save governments money, which they can then use to repay investors, usually with interest. For example, a government — like New York City’s — may get financing for a program to reduce recidivism; if the reduction is achieved, the government will use the money that would have been spent operating the jails to repay that financing.

Governments can (and in many cases do) invest in prevention without a SIB. But without a SIB, a government could end up having to pay twice if a preventive program turns out not to work: for the ineffective intervention and for the services it was intended to prevent. A SIB alleviates this risk because private investors pay for the initial operation of the program and the government entity only pays them back if the program demonstrates success. When investors adopt the risk in this way, governments are more likely to be willing to spend money on programs that can improve people’s lives.

In general, in fact, SIBs could help governments appreciate how important it is to study programs and determine which produce meaningful differences. Today most programs are not rigorously evaluated, and governments often do not know whether or not those programs are making a difference. For that reason, they may not understand the full value of shifting risk to private investors.

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<sup>7</sup>An intermediary does not necessarily have to be separate from the government or service provider. An organization’s ability to play the role of an intermediary depends on its knowledge, skills, and capabilities.

## Box 1.1

### What Is a SIB?

I explain it as a mechanism by which promising or proven ideas can be brought to scale through private investment, which is repaid by the government if it is successful.

— Elizabeth Gaynes, Executive Director, The Osborne Association

A SIB leverages private investment to achieve public good. It's a whole potential pool of dollars that were otherwise completely removed from our universe.

— Christine Pahigian, Executive Director, Friends of Island Academy

It is not a bond. It is a loan that finances preventive social services or other social and human services and is repaid based on impact.

— Andrea Phillips, Vice President, Urban Investment Group, Goldman Sachs

It creates an opportunity to do good work on a scale that ordinarily is not available to government. Typically funding is limited and does not allow the type of scale that is critical to make meaningful reform. A SIB changes things. The idea that we're able to tap into the private sector is huge in our world because our options have been limited.

— Dora Schriro, Commissioner, New York City Department of Correction

It is high-risk venture capital that connects the funding for an initiative that tends to be preventative in nature to repayment by government in savings generated from the intervention, if it is successful. It provides new resources to test out new ideas with zero risk to government.

— Linda Gibbs, Deputy Mayor, City of New York

It is a way to support innovative social programming, drawing upon private funding in a way which eliminates the risk and exposure of government and in so doing, generates new funding streams for programs in jurisdictions which are increasingly short of funds.

— Jim Parsons, Research Director, Vera Institute of Justice

It is an innovative financing tool that leverages private investment for government projects that can demonstrate clear and measurable outcomes.

— Katie Appel Duda, Bloomberg Philanthropies

Not all SIBs have the goal of saving government entities money, however. In those cases it is up to those government entities to determine where the money for repayment will come from.

## **The Structure of This Report**

The remainder of this report is divided as follows: Chapter 2 presents the details of the New York City SIB deal. It describes the deal's structure, recounts the process of contract negotiation, shares projections and estimates savings, and outlines the evaluation. Chapter 3 describes the ABLE program and the intermediary's role in implementing and managing it. Chapter 4 presents the successes of program implementation so far, and also the challenges that have arisen and how they have been addressed. Finally, Chapter 5 summarizes the major lessons from New York City that could be applied to future SIBs.



## Chapter 2

# The New York City Deal

The New York City Social Impact Bond (SIB) relies on a series of interrelated contracts with the intermediary, MDRC, at the center. MDRC worked with the City of New York to structure a contract wherein the Department of Correction agrees to pay for a program if it achieves clear and measurable goals related to recidivism. MDRC used this promise to pay to secure a loan from Goldman Sachs, guaranteed by a grant from Bloomberg Philanthropies. The loan will be used to pay for cognitive behavioral therapy for 16- to 18-year-olds in Rikers Island jail, which evidence suggests is likely to produce the desired effect. When structured appropriately, a SIB can align the interests of government, investors, and service providers with the interests of the people who receive services. This chapter details the structure of the New York City SIB deal.

## The Basic Structure of the Deal

A SIB generally involves a government partner, an investor, an intermediary, a service provider, and an independent evaluator. In the New York City SIB, these entities are:<sup>1</sup>

- **The City of New York**, the government partner.
  - **The Mayor's Office**, initiator of the SIB idea, coordinated all other city entities to structure the contracts and negotiate the terms.
  - **The Department of Correction (DOC)**, the government payer, agreed to pay the intermediary based on reduced recidivism and the associated cost savings.
- **Goldman Sachs Bank**, the commercial investor, made a \$9.6 million loan to the intermediary for the program.<sup>2</sup>
- **Bloomberg Philanthropies**, the philanthropic investor, provided a \$7.2 million grant that will be used to partially repay the primary investor if the program fails. A separate Bloomberg Philanthropies grant funds MDRC for its work as intermediary.

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<sup>1</sup>A more detailed description of these organizations is included in Appendix A.

<sup>2</sup>The loan to MDRC was designed by the Urban Investment Group and will be made from Goldman Sachs Bank USA. It is not structured as a program-related investment or foundation grant.

- **MDRC**, the intermediary, worked with partners to identify the intervention and negotiate the Pay-for-Success terms, hammered out contracts with the various partners, and oversees the day-to-day implementation of the program.
- **The Osborne Association and Friends of Island Academy**, the nonprofit service providers, administer the intervention, called the Adolescent Behavioral Learning Experience (ABLE).
- **The Vera Institute of Justice (Vera)**, the independent evaluator, will determine whether the project has achieved the intended reductions in recidivism, which will in turn determine repayment.

Figure 2.1 illustrates the agreements among the stakeholders in the New York City SIB. MDRC has a contract with the New York City Department of Correction that ensures payment if the program demonstrates success; a loan agreement with Goldman Sachs to finance the program; two grants from Bloomberg Philanthropies (one that guarantees the loan for program operations and another to fund MDRC's costs, which are not covered by the loan for the program); and a contract for services with the Osborne Association, which in turn has a subcontract with Friends of Island Academy. The Mayor's Fund to Advance New York City also has a contract with Vera to pay for an evaluation of the ABLE program.<sup>3</sup> Negotiations for all these contracts required extensive due diligence and review from legal counsel on all sides.

## Working with Governments

It is very important for a SIB to have a committed government partner. If the government entity is not committed and actively involved, it will be difficult even to agree on what should constitute success, much less structure contracts around that success. In the case of the New York City deal, designing the government contract required considerable analysis and negotiation. The City of New York and MDRC had to agree on their contract and set the terms; this occurred before they solicited commercial investment but after Bloomberg Philanthropies offered philanthropic support. The presence of strong support from Bloomberg Philanthropies probably gave the city and MDRC the confidence to forge ahead without early commitment from another investor.

Many details of a SIB rely upon and interact with other details. If too many details change too often, then it becomes difficult to move negotiations forward. To reduce the number of variables, the city and MDRC focused first on how much it would cost to run the program. It

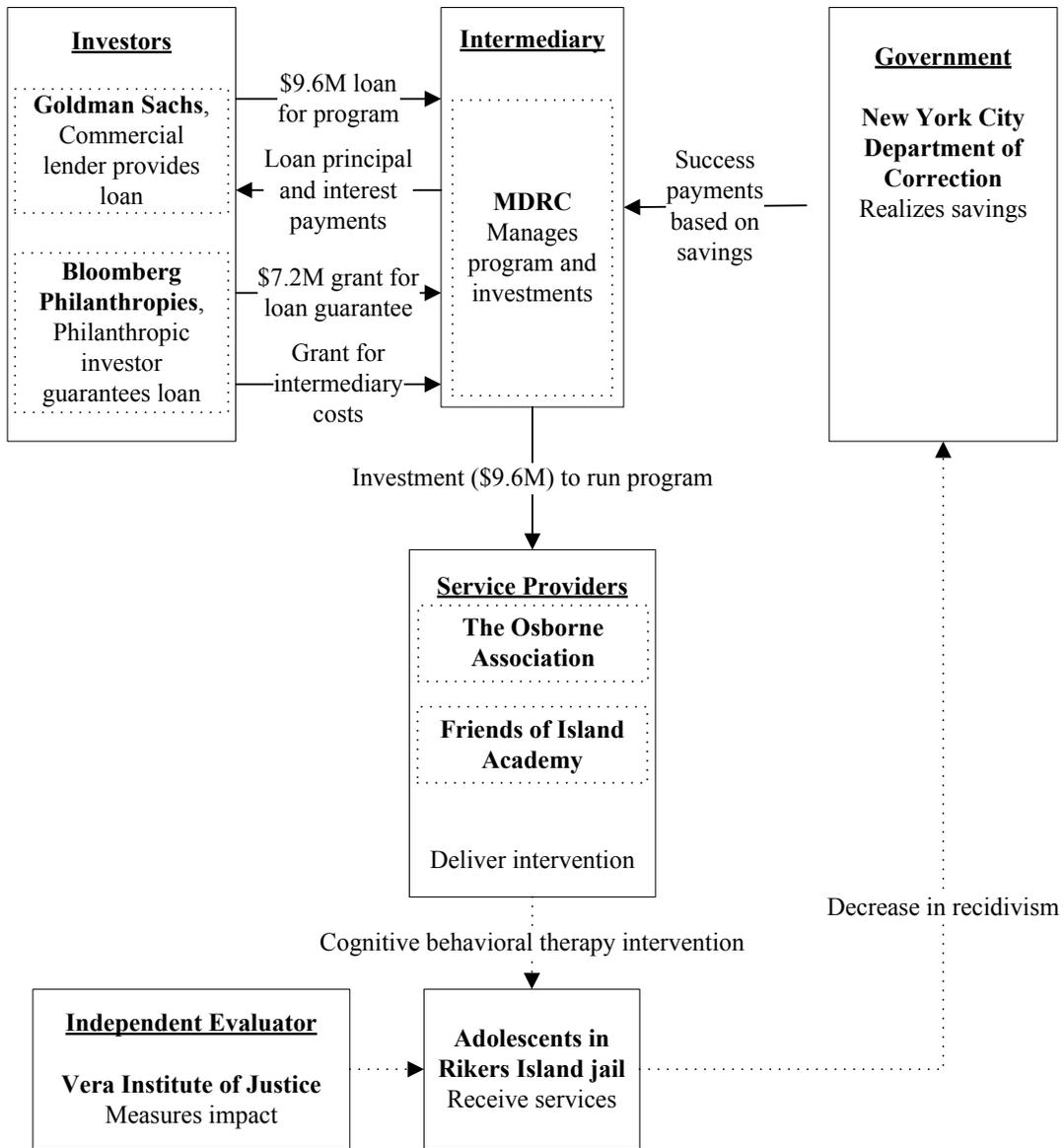
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<sup>3</sup>The Mayor's Fund to Advance New York City is a nonprofit organization designed to promote partnerships between the city and the private sector to support public programs.

## The New York City Social Impact Bond

Figure 2.1

### Structure of the New York City Social Impact Bond



NOTES: The figure illustrates the relationships among the stakeholders in the New York City Social Impact Bond. Solid lines represent flow of funds, while dotted lines represent activities and services.

The evaluation is funded by the Mayor's Fund to Advance NYC, a nonprofit that promotes partnerships between the city and the private sector to support public programs.

was difficult to finalize the exact cost at this early stage, since a nonprofit provider had yet to be selected, but the city and MDRC were able to create a sample budget and identify a *maximum* cost of \$9.6 million over four years.

Next, MDRC and the city established participation targets, based largely on the historical size of the target population in Rikers Island jail. That made it possible to identify the level of impact that would justify the program's cost. In other words, it became possible to identify how large the impact would need to be for the city to realize enough savings to repay the initial investment. After much discussion it became clear that the city would need to see at least a 10 percent average reduction in future jail time. If the program did not reduce recidivism by at least 10 percent, it would not be worth the investment. This is a much more stringent definition of success and failure than is usually applied to social programs.

This question — “What impact is needed to make this investment worthwhile?” — is simple, but too often it goes unasked and unanswered. The nature of a SIB forces governments to ask and answer it, thereby requiring them to define success.

### **Identifying a Government's Willingness to Pay**

Governments have established norms about what constitute reasonable prices for common supplies or services. They know how much they generally pay for a counselor's salary or a classroom workbook. They are far less accustomed to paying for specific results, and as a result there are fewer established norms on which they can rely. Most governments could quickly tell you what to pay a correction officer, but far fewer would have any idea what constitutes a reasonable price for a “10 percent reduction in future days in jail.”

New York City is fortunate to have strong financial planning, a product of the controls that were put in place after the city nearly went bankrupt in the 1970s.<sup>4</sup> For example, the Office of Management and Budget (OMB) regularly works with city agencies to update projected expenditures for the next five years. This practice helped the City of New York approach the SIB arrangement with some established norms about the value of many outcomes. The presence of this culture of financial planning was evident in an interview with New York City Deputy Mayor of Health and Human Services Linda Gibbs:

The SIB is a smart budget reduction, where instead of just eliminating a program and saving dollars by getting rid of a service, you're actually making a smart investment in order to produce savings in a way that produces an improved outcome. Instead of slashing a service that could produce a negative outcome, you're restruc-

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<sup>4</sup>Blumenthal (2002).

turing the approach to get a positive outcome. I think it's very much aligned with exactly the kind of approach that agencies bring to OMB to make the case for a good investment.<sup>5</sup>

Specifically, the city had a solid understanding of how much money is associated with changes in the size of the jail population, and was therefore able to take an approach wherein it would identify its willingness to pay by estimating its ability to save. If the city could save a certain amount by producing a desired impact, then it seemed it must be reasonable to pay that amount for the impact. To clarify the city's ability to save money, however, it was first necessary to establish a base understanding of the status quo.

### **Understanding the Status Quo**

Historical data from DOC provided the foundation for the cost savings projections. These data helped DOC understand current trends and allowed the agency to identify what change would make a deal beneficial to the city.

Data from DOC's management information system revealed that in 2010, more than 3,700 young people ages 16 to 18 (termed "adolescents" by DOC) were admitted into DOC custody on Rikers. Individuals who enter the city jail system as adolescents have a high likelihood of reentering the system as adults and nearly half (47 percent) return to Rikers within a year of discharge. Furthermore, historical data from DOC suggest that the typical adolescent who passes through Rikers will spend more than 200 days in jail over the next six years (in addition to his or her current stay), an average of 34 days in jail each year.<sup>6</sup> All of this costs taxpayers a great deal: the City of New York budgets over \$1 billion for correction, the bulk of which is spent operating Rikers Island jail.<sup>7</sup>

### **Estimating Government Savings**

The two panels in Figure 2.2 highlight that considerable time must pass before a 10 percent reduction in jail time translates into noticeable financial savings. The solid line in the panel on top shows the number of jail beds expected to be occupied by the target population if there is no intervention. The dotted line shows the expected number of future jail beds occupied by the target population if the program is able to reduce the number of future jail beds they occupy by

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<sup>5</sup>Interview with Linda Gibbs, deputy mayor of Health and Human Services, City of New York (May 23, 2013).

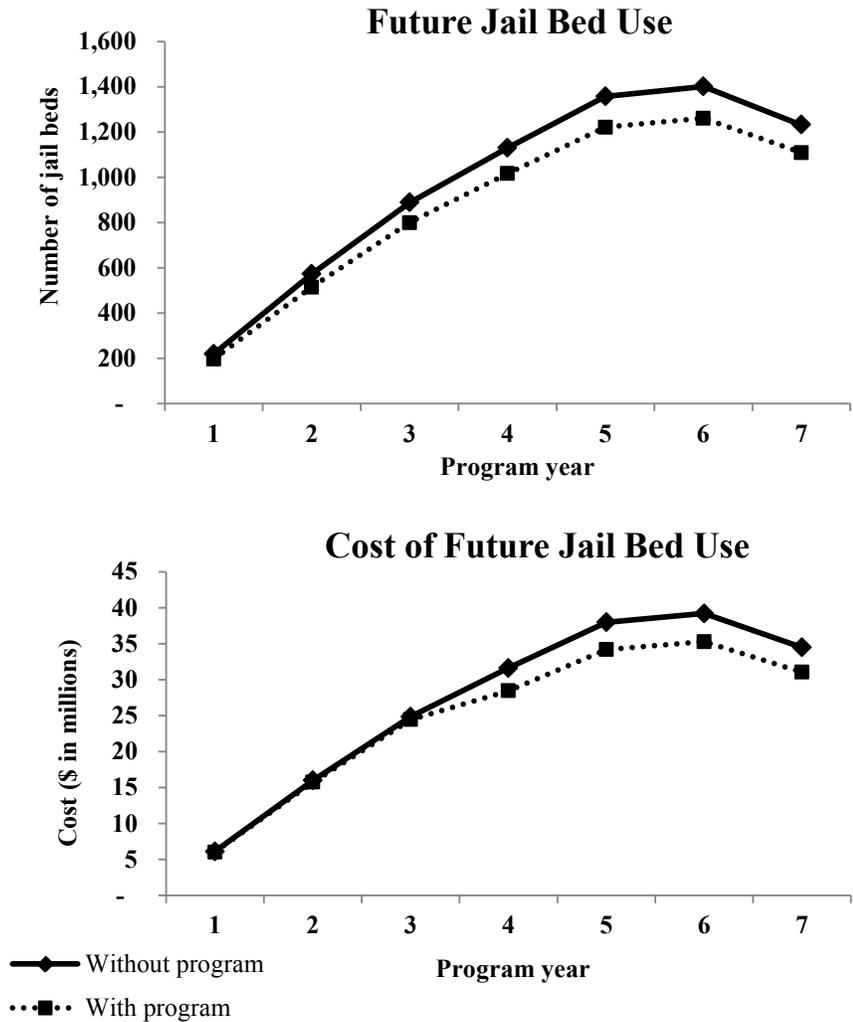
<sup>6</sup>These young people are also likely to spend time in state prison, but the state is not party to this arrangement so time in state prison was not considered.

<sup>7</sup>New York City Department of Correction (2012).

The New York City Social Impact Bond

Figure 2.2

Future Jail Bed Use and the Cost of Future Jail Bed Use



SOURCES: MDRC calculations based on population data from the NYC Department of Correction and cost data from the NYC Office of Management and Budget.

NOTES: This figure assumes a 10 percent impact on future jail bed use and illustrates the amount of time that must pass before this impact can translate into noticeable financial savings. The bottom panel shows that the impact on future jail bed use does not translate into substantial savings until Year 4.

There is a decrease in the amount of future jail bed use and the cost of future jail bed use between Year 6 and Year 7 because the pilot and Year 1 cohorts drop from the estimate. Since the pilot and Year 1 cohorts have been counted for six years as of Year 6, they are not counted again in Year 7. See the bottom portion of Figure 2.5 “Applying Evaluation Impacts to Estimate Savings.”

10 percent. The 10 percent impact is immediately visible in Year 1 and grows steadily as time passes. Similarly, the panel on bottom shows the cost of the future jail bed use with and without the program. The most striking difference between the two panels is that a 10 percent reduction in jail bed use results in nearly invisible cost differences for Year 1 through Year 3; substantial savings do not appear until after Year 3.

This project's goal is to reduce permanently the number of jail beds operated on any day by more than 100, since the city can save more money per bed when there are large reductions in the number it must operate than when there are small reductions. Specifically, the city believes it can save approximately \$4,600 per jail bed for reductions of less than 100 beds, but approximately \$28,000 per jail bed for reductions of 100 beds or more. This is the case because many jail costs are fixed, particularly those related to staffing. If it could eliminate 100 beds or more DOC would be able to close a housing area, which in turn would allow the agency to lower its staffing needs (in this case, by reducing spending on overtime for uniformed staff). These parameters make it very difficult to achieve substantial financial savings in the first three years of program operation. It takes time to serve enough people to produce a broad enough effect for DOC to need 100 fewer beds.<sup>8</sup>

In other words, jail bed savings are the result of both the size of the program's impact and the number of program participants, and the program must serve a large number of people in order to produce the desired cost savings. The contract between MDRC and the city therefore sets minimum requirements both for the number of participants that must receive the ABLE program and for the average impact that the program must produce. If both conditions are met the program will be considered successful and the city will pay back the investor.

### **The Number of Participants**

The numbers at the end of the bars denoted with an asterisk in Figure 2.3 represent the target number of program participants for each year. Over six years, it is estimated that 17,827 young people will participate. This estimate is based on DOC historical admissions data for adolescents. Because it is highly unlikely in any program that every eligible person would receive the treatment, investors wanted lower minimum target requirements in the SIB contract that would be more realistic to achieve.

The black bars in Figure 2.3 represent the minimum number of program participants needed to fulfill contractual obligations for repayment. A minimum of 9,240 participants must

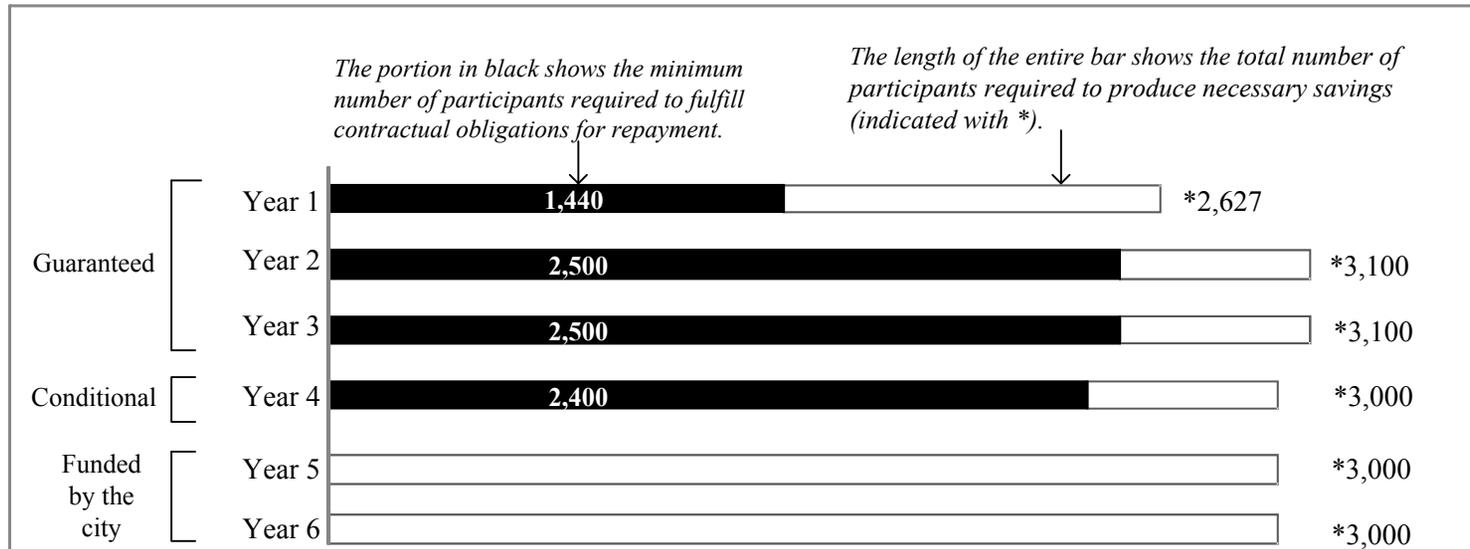
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<sup>8</sup>The program needs to serve enough participants such that the sum of all participants is associated with at least 1,000 future jail beds in order for a 10 percent reduction in jail bed use to produce a 100-bed reduction overall.

## The New York City Social Impact Bond

### Figure 2.3

#### Program Participation Targets and Contractual Minimums by Year



SOURCE: NYC Task Order and MDRC calculations.

NOTES: Year 1, Year 2, and Year 3 are guaranteed. Year 4 is optional, based on the discretion of the investors. After Year 4, the city has the option to continue the program.

All savings calculations assume the city will continue operating a successful program for two additional years (Years 5 and 6). Over the first four years, the program must serve at least 9,240 participants, which is 400 more than the sum of all years' minimums. These 400 can be engaged during any of the four years. Below these levels, success payments begin to be prorated.

The target number of participants falls by 100 participants (from 3,100 to 3,000) between Year 3 and Year 4 in an attempt to account for adolescents who participated in the program once and return again in another year. This phenomenon affects relatively few participants, because over time existing participants grow too old for the program, while new adolescents reach 16 and become eligible.

be served over the course of the first four years of program operation to trigger complete repayment (1,440 in Year 1, 2,500 in Year 2, 2,500 in Year 3, 2,400 in Year 4, plus an additional 400 participants who can be engaged at any time during these four years). If the program serves fewer adolescents, then success payments begin to be prorated.<sup>9</sup> This arrangement should provide the city with some degree of confidence that a large number of participants will be served, while providing investors, service providers, and the intermediary some degree of flexibility.

### **Length of Program Operation**

Figure 2.3 also communicates the certainty of program financing by year. Specifically, the SIB guarantees financing for the first three years, but investors must make a decision to continue financing the program for the fourth year. That decision will be based on the 12-month evaluation results for the cohort admitted between January 1, 2013 and December 31, 2013. Year 5 and Year 6 require continued funding from the city, as the SIB will have ended. The city is not obliged to continue the program even if it succeeds, but it seems reasonable that if the program reduces the amount of time young people spend in jail, the city will probably want to continue to operate it. To do otherwise would increase the city's costs. This arrangement deliberately gives the city an incentive to continue funding the program if it is successful.

### **Payment by Impact and the Evaluation**

To fully understand the concept of payment by impact in the New York City SIB deal, one must also understand the simple but important distinction between “impact” and “outcomes.” “Impact” refers to the difference between the outcomes of program participants and the outcomes of a comparison group, a similar or equivalent population that did not receive the program.

In the New York City SIB the primary outcome of concern is the number of days young people spend in jail. Figure 2.4 presents an illustration of the difference between impact and outcomes using two hypothetical programs, A and B. The panel on top shows outcomes for Program A and Program B. If these two programs were evaluated solely on outcomes, then Program B would appear to be more effective because it seems to do a better job of keeping people out of jail: Program A participants spend 60 days in jail while Program B participants spend 40 days in jail. But when outcomes for a comparison group are added, as in the panel on

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<sup>9</sup>Payment will be prorated based on the fraction of the contractual minimum that was not achieved. For example, if ABLE met 90 percent of its four-year target and the impact estimate produced by the evaluation was 10 percent, then the success payment from DOC would be 90 percent of the \$9.6 million payment listed in Table 2.1 (\$8.64 million).

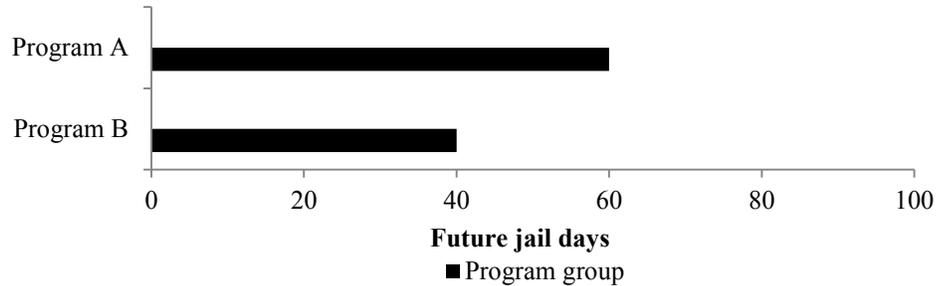
## The New York City Social Impact Bond

Figure 2.4

### Outcomes and Impacts

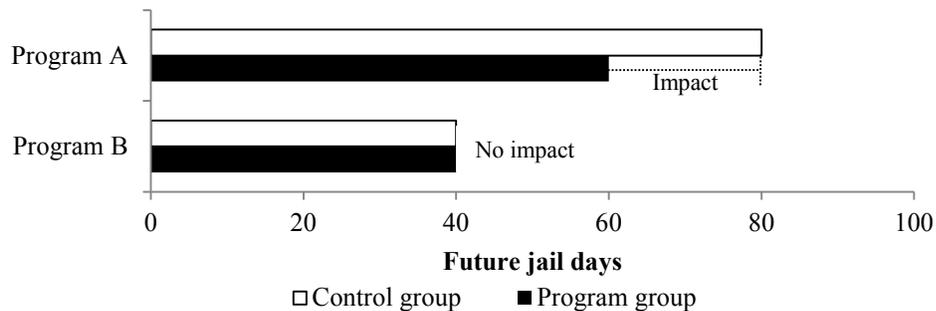
#### Outcomes

When no control group is present, the outcomes make it appear as though Program B is more effective.



#### Impacts

When a control group is added, the impacts make clear that Program B is having no effect and Program A is the most effective.



bottom, it becomes clear that Program A is actually more effective than Program B. It has an *impact* (reducing the amount of time spent in jail by 25 percent, from 80 days to 60 days) while Program B does not (both the program and comparison group members spend 40 days in jail).

In the case of the New York City SIB, success payments are contingent on the ABLE program's impact on future days in jail. Table 2.1 shows the potential payments to be made in July 2017 based on 24 months of follow-up for the first year's program participants.<sup>10</sup> As the

<sup>10</sup>The evaluation results that trigger payment will be available a year before the payment is scheduled to occur. This delay gives the city more time to realize savings. Additionally, an evaluation to be published July 2015 (analyzing impacts after participants spend 12 months in their communities) could trigger an early suc-

## The New York City Social Impact Bond

### Table 2.1

#### Summary of Payment Terms by Impact

Recidivism Reduction Rate	Department of Correction Success Payment (\$)	Net Projected Taxpayer Savings (\$)
≥20.0%	11,712,000	20,500,000
≥16.0%	10,944,000	11,700,000
≥13.0%	10,368,000	7,200,000
≥12.5%	10,272,000	6,400,000
≥12.0%	10,176,000	5,600,000
≥11.0%	10,080,000	1,700,000
≥10.0%	9,600,000	<1,000,000
≥8.5%	4,800,000	<1,000,000

SOURCES: MDRC calculations and NYC Task Order.

NOTES: The value of the initial loan to operate the program is \$9.6 million.

In addition to the minimum impacts described above, both success payments are subject to participation requirements. The program must serve a minimum of 9,420 participants over the course of its first four years of operation to trigger complete repayment. If fewer adolescents are served by the program, then success payments begin to be prorated.

Net projected taxpayer savings accounts for the DOC success payment and continued program operation for two additional years (Year 5 and Year 6). Gross taxpayer savings are purely operational savings within the jail system. A successful program would produce many other social benefits for participants, families, and local communities that are not accounted for in this agreement’s definition of success.

table shows, if the program impact is estimated to be 20 percent or greater, then DOC will make a success payment of \$11.712 million (which is \$2.112 million more than the original investment of \$9.6 million). In this scenario, the city could save \$20.5 million in excess of the cost to reimburse investors and continue program operation for two additional years (Years 5 and 6).<sup>11</sup>

As the estimated impact of the program decreases, so does the payment from DOC. An impact of 11 percent still provides a return on investment to investors. City savings deteriorate rapidly when reductions fall below 8.5 percent, so if the impact is estimated to be less than 8.5

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cess payment. If such a payment occurs, then the payments described in Table 2.1 would be decreased by that amount.

<sup>11</sup>In this scenario the net projected taxpayer savings are \$20.5 million. The gross projected taxpayer savings are estimated to be \$37.012 million. The difference between the gross and net savings is the success payment (\$11.712 million) and the cost of operating ABLE in Years 5 and 6 (\$4.8 million). Net savings in the table always account for investor repayment and continued program operation.

percent the city would not make a payment.<sup>12</sup> For the purposes of program repayment, the program’s “success” or “failure” is narrowly defined in terms of taxpayer savings, which are in turn based purely on operational savings within the jail system. A successful program would produce many other social benefits for participants, families, and local communities that are not accounted for in this agreement’s definition of success.<sup>13</sup>

The impact of the ABLÉ program will be determined by Vera, the independent evaluator. The central question of Vera’s evaluation is: “Did the implementation of ABLÉ lead to a reduction in readmission bed-days (RBDs) in DOC custody as outlined in the payment terms?”<sup>14</sup> To answer this question, Vera will employ a quasi-experimental evaluation approach in which a cohort of adolescents held in DOC custody at Rikers Island during calendar year 2013 is compared with a historical group that did not receive the program.<sup>15</sup> The evaluation will assess RBDs for both groups at two points: after 12 months in the community following initial release and after 24 months in the community following initial release.<sup>16</sup>

The evaluation design will control for individual-level differences between the program and comparison samples using a statistical technique called propensity score matching. It will also control for systemic changes that may independently influence RBDs (such as shifts in arrest patterns or detention practices) by tracking recidivism outcomes for 19- and 20-year-olds, a contemporaneous comparison group that is close in age to the program group but that is not eligible to receive ABLÉ services. Details of the research design will be described in a future report from Vera that will discuss the findings from the evaluation.<sup>17</sup>

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<sup>12</sup>Savings deteriorate rapidly at this point because they no longer reach the threshold at which they become meaningful. Specifically, the city cannot eliminate 100 or more jail beds, so savings are much smaller.

<sup>13</sup>The City of New York can terminate for cause, not for cause, or with different repercussions at different points in the project timeline. Essentially, the city can walk away from the program at any time. If it does, however, it loses all the pay-for-success features of the SIB and must reimburse MDRC for costs to that date.

<sup>14</sup>A “readmission bed-day” is a jail bed occupied for one day by a young person on a second or subsequent stay on Rikers.

<sup>15</sup>The program cohort will not include individuals who received ABLÉ services prior to January 1, 2013, as the program was not yet available to the full population at that time.

<sup>16</sup>“Time in the community” will not include any time young people spend in prison or other non-DOC custody.

<sup>17</sup>The description of the evaluation discussed here is based primarily on an evaluation design document produced by Vera and submitted to The Mayor’s Fund to Advance New York City. See Vera Institute of Justice (2012).

Figure 2.5 illustrates how evaluation results are assumed to relate to government savings, based on the New York City's Office of Management and Budget's established methodology. (Other approaches to estimating savings could have been used.) The top panel shows that the evaluation will follow Cohort 1 for two years after release. The middle panel shows that the observed two-year impact is assumed to be a reasonable impact estimate for all future cohorts and the pilot period.<sup>18</sup> The bottom panel shows that the two-year impacts are assumed to be sustained for up to six years for any cohort, but no impacts are assumed beyond seven years.<sup>19</sup> Neither assumption is necessarily true, which yields a degree of uncertainty for the city.

Due to this uncertainty, it seems appropriate that the majority of the potential benefits accrue to the city. (As Table 2.1 shows, projected government savings from larger impacts accrue mostly to the city rather than investors.) In other words, there will always be some risk that a government will not actually realize the future savings that it currently expects from various impacts. However, it is important to keep in mind that compared to the way governments currently pay for programs (which generally does not involve any type of evaluation) this approach represents an increase in certainty.

## **Working with Investors**

There are two investors in the New York City SIB: Bloomberg Philanthropies and Goldman Sachs. Bloomberg Philanthropies' early commitment to this project made it possible to structure this deal, and Goldman Sachs agreed to provide a loan to support the operation of the ABLE program for four years. It is important to note, though, that MDRC and the City of New York decided on a vast majority of the SIB's program details before Goldman Sachs entered the deal.

When Goldman Sachs was approached to become the primary investor, it brought with it a different perspective and level of discipline. Because the financing was structured as a loan rather than a program-related investment or foundation grant, the team from Goldman Sachs undertook its typical due-diligence process. MDRC and Goldman Sachs had to work through some standard commercial terms of a loan agreement and tailor them to this contract. As MDRC negotiated with the investor, it also had to reflect in its agreements with the city any new changes those negotiations caused. MDRC and Goldman Sachs had to negotiate over larger success payments for bigger impacts, partial repayment for partial success, and shared risk for all stakeholders. Some of these points were contentious. For example, as a nonprofit organization MDRC was not able to assume any of the liability risk traditionally associated with a bank loan.

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<sup>18</sup>This assumption is uncertain because the program or the population served may change over time.

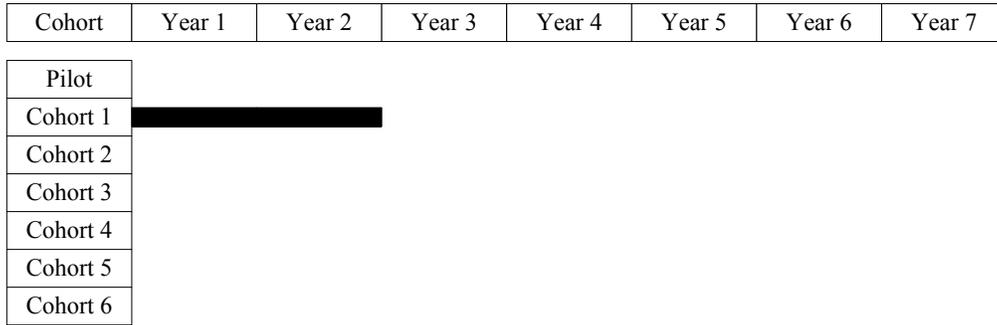
<sup>19</sup>This assumption is uncertain because program effects commonly fade with time.

The New York City Social Impact Bond

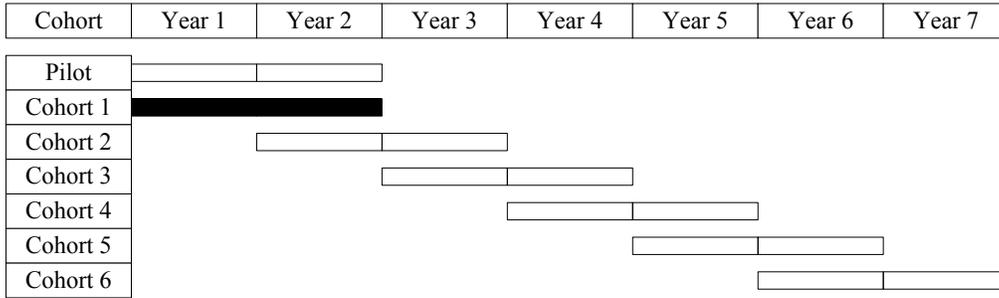
Figure 2.5

Applying Evaluation Impacts to Estimate Savings

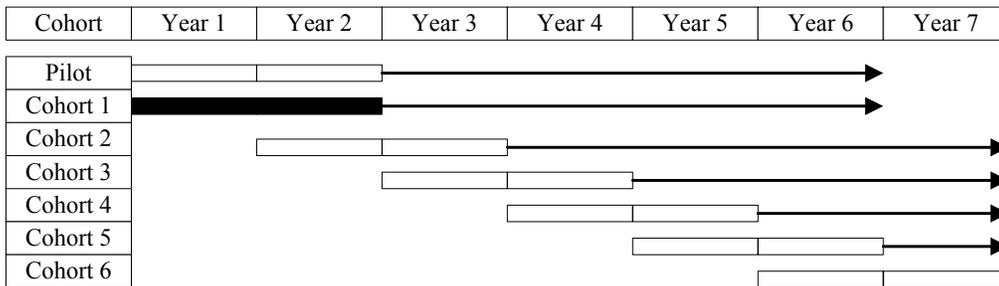
\*The evaluation will follow Cohort 1 for two years.\*



\*\*The savings projection assumes that two-year impacts for future cohorts (and the pilot cohort) will be the same as the impact observed in the evaluation.\*\*



\*\*\*Additionally, the savings projection assumes that two-year impacts will be sustained beyond the two-year period in which they were observed. Impacts are assumed to be sustained for up to six years within a seven-year time frame.\*\*\*



Key underwriting considerations for Goldman Sachs included:

1. The intervention's track record
2. The program providers and the intermediary's ability to deliver the program as intended
3. The reputations and financial stability of the various partners
4. The likelihood that the government would actually make its repayments (known as "appropriations risk")

Goldman Sachs especially questioned why it was reasonable to expect an 11 percent reduction in the number of future jail days for program participants. Table 2.2 describes two scenarios that were used to build support for the position that it was reasonable. The estimates for the expected impacts of the ABLE program were based on a rich body of prior research. In particular, a meta-analysis published by Landenberger and Lipsey (2005) offered strong evidence that the necessary impact could be achieved. The top portion of Table 2.2 presents the findings of the meta-analysis, which examined the results of 58 evaluations of cognitive behavioral therapy programs serving different populations in different settings. As the table shows, on average cognitive behavioral therapy was estimated to reduce recidivism rates by 25 percent. It therefore seemed reasonable to expect that a well-implemented program serving all eligible young people could also expect to generate a 25 percent reduction in recidivism.

The bottom portion of Table 2.2 shows one example case for success, specifically focusing on the level of participation that would be necessary for the program to be successful. Participation has been divided into four categories based on the amount of time the hypothetical young people spend in the program. The percentage of the population assigned to each level of participation is based on DOC data on the average amount of time the ABLE target population currently stays in jail. These data show that 33 percent of eligible adolescents are in jail long enough that they could complete the ABLE program, 9.3 percent are there long enough to complete most of the program, almost 18.8 percent are there long enough to complete part of the program, and 38.9 percent are not there long enough to be substantially affected by the program.

These "base case for success" estimates in Table 2.2 are more conservative than the Landenberger and Lipsey meta-analysis estimate because the expected impact lessens proportionally as the dosage of the program is lowered — that is, as young people are exposed to the program for less and less time. The Landenberger and Lipsey meta-analysis does not account for dosage. Some evidence does suggest that receiving more treatment is associated with larger impacts, but this adjustment was made largely based on what seemed reasonable. It was also made to illustrate what would need to happen in order to achieve an 11 percent reduction in re-

## The New York City Social Impact Bond

### Table 2.2

#### Expected Impact

	Participation rate of eligible adolescents (%)		Expected impact by level of completion (%)		Average weighted impact
<b>Case for success based on evidence</b>					
All participants	100.0	*	25.0	=	25.0
<b>Total</b>					25.0
<b>Case for success based on length of stay</b>					
Level of completion					
Completers	33.0	*	25.0	=	8.3
High partial completers	9.3	*	16.6	=	1.5
Low partial completers	18.8	*	8.3	=	1.6
Noncompleters	38.9	*	0.0	=	0.0
<b>Total</b>					11.4

SOURCES: Landenberger and Lipsey (2005) and MDRC calculations. Percentages are based on historical data on lengths of stay for the adolescent population in 2010, as provided by the New York City Department of Correction.

NOTES: Completers are assumed to receive 10 or more weeks of cognitive behavioral therapy. High partial completers are assumed to complete between 6 and 10 weeks of therapy. Low partial completers are assumed to complete between 3 and 6 weeks of therapy. Noncompleters are assumed to complete less than 3 weeks of therapy.

cidivism.<sup>20</sup> Implicit in these calculations is the assumption that length of stay in jail is directly associated with progression through ABLE. The estimate does not account for any other factors that may affect progression, such as literacy levels or learning capabilities.

In most loans, the bank uses the likelihood of repayment to calculate its level of risk. In the New York City deal, the profit Goldman Sachs could receive was not high enough to justify the high level of risk it perceived regarding repayment of the \$9.6 million loan. The city was willing to agree to a maximum profit of \$2.1 million. In an effort to balance the risk/reward trade-off, Bloomberg Philanthropies provided a \$7.2 million grant to MDRC to act as a loan guarantee and reduce Goldman Sachs' risk. This loan guarantee ensures that Goldman Sachs

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<sup>20</sup>This base case for success is often used as a benchmark to evaluate the progress of the intervention. It serves as a goal and point of reference for the program's operation.

will only experience a partial loss if the program fails to produce the required impacts. The loan guarantee does not eliminate Goldman Sachs' risk; it only reduces it.<sup>21</sup> If the program is successful (that is, if it reduces readmission bed days in DOC custody by at least 10 percent), then the remaining grant funds from Bloomberg Philanthropies will remain with MDRC to fund future projects.

### **Flow of Investment and Repayment for Goldman Sachs**

Another way to reduce risk is to provide early decision points. That was difficult in this case because there is only one point when the investor could change direction, after the third year of program operation. Normally investors would like more and earlier decision points.

Figure 2.6 illustrates the flow of investment and repayment. Initially, investors agree to fund three years of program operation. After three years, Vera will release an evaluation report showing 12-month impacts for the 2013 program cohort. If the observed impact is less than 9 percent then there will not be a preliminary success payment. Goldman Sachs will have to decide whether or not to continue the program for a fourth year.<sup>22</sup> If the investor chooses not to continue, there will not be a fourth year and there will be no final success payment.

If the 12-month evaluation does show that the program achieved a 9 percent impact or greater, then DOC will make a \$2.4 million success payment to Goldman Sachs via MDRC, and the investor will continue the program funding for a fourth year. If the program operates for a fourth year, an evaluation will determine the 24-month impact of the program. If that impact is greater than 8.5 percent, then DOC will make a success payment (see Table 2.1 for the levels of payment corresponding to various magnitudes of impact). If that evaluation finds an impact of less than 8.5 percent, then there will be no final success payment and the program will end. Interim payments based on 12-month results will not be affected by the results of the 24-month evaluation.<sup>23</sup>

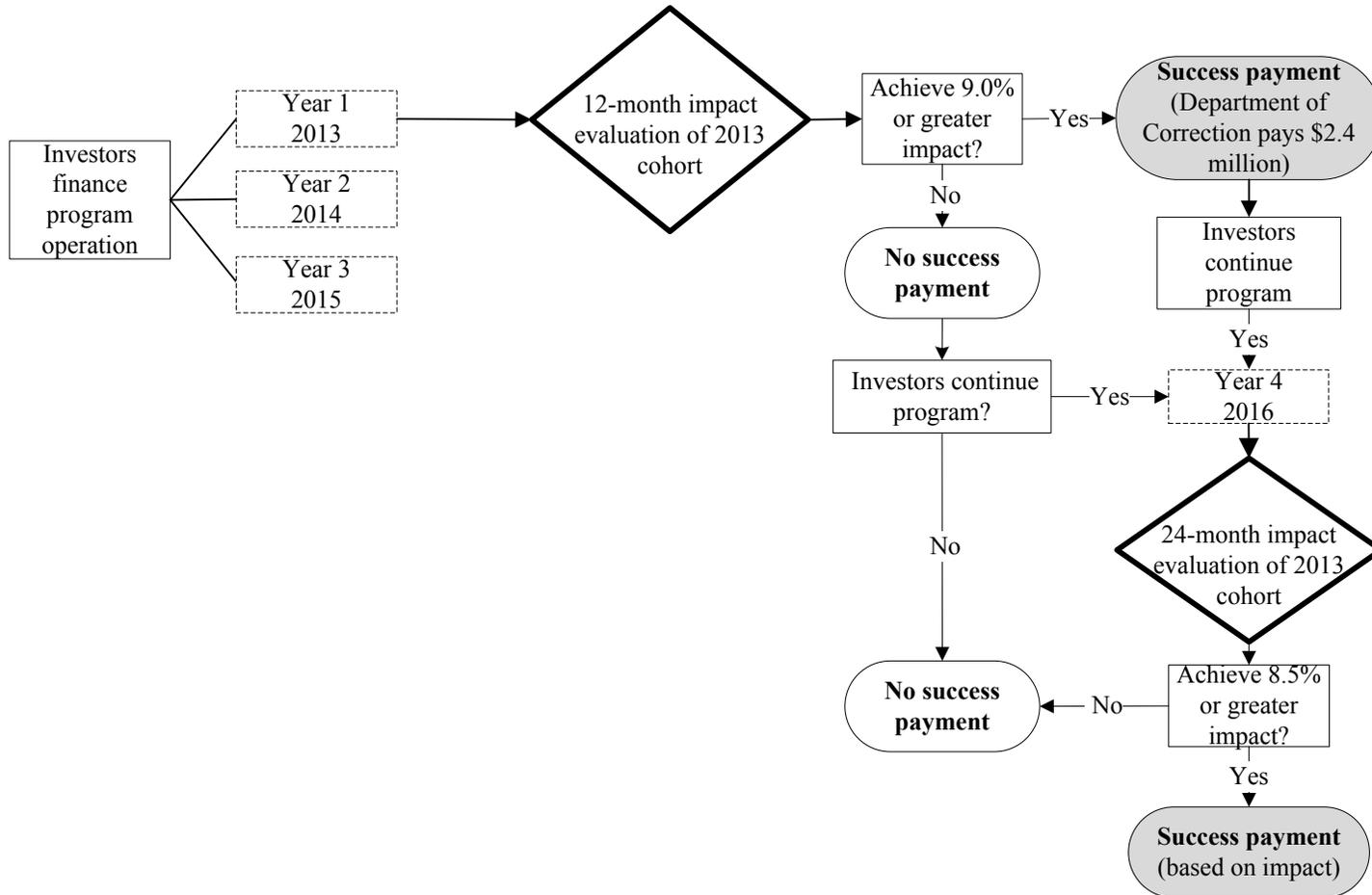
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<sup>21</sup>The timing of the loan and grant drawdown are coordinated to ensure that Goldman Sachs has capital at risk at all times. If the program is not working as expected and investors decide to stop after just three years, then Goldman Sachs will lose \$1.2 million. If the program continues for a fourth year and fails to produce an impact that triggers a success payment, then Goldman Sachs will lose \$2.4 million.

<sup>22</sup>The threshold for success is lower for the interim payment (9 percent) than for the final payment (10 percent). This difference is largely to make it more likely that the program continues for a fourth year.

<sup>23</sup>That is, the interim payment of \$2.4 million will be based on 12-month results. If those results fade in the 24-month follow-up, investors will not need to return the interim payment.

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**Figure 2.6**  
**Goldman Sachs Investment and Payback**



## Takeaways

- Although SIBs do not have to be designed with the goal of saving governments money, New York City's willingness to repay its investor is largely determined by its ability to save money. Saving money is also likely to be important for most other jurisdictions that propose SIBs.
- The presence of a major financial institution in a large Pay-for-Success arrangement attracted new resources for an innovative social program. This is a noteworthy accomplishment in and of itself.
- The multiple contracts in the New York City SIB required careful scrutiny and many hours of legal review. Structuring the deal as a bank loan added to the level of due diligence required. It is also likely that negotiations were challenging in part because the SIB concept was new for all the parties involved.
- Successful negotiation required that parties understand the organizational cultures of the different stakeholders, so that together they could identify common ground and reach consensus on the most important project objectives.
- The strong body of evidence supporting cognitive behavioral therapy gave investors enough confidence to make a deal possible. Without strong evidence, investors would not have participated.
- New York City's reliable historical data and established cultural norms — for example, its standard formulas for calculating the marginal and fixed costs of jail days — greatly helped negotiators to estimate savings and identify standards for success.
- The New York City SIB success payments are based on government savings, but the SIB contract is not explicitly focused on savings. Instead it has requirements for the number of young people who must participate in the program and the average impact the program must have on future days in jail for program participants. Both requirements are equally important, but they operate in some tension. For example, if the program expands too quickly or tries to reach the unrealistic goal of serving all the young people in its target age range, its quality could suffer and it could worsen recidivism outcomes. It is important to set operationally realistic targets.

- An independent evaluator will determine the program's impact using a comparison group, and that impact will be used to determine the amount of the success payment. Focusing on impacts rather than outcomes provides a more reliable basis for repayment because it assesses the effect of the program compared with what would have happened to the target population in its absence.

## Chapter 3

# Program Development

The responsibilities of the intermediary can be divided into two categories: financial and programmatic. The specific tasks will vary depending on the characteristics of the desired program and the abilities and constraints of the stakeholders involved. In the case of the New York City SIB, the intermediary's financial responsibilities included facilitating discussions about the city's willingness to pay and ability to save, identifying a primary outcome of interest to the city, defining the level of impact needed to justify the expected program cost, and making an evidence-based case that it is reasonable to expect to achieve that necessary impact. These financial activities are discussed in Chapter 2.

This chapter will describe the intermediary's responsibilities related to program development. MDRC was able to bring substantial resources to the deal: expertise in cognitive behavioral therapy and offender interventions and the resources to design the program and think through critical issues. MDRC identified an intervention suitable for Rikers Island jail (Rikers), selected service providers, trained staff, set up a pilot test of program operations, and built support for the intervention. It is now monitoring the fidelity of program implementation, monitoring program participation, acting as a liaison among all parties, and addressing implementation challenges and solving problems as they arise.

## Selecting the Intervention

When the City of New York, Bloomberg Philanthropies, and MDRC began working together in September 2011, cognitive behavioral therapy for young people in jail had already been identified as a possible intervention for the Young Men's Initiative (see Chapter 1). Cognitive behavioral therapy is premised on the idea that beliefs, attitudes, and values affect the way people think and how they view problems. These beliefs can distort the way a person views reality, interacts with other people, and experiences everyday life. Cognitive behavioral therapy is designed to restructure distorted thinking and perceptions, which in turn changes a person's behavior for the better. Cognitive behavioral therapy programs for people involved in the justice system seek to improve individuals' social skills, problem-solving abilities, critical reasoning, moral reasoning, cognitive style, self-control, impulse management, and self-efficacy.<sup>1</sup>

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<sup>1</sup>Clark (2010). "Self-efficacy" refers to a person's belief in his or her own ability to complete tasks and reach goals. "Cognitive style" refers to a person's way of thinking, perceiving, and remembering.

As the intermediary, MDRC had the task of selecting a cognitive behavioral therapy curriculum that would not only be appropriate for young people involved in the justice system, but that would also fit a population with the high rate of turnover that characterizes the adolescent population awaiting trial on Rikers Island. The decision to use Moral Reconciliation Therapy (MRT) as the primary program intervention was based both on evidence from existing research and on what was known about the operational challenges of running programs at full scale in a jail as large as Rikers.

MDRC conducted a literature review of the effects of various widely used cognitive behavioral therapy curricula. The best available comparative evidence it found in that review showed that all of the different brands and models of cognitive behavioral therapy achieved comparable results as long as they were well implemented as the designers intended. Most of the studies of MRT found that the program model had positive effects and performed at least as well as others being considered for the project, such as Aggression Replacement Training, Thinking for a Change, and Reasoning and Rehabilitation.<sup>2</sup> The Landenberger and Lipsey (2005) meta-analysis offered strong evidence that cognitive behavioral therapy could reduce recidivism, but there were some limitations in the available MRT literature: some of the studies were nonexperimental, were done on a small scale, or did not attempt to provide the intervention to all participants. Often the treatment environment in the MRT studies was stable, participants were exposed to MRT for a long period of time, and participation in MRT group sessions was voluntary. But MRT was the most studied of all interventions examined and was ultimately selected because the available evidence suggested it could best accommodate the unique operational challenges of high turnover on Rikers Island.

MRT was developed in 1985 by Correctional Counseling, Inc., and has been widely used in prisons, jails, residential juvenile facilities, drug courts, probation programs, and schools. This curriculum is based on eight stages of moral development and seeks to improve moral reasoning by addressing participants' beliefs and reasoning in a systematic, step-by-step way.<sup>3</sup> Participants use a workbook to progress through the eight stages of development in a group with the help of a trained facilitator. They progress from one moral stage to the next by delivering "testimonies," or presentations about themselves, that indicate that they have begun to internalize the content of the moral stage associated with each step in the program. (There are 12 such steps in total, beginning with "honesty" and culminating in "choosing moral goals.") The group and the facilitator vote on the testimonies, and a passing vote enables a participant to move up the "Freedom Ladder" shown in Figure 3.1.

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<sup>2</sup>See Little, Robinson, Burnette, and Swan (2010) and Armstrong (2003) for examples.

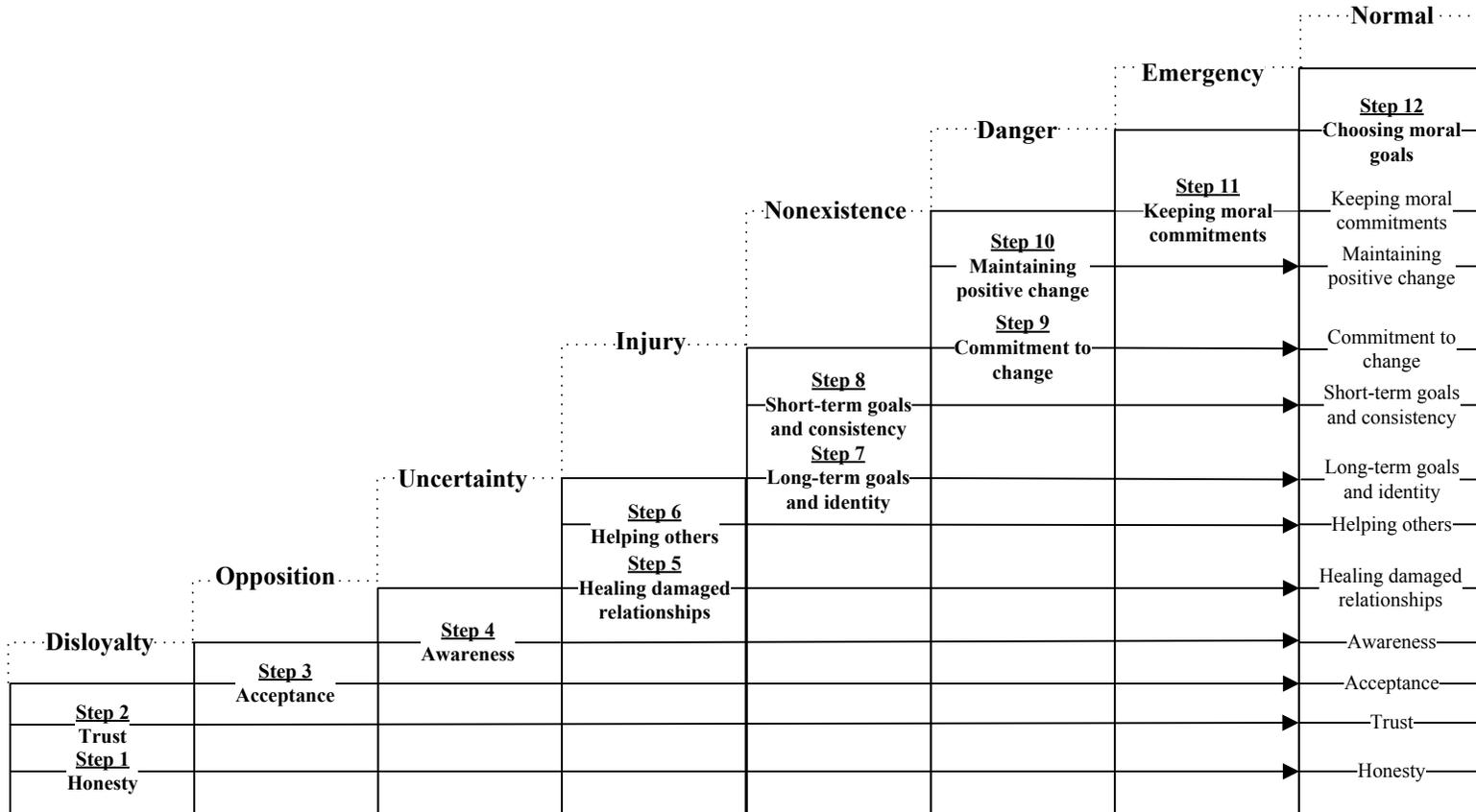
<sup>3</sup>"Conation" refers to a person's inclination to act purposefully. "Reconciliation" therefore refers to the attempt to change how a person decides to act.

The New York City Social Impact Bond

Figure 3.1

Moral Reconciliation Therapy (MRT) Freedom Ladder

This figure illustrates the eight stages that participants are presumed to overcome with the completion of the 12 steps in the MRT curriculum. For example, in order for participants to conquer disloyalty, they must complete Step 1 and Step 2 (honesty and trust).



MRT was considered the most desirable curriculum for Rikers because the model is flexible. Specifically, MRT has open groups, is self-paced, and uses workbooks to document progress. These three features of the curriculum allow the program to accommodate the churning population of Rikers, where approximately 90 percent of the adolescents are detainees (unsentenced young people who remain in New York City Department of Correction [DOC] custody while their cases are pending in court). When these unsentenced young people enter the jail it is not known how long they will stay, and new adolescents enter and leave every day.

Open groups are also necessary given the significant amount of movement that occurs *within* the jail, as adolescents frequently change housing units. Inmates are assigned to housing areas based on a host of security-related factors, and as new additions change the composition of the jail, inmates are often moved. For example, DOC manages housing areas to reduce the likelihood of gang-related tensions. It is therefore vital that young people be able to move from one MRT group to another without setting back their progress.

MRT is also self-paced, meaning that young people can move at a pace that is comfortable to them. This is especially valuable at Rikers, where young people often have different cognitive abilities, literacy levels, or comprehension skills. It also means that each group is likely to have young people at varying steps on the MRT Freedom Ladder, which MRT's developers view as desirable. It creates balance in the group and can also promote a bit of healthy competition — driving participation and encouraging progress. The workbooks used in group sessions not only take young people through the curriculum, but also track progress and document milestones. Even if a young person changes MRT groups multiple times during his or her stay in custody, the workbook will tell each new group's facilitator which step he or she is working on.

Many young people will spend only a short time on Rikers, and thus will be unable to complete the entire MRT curriculum during their stay. The program therefore includes a community-based MRT component, so that they can pick up MRT where they left off.

## **Selecting a Provider**

In February 2012 MDRC issued a selective Request for Quotation, open to five of the city's most respected community-based organizations that work with young people involved with the justice system. Ultimately MDRC selected The Osborne Association (Osborne) in collaboration with Friends of Island Academy (Friends). The scale of the project made it too daunting for either agency to attempt to bid on the solicitation independently, but together Osborne and Friends bring a well-balanced and highly capable service provider team to the project. Osborne has extensive experience running cognitive behavioral therapy programs and has worked in

prisons for over 30 years. Friends has worked with young people in New York City for two decades, much of it with young men and women in the public school that operates on Rikers, East River Academy.

MDRC began contract negotiations with Osborne in April 2012, and Friends entered into a subcontract with Osborne shortly thereafter. Almost immediately following the contracting process, MDRC worked with Osborne and Friends to hire and train the staff they needed — neither agency had readily available staff members trained in MRT. MDRC arranged for Correctional Counseling, the MRT developer, to schedule a series of MRT training sessions for new staff members as they were hired.

## **Pilot-Testing the Intervention**

Before going full scale, the Adolescent Behavioral Learning Experience (ABLE) project was pilot-tested to allow the project partners to identify and address any start-up challenges together. In January 2012, Correctional Counseling trained teachers from the Rikers school in MRT. From February until the end of June these teachers provided MRT as part of the school day to approximately half of the adolescents on Rikers. In July the nonprofit service providers took over service delivery. Project partners considered keeping all of the trained teachers as MRT facilitators, but decided that a better arrangement would be to retain a smaller number of teacher facilitators to provide MRT in two smaller areas of the jail, and have the service providers alone deliver MRT in the largest area of the jail.

Osborne and Friends facilitators continued providing MRT to approximately half of the adolescents on Rikers through the end of 2012.<sup>4</sup> The service providers worked hard to build strong relationships with lead uniformed staff at DOC and the staff at the school. Solidifying these relationships early helped the providers work through issues that came up later in the program. During this start-up period Correctional Counseling and MDRC made frequent visits to Rikers, and facilitators received a significant amount of coaching and support from Correctional Counseling regarding MRT delivery and group management techniques.

## **Implementing the Program**

During the planning phase of the project, MDRC worked closely with DOC to determine the best location and time of day to provide MRT. Given the size of the population to be served (approximately 600 adolescents on a given day) and the small group size required to administer

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<sup>4</sup>Originally the program was delivered to only half the young people on Rikers during this period because the evaluator was determining the feasibility of a randomized control trial. Resource constraints also would have made a full-scale pilot test challenging.

MRT effectively (optimally about seven per group), it was decided that MRT would be incorporated into the school day. Incorporating the therapy into an existing component of jail services also aligned well with DOC's broader goal improving the culture of the jail. Adolescents on Rikers are in school at East River Academy for most of the day, and outside of school other scheduled activities (such as law library or optional recreation) would make it impossible to deliver MRT to all of them.

MRT operates in three main jails inside the larger Rikers Island jail complex. The vast majority of MRT is provided in the area with the largest proportion of ABLE-eligible young people: the area that houses all adolescent male detainees. Osborne and Friends provide 50-minute sessions of MRT five days a week in this area. MRT-trained East River Academy teachers provide MRT in the other two smaller areas of the jail, three days a week.

MRT has been integrated into the school day and is run nearly every class period, with each facilitator conducting three or four MRT groups a day. Individual housing units attend school together, which means that they also attend MRT together. The New York City Department of Education permits no more than 15 students per class at East River Academy, but occasionally, larger groups cannot be avoided. Group size and composition changes nearly every day as young people arrive on Rikers, leave, or are moved from one place to another within it.

In an effort to reduce adolescents' idle time in the jail, DOC encouraged MDRC, Osborne, and Friends to add a recreation component to the ABLE program. Adolescents are normally provided one hour of "mandatory recreation" time on Rikers, but DOC reported that this time was minimally structured and few young people took advantage of it. Osborne and Friends were given the task of providing recreational opportunities that would be attractive to them. This would also provide young people an unstructured, "real-world" opportunity to practice the commitments they made in MRT group sessions. Under the program design, a recreation coordinator develops "lesson plans" for the mandatory recreation time, including games, team sports, drumming, yoga, and a variety of other DOC-approved activities that Osborne and Friends organize. This time is also an opportunity for young people to continue to build rapport with Osborne and Friends staff.

Operating the ABLE program requires a high degree of collaboration among program staff and partners. Together, Osborne and Friends operate the program and make sure it is delivered properly. Osborne's associate executive director oversees the project, and the day-to-day operations are led by Osborne's program director, who is responsible for supervising the MRT facilitators employed by both agencies. Friends' MRT facilitators receive additional support and supervision from Friends' team leader. Facilitators run MRT groups in jail and in the community. In addition to MRT facilitators, Friends employs a service coordinator who connects with young people while they are on Rikers and provides them with information about how they can

participate in MRT once they are released. The clinical coordinator provides clinical supervision and support to all MRT facilitators, and promotes healthy self-care practices among staff in an effort to reduce burnout and vicarious trauma, both of which are concerns for staff members who work in high-stress environments with populations who have experienced significant trauma. The recreation coordinator arranges activities for adolescents' daily mandatory recreation time. The data-entry staff collects MRT participation and progress data on a daily basis. The quality assurance function is served by MDRC and Correctional Counseling, as described in the next section. Both of these organizations provide routine help and correction to the facilitators.

## **Monitoring Fidelity**

As the intermediary, MDRC is responsible for ensuring the successful day-to-day operation of the intervention. Given the size and scope of this project, as well as the rigorous implementation requirements of the financial arrangement, it was necessary for MDRC to build a comprehensive monitoring plan into the program to make sure the model is being implemented as intended. The plan requires both the curriculum developer (Correctional Counseling) and MDRC to provide ongoing support to the project through routine fidelity monitoring observations.<sup>5</sup>

Correctional Counseling visits the program regularly — more frequently during the start-up period, less since the program has become fully operational and gained stability. Visits last between three and five days. During these visits, an MRT expert spends time in each MRT group, observing sessions and providing the facilitators with specific comments and corrections based on their observations. These comments typically relate to how well the facilitator managed the group, whether the young people participated in the session to an appropriate degree, and how accurately the facilitators guided the participants through exercises and testimonies. The consultant suggests ways to improve the group, answers questions that facilitators may have, and demonstrates MRT for facilitators when necessary.

MDRC staff members observe several MRT groups at least once per month. Correctional Counseling primarily assesses how well facilitators manage specific components of the MRT curriculum with their groups. Its staff members assess whether adolescents complete the steps in the prescribed manner, whether the groups are well managed, and whether facilitators document progress appropriately. While MDRC staff members evaluate these components as well, they also use a supplemental observation guide to identify contextual circumstances that may pose a problem for the program, such as a classroom size or setup not ideal for MRT, distractions in the hallway directly outside a classroom, or alarms that make young people late for

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<sup>5</sup>Correctional Counseling provided four days of MRT curriculum training for all MDRC staff members responsible for fidelity monitoring.

their MRT groups. The information collected during these visits is shared with Osborne and Friends, as well as DOC and the East River Academy.

## **Project Management**

In this project the intermediary also plays the role of project manager. Generally, its project management activities can be divided into two categories: monitoring program participation and ensuring smooth program operation. While the service providers for this project are both well-respected agencies who have worked in the criminal justice field for decades, expanding this intervention over the course of six months was a substantial undertaking, especially considering that no programs of this nature or size existed previously at Rikers Island. MDRC therefore lent Osborne and Friends additional support.

As part of its monitoring function, MDRC worked with Osborne and Friends to develop a template and protocol for tracking MRT participation and progress. Each day, Osborne and Friends facilitators collect data pertaining to MRT participation and step achievement. MDRC analyzes these data on a monthly basis and uses them to determine the number of new adolescents who entered MRT each month, and the number who reached key milestones in MRT during the month (specifically Step 3, “low partial completers”; Step 7, “high partial completers”; or Step 12, “completers”). The city supplies jail admission data to provide context for the data from Osborne and Friends, allowing MDRC to compare the number of adolescents reached by MRT with the number that entered the jail. MDRC can then quickly identify whether the program is on track to meet its contractual targets regarding the number of adolescents served and the number projected to complete key MRT milestones, and make adjustments where possible.

MDRC also facilitates ABLÉ implementation by serving as the primary liaison among all partner agencies, including Osborne, Friends, Correctional Counseling, the East River Academy, and DOC. It regularly coordinates efforts and initiatives with partners to ensure that the program operates as planned in both the short and long term. This has often meant that MDRC steps in to fill unexpected gaps or provide support for midcourse adjustments. For example, MDRC has worked with Correctional Counseling to ensure that new service provider staff members are adequately trained in MRT, and that more experienced MRT facilitators receive refresher training and support when requested or required. MDRC has regularly solicited advice

and expertise from Correctional Counseling regarding ways to address curriculum-related challenges unique to Rikers Island. It has worked closely with the principal at the East River Academy to ensure that the school schedule accommodates enough MRT groups to serve all eligible students each year. It has worked with DOC to obtain sufficient office space for the service providers, and to ensure that there are enough correction officers to transport young people to MRT groups during the summer, when school is not in session. Finally, it has helped DOC identify patterns in missed MRT sessions due to lockdowns, searches, or alarms.

In addition, as the primary coordinating liaison and project manager, MDRC regularly shares operational and programmatic updates and progress reports with funders and project partners.<sup>6</sup>

## Takeaways

- MDRC weighed two considerations heavily in selecting an appropriate intervention: 1) identifying evidence — preferably from rigorous evaluations — that the program model was promising and 2) determining that it could be implemented well and faithfully in the intended environment.
- The intermediary is the primary relationship builder in a SIB. This makes it critical that the intermediary establish positive working relationships with all the stakeholders. In this arrangement MDRC was able to establish strong working relationships by being an honest broker that understood the priorities and constraints of all the parties and was dedicated to making the program a success for all. These efforts were facilitated by the way MDRC’s intermediary work was funded — that is, through a separate grant from Bloomberg Philanthropies. MDRC’s work did not have to compete for resources from the program’s main source of funds.
- The demands of this SIB required that the program operate on an unprecedented scale in the service environment. As a result, the intermediary needed to provide its partner organizations with training, technical assistance, and extensive monitoring services. While MDRC does have the capabilities to understand what is required of all parties — and is the only project partner with all of those capabilities — it is important that the intermediary have enough resources to provide this type of support.

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<sup>6</sup>While MDRC regularly provides operational progress reports to the funders, Bloomberg Philanthropies and Goldman Sachs are not involved in the day-to-day operations of the ABLE program.

- It is difficult to assess program performance in real time, because available short-term indicators do not always correlate strongly with long-term outcomes. For example, success payments are based on reductions in future jail time, as determined by the evaluator. But it takes time to observe such data. In the interim, the program developed and maintained a system of participation measures to be used as a proxy for program performance. Although the exact connection between participation and long-term outcomes is not completely clear, measuring participation improved program management. Future SIBs will probably need to construct similar feedback mechanisms.

## Chapter 4

# Implementation Successes, Challenges, and Solutions

As of July 1, 2013, over 1,400 adolescents had received the Moral Reconciliation Therapy (MRT) intervention as part of the Adolescent Behavioral Learning Experience (ABLE) program in Rikers Island jail (Rikers). Before going full scale, the ABLE program underwent a pilot period in which only half of the target population of adolescents in the jail received MRT. Having a pilot period helped the service providers understand the dynamics of the service environment and identify challenges before the program was expanded to full scale. The heavy lifting involved in more than doubling the size of the program and the staff within a few months created additional challenges that all partners addressed together. This chapter discusses the notable successes and challenges of the ABLE program's implementation in Rikers Island jail.

## Program Enhancements and Successes

Throughout implementation, MDRC worked closely with project partners to enhance program operations where necessary. MDRC and the project partners developed training in youth development and cognitive behavioral therapy for correction officers, and added new program components to increase motivation and participation: they developed a standardized incentive system, employed greater youth leadership, and created positions for "floating" MRT facilitators.

### Training to Increase Correction Officer Support

The Department of Correction (DOC) would like to improve the way it manages young people in custody on Rikers, and it has worked closely with the ABLE program to achieve that goal. Correction officers play a significant role in adolescents' lives while they are in custody: they transport them to and from school, MRT, recreation, and any other activities they attend, and are responsible for ensuring their safety and care. Correction officers therefore contribute heavily to the culture of the jail, and the success of jail-based programs partly depends on their support.

To build support among them for the ABLE program the MRT developers gave the correction officers who work with adolescents an overview of the MRT curriculum before it launched. After ABLE's launch, the service providers and the Youth Development Institute (YDI) trained all 750 correction officers who work in the adolescent housing areas in youth development principles and the best practices for working with adolescents. The curriculum for this training program was tailored to the specific needs and concerns of officers working with

adolescents, who are viewed by many on the DOC staff as the most challenging population in the jail. During the training sessions, staff from the Osborne Association (Osborne) and Friends of Island Academy (Friends) provided information regarding the goals of cognitive behavioral therapy and addressed officers' questions and concerns about how this initiative would affect their ability to maintain security. Overall, this training helped officers understand the ABLE program's purpose and see how it aligns with their own needs. It also allowed correction officers and ABLE staff to talk more openly and often, which has been critically important.

## **New Program Components to Increase Motivation and Participation**

### *Incentives*

Since the beginning of the program, facilitators have been developing a system of incentives for adolescents who make progress on the MRT steps. When a young person passes a step, he or she receives items such as cookies, juice, stationery, or stickers in group, which is meant to inspire active participation in group sessions. Osborne, Friends, and MDRC worked with DOC leaders to develop these incentives and the processes for delivering them. Before the MRT facilitators give out rewards they speak with correction officers about whether the young people in their groups have behaved appropriately, and they may withhold promised incentives from certain group members until their behavior improves. This process appears to be working well for all parties.

### *Youth Leadership*

Osborne and Friends worked with DOC to create a graduation ceremony that acknowledges the adolescents who complete the MRT curriculum, with extended family visits immediately afterward. The prospect of being celebrated for such a significant and positive milestone in front of family, peers, and staff motivates the young people in the program. Adolescents who complete the MRT curriculum are then eligible to become Student Ambassadors, who help MRT facilitators. (Friends has done significant work in youth leadership and suggested adding this program component.) The Ambassadors assist in group activities, show other group members that their peers participate in MRT's culture of high expectations, and help other adolescents communicate their needs and ideas to adults. Their presence strengthens group cohesion and makes it easier for other young people to progress through the curriculum.

### *Floating Facilitators*

In another effort to increase MRT engagement and participation, the service providers established a "floating" MRT facilitator position. Floating facilitators are not assigned to any specific MRT group, but instead tend to those that are having trouble engaging all of their members. In some large groups, for example, facilitators are forced to pay most of their atten-

tion to the adolescents who are actively engaged and progressing through the steps. They may not have enough time to devote to the members of their groups who fail to participate.

## **Service Delivery Challenges**

As mentioned in Chapter 3, MRT has been used in a variety of settings, including jails, but never on this scale. On a given day, DOC houses approximately 600 adolescents ages 16 to 18 each day, making ABLE the largest MRT program to date. Given this scale and service environment, it was clear early on that MDRC and the service providers would have to adjust the model. MDRC worked closely with the MRT developer, Correctional Counseling, Inc., to manage challenges related to the Rikers environment, keeping the program loyal to the essence of the MRT model while still providing the flexibility needed to adopt it successfully. They dealt with two issues in particular: large group sizes and components of the curriculum that hindered participants' progression through the 12-step model.

### **Group Size and Components of the Curriculum**

MRT is ideally operated with one facilitator and seven young people. While the program is staffed to achieve this ratio on average, the actual size of individual classes has varied considerably with the daily fluctuations of the jail population. At times groups grew as large as 21, too large for a single facilitator to manage effectively. Training staff members in “cofacilitation” made it possible to split large classes into two smaller groups.

MDRC, Osborne, and Friends also worked with Correctional Counseling to adjust two program components that did not work well on Rikers as designed. First, to progress through the MRT steps participants must give testimonies — short, prescribed speeches about themselves, their pasts, and their futures— in front of the group and their facilitator. But on Rikers some young people have been reluctant to reveal personal details about their lives in front of a group that may not be supportive. The program has therefore been modified to allow them to give their testimonies in front of a smaller group, or in front of the facilitator alone.

Second, the MRT curriculum requires 20 hours of public service. Modifications were introduced to expand the activities that count toward those 20 hours and to allow participants to start accumulating them earlier in the curriculum than originally envisioned.

## **Participation Rates and Dosage**

The New York City ABLE program operates under the assumption that participating in the program will reduce the number of days a young person spends in jail in the future. The ABLE program is also designed to operate as close to saturation as possible — that is, it intends to

serve all adolescents ages 16 to 18 who are in custody long enough to enroll in school. However, early analysis of program data revealed that the program was not reaching as high a proportion of the population as hoped, and that fewer adolescents were achieving key milestones than projected. This called for immediate action, because the program model projects that increased MRT dosage and achievement will lead to higher moral reasoning, which in turn will lead to reduced recidivism. The problems seem to have arisen from structural impediments directly related to the dynamics of the jail and its operating conditions, and from external obligations that keep participants from attending community-based MRT sessions.

### **Participation in the Jail**

To figure out why fewer adolescents were participating and making progress than hoped, MDRC and DOC together analyzed jail data, which illuminated the structural reasons for the shortfall. Their analysis suggested that much of it could be attributed to housing assignments and security concerns. The data indicate that adolescents not receiving any MRT fall into two categories: 1) those housed in areas of the jail that do not attend school (where MRT is conducted), and 2) those whose school time is interrupted by security events.

There are four areas of the jail where adolescents do not attend school, and therefore do not participate in MRT: the Opt-Out units, Protective Custody, Administrative Segregation, and Punitive Segregation.<sup>1</sup> The project partners reorganized staffing and schedules so that MRT could be provided in three of these four problematic units: Opt-Out, Protective Custody, and Administrative Segregation. For the duration of their time in Punitive Segregation, however, young people still do not receive MRT, and it is not yet clear whether that could change in the future. Project partners will continue to look for solutions.

In addition, security-related events like lockdowns, alarms, or Tactical Search Operations often interrupt MRT. These occurrences generally follow an incident that requires DOC

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<sup>1</sup>Adolescents in the Opt-Out units have already completed their high school diploma, have a General Educational Development (GED) certificate, or have legally signed themselves out of school. Protective Custody is for inmates who are determined to be too vulnerable for the general population and who are housed separately for their own safety. Administrative Segregation houses inmates DOC needs to separate from the general population for varying security reasons. Adolescents in Administrative Segregation and Protective Custody receive in-house schooling provided by the New York City Department of Education. Instruction is provided in a classroom setting, and the school day is abbreviated to three hours. Punitive Segregation is a form of restricted housing where inmates who have been found guilty of violating department rules may be temporarily assigned as a sanction for their offenses. Inmates in Punitive Segregation are typically locked into their cells for 23 hours a day, though they can leave them to participate in religious services, recreation, and visitation, and to receive health care, including mental health services. Inmates in Punitive Segregation do schoolwork independently in their cells. About one in four adolescents will be placed in Punitive Segregation at some time while in DOC custody.

staff to address an immediate security concern, halting all movement for an unpredictable amount of time. Alarms can last from 10 minutes to more than an hour, and often occur multiple times each day. Lockdowns or Tactical Search Operations, though less frequent than alarms, can last for an entire day or more, depending on the severity of the security threat. Young people are scheduled to have MRT five days a week, but when any of these events happens they do not attend school and thus do not attend MRT group. DOC's obligation to make security its top priority makes it unlikely that it will be possible to modify the program to address this problem.

### **Participation in the Community**

Many adolescents will not complete MRT while they are incarcerated. These young people are offered the option to complete the program in their communities after they are released, though they are not required to do so. The program employs a service coordinator who reaches out to young people after they leave Rikers, but many of them have court-mandated obligations including alternative-to-incarceration programs, school, or probation. Since MRT is not mandated, it is difficult for it to attract young people who have other obligations.

In an effort to increase community-based MRT participation without overburdening participants, the service providers have developed partnerships with the Center for Alternative Sentencing and Employment Services and the Department of Probation's Bronx Neighborhood Opportunity Network, organizations many young people exiting Rikers are required to visit. MRT sessions are run at these organizations several times a week, and the program may expand to the Neighborhood Opportunity Network locations in Harlem and Brooklyn.

### **Takeaways**

- A pilot test at partial scale is helpful and can identify important issues, but additional challenges may come to light after a program goes to full scale. Given that the intervention was new to Rikers Island, it would have been ideal to pilot-test it at full scale before the evaluation began. Unfortunately, time and financial constraints made this infeasible. Project partners should balance the potential benefits of a pilot period against resource considerations. It will probably remain difficult for most Social Impact Bonds (SIBs) to find the time or money to operate full-scale pilot tests.
- The day-to-day operational realities of the jail setting limit how much young people can participate in MRT. For example, lockdowns, alarms, and other security measures sometimes preempt MRT sessions. Similarly, it is unclear whether it will be possible to deliver MRT to young people in Punitive Segregation.

- MDRC and the service providers had to adapt some elements of the program to implement it successfully in the jail. The program's developers were engaged to ensure that these adaptations did not compromise the intervention. Tension between adaptation and fidelity to the original model is probably healthy, and possibly unavoidable given that investors wish to finance program models backed by rigorous evidence.
- The SIB arrangement forces the program to focus on achieving results, which in turn forces all stakeholders to develop proxies of success to monitor the program's short-term performance. This emphasis on clear measures has helped stakeholders communicate and collaborate effectively. Developing strong early indicators of program performance is likely to be critical in future SIB arrangements.

## Chapter 5

# Revisiting the SIB Idea and Projecting Lessons Learned

The New York City Social Impact Bond (SIB) is the first arrangement of its kind in the United States and the first anywhere to involve a commercial lender. It finances a promising program (the Adolescent Behavioral Learning Experience) with private sector dollars in the hopes of reducing recidivism and improving the lives of young black and Latino men in New York City. The deal has been a collaborative effort to align the interests of government, nonprofit providers, investors, and the intermediary with those of program participants and society at large. Earlier chapters in this report describe how the arrangement was structured, how the program was implemented, and the challenges of each. Drawing from the perspectives of different stakeholders in the New York City SIB — including MDRC, the New York City government, Goldman Sachs, Bloomberg Philanthropies, and the Vera Institute of Justice — this chapter highlights some of the lessons these parties learned in constructing and implementing SIBs that could influence similar arrangements in the future.

## The Appeal of Social Impact Bonds

The SIB concept appeals to different stakeholders for different reasons. The New York City SIB allows the city government to secure investment for an innovative program in a time of fiscal constraints, and requires it to pay only if the program meets its definition of success. Goldman Sachs, the commercial lender, can make a profit and simultaneously improve the lives of young men. Bloomberg Philanthropies fulfills its mission of spreading proven and promising ideas in a way that leverages its investment with private capital. In addition, its investment could also establish a fund to pursue similar endeavors in the future.<sup>1</sup> MDRC, the intermediary organization, pursues the goals of its own mission statement by potentially improving the lives of disadvantaged young people. It also stands to gain access to the Bloomberg Philanthropies guarantee fund for future innovative endeavors. Lastly, the SIB gives the Osborne Association and Friends of Island Academy, the nonprofit service providers, a committed funding stream not subject to budget cuts that allows them to pursue their missions at a scale not typically possible. Collectively, all the parties involved can serve a priority target group of young minority men, while advancing a concept with the potential to increase future investments in such populations.

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<sup>1</sup>If the program is successful, then the \$7.2 million grant from Bloomberg Philanthropies will remain with MDRC and the two organizations will collaborate on other innovative projects.

## **Notable Characteristics of Social Impact Bonds**

It is very early in the life cycle of the SIB concept, and few real SIB arrangements exist so far. It is therefore difficult to identify the characteristics that will define SIBs. The idea will need to evolve based on real-world experiences and local circumstances. It is possible, however, to identify some elements that distinguish this arrangement from other, more common approaches: government support, payment based on impacts, delayed repayment, large-scale programs, outside investment, and the presence of an intermediary.

### **Government Support**

To calculate a Social Impact Bond's savings, government must first know what its services cost: What is the cost of a jail bed — both operating costs and fixed costs? How many jail beds does it take to close an entire housing unit? Thus, for many government agencies the discipline of designing a Social Impact Bond may be the first step on the path to increased accountability.

— Gordon Berlin, MDRC

For a SIB to be successful it must have a committed government partner. Without government participation it is nearly impossible to define success, a necessary early step for any SIB-like arrangement. Government agencies have a wealth of data that can be used to define a baseline situation and set the desired, measurable outcomes. In the New York City SIB, the Department of Correction (DOC) and the Mayor's Office of Management and Budget (OMB) served as invaluable resources in this regard. DOC used historical data to develop a model of recidivism among adolescents in Rikers Island jail, covering the number of them who return within a set period and the number of days they stay when they return. OMB needed that baseline calculation to calculate cost savings projections and obtain approval for a SIB as an appropriate contracting vehicle. And none of this collaboration would have been possible without strong executive sponsorship from the Mayor's Office, where the Deputy Mayor and her team coordinated all of the parties and kept the process moving forward.

In future SIB deals, nonprofit organizations or government entities will need to take similar initial steps before approaching investors to begin negotiating. It will be difficult for any future SIB project to advance if the government entities involved are not willing to analyze their data and create a baseline from which to project savings or otherwise estimate their willingness to pay. Similar cooperation and support are needed throughout the life of a SIB. Without committed and capable government partners the SIB concept will not be able to grow.

### **Identifying a Reasonable Price for Social Outcomes**

Most people justify public expenditures based on need. To flip that on its head and be able to talk specifically about actual public value produced per dollar spent is

potentially revolutionary in helping government make a more compelling case about how these taxpayer dollars are used and why these are priority investments in the first place. And that's just good for the field.

— James Anderson, Bloomberg Philanthropies

As noted in previous sections, a defining feature of a SIB arrangement is that a government entity pays for services based on demonstrated outcomes. This can only happen if all stakeholders clearly understand — and agree on — a reasonable price for the desired outcome. Without that knowledge, government entities and investors may simply choose not to enter the SIB market. It would help governments become more comfortable entering into these sorts of agreements if there were a place where interested parties could share their ideas about what constituted a reasonable price for different results. The federal government and philanthropies could also help establish a fair value for various outcomes by providing tools and analytical frameworks to facilitate pricing. They might even want to establish a base price by agreeing to purchase specific changes in outcomes.<sup>2</sup>

### **Payment Based on Impacts**

There absolutely has to be a defined value on impacts. I think that one of the interesting ways that this conversation is evolving is it doesn't have to mean direct and huge cost savings. It can be placing value on a specific impact separate from savings, but without a clearly defined value for impacts, you definitely don't have a SIB.

— Katie Appel Duda, Bloomberg Philanthropies

SIBs pay for services based on clear and measurable improvements in outcomes, which prove to governments that programs are making a difference associated with economic value that can be captured in the future. But a program's outcomes on their own can be an unreliable measure of performance; impacts are a far more useful indicator of success. Measuring an impact requires accurate information about what would have happened to program participants if they had not received the program's services. The only way for a government entity to be sure it is paying for success is if the evaluation or validation process compares the outcomes of program participants with those of a reliable comparison or control group.

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<sup>2</sup>The uncertainty that surrounds paying for outcomes can be illustrated with an example: Colleges have traditionally paid for "inputs." That is, they know what teachers' salaries should be and can generally justify a certain salary for a certain teacher. But they understand much less how much they should be willing to pay for outcomes. How much should they be willing to pay for a college graduate? There are no simple answers, but government is in a position to help. A starting point might be to ask: what do colleges currently pay for different types of graduates? Imagine if the federal government offered to purchase a certain number of specific kinds of graduates at specific prices. That would have a dramatic effect on the market for investment in college graduates.

It will be important for Social *Impact* Bonds to continue to consider impacts, even though some stakeholders will surely push for payment based on less rigorous measures. Any movement in that direction would reduce governments' confidence that they are paying for results that would not have been produced without the program. Paying for impacts helps ensure that risk is really transferred from a government entity to an investor and that that government pays for success, which seems particularly important if the government is counting on reduced costs in the future to repay the initial investment.

### **Delayed Repayment**

If you want a quick turnaround and a fast repayment, you need immediate results that produce immediate cost savings, and so you tend to look at very narrow outcomes where city dollars fund most of the cost. For interventions that are broader in terms of building human capital you need more time in order to realize savings, especially if state and federal dollars are not included.

— Deputy Mayor Linda Gibbs, the City of New York

Traditional performance-based contracts generally pay providers shortly after they render the initial services. This limits the type of outcomes that can be used to trigger payment. More recent Pay-for-Success arrangements identify a primary outcome of concern and then spread repayment over enough time that government entities can pay service providers after they demonstrate success. This provides governments more certainty that programs are producing meaningful differences. Additionally, this extended delay allows governments to realize savings from improved outcomes to repay the original investment. (This means service providers must operate using borrowed funds, hence the phrase “Pay-for-Success financing.”)<sup>3</sup> In the New York City SIB, the city will know if the program was “successful” in July of 2016 but will not make final repayment until July 2017, allowing it time to realize sufficient savings.

### **Large-Scale Programs**

In order for a SIB to be effective, it has to be implemented in a fairly expansive way, because to realize sufficient savings, it can't be a small, boutique program. Those programs may be a good way of testing innovation, but to realize cost savings, you have to serve a large number of people.

— Jim Parsons, Vera Institute of Justice

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<sup>3</sup>“Financing” means creating debt to pay for something that will produce benefits in the future, with the understanding that those benefits will be captured to repay the debt. Financing allows parties to make investment decisions based not only on their ability to pay today but also their ability to pay in the future.

The structure of a SIB requires that a promising program be implemented on a large scale, for a number of reasons. First, the program’s evaluation must have sufficient statistical power to detect whether the program actually produced a meaningful impact, and that calls for a large scale. If the sample size is too small, then the evaluation may yield spurious, unreliable results. Second, the government entity involved probably plans to pay back its SIB investors using the projected cost savings that result from the program, and a large number of people must be served to produce those savings, especially in circumstances where large changes are worth more per unit than small changes. Finally, an innovative program adopted on a large scale is more relevant to policy decisions in other contexts, especially if it is evaluated robustly.

### **Outside Investment**

One of the benefits to a more corporate investment model is there’s more of a willingness to take a chance on less safe bets, but potential for a long-term payout.

— Erik Berliner, New York City Department of Correction

As mentioned above and in earlier chapters of this report, SIBs aim to counter chronic underinvestment in innovative preventive social programs by attracting new capital from private and commercial investors. Outside investment provides the initial funding for a program that shows promise in producing desired social benefits. In essence, investors win if programs make a difference, and lose if programs fail to produce the required impact. Because outside investors assume all financial risk, the investor must do due diligence on the service provider, the intervention, and the intermediary (if applicable) to balance potential risks and returns. If successful, a SIB allows investors to produce financial returns while achieving public good.

### **The Presence of Intermediaries**

The benefit of an intermediary is the good work of organizing and getting the non-profits engaged and working with funders, and being the glue that can hold all the parties together in implementing the project. In this case the intermediary has been beneficial but I could see SIBs without an intermediary. I don’t think they’re an absolutely necessary component.

— Deputy Mayor Linda Gibbs, the City of New York

The New York City SIB deal had an intermediary to structure the financing and manage the program, though the responsibilities of the intermediary in SIB deals is likely to vary widely from place to place. In low-risk deals involving an experienced program operator and a proven intervention that has been used on a large scale successfully in the past, the intermediary may only play a small role, perhaps limited to monitoring program implementation. Or in such a scenario the intermediary might simply identify funding partners and help structure the financial deal. That role requires skills in finance, negotiation, and contracts, and could be handled by an

organization with finance and legal experience, but little knowledge of program operations. For example, the New York City SIB partnership seems to have benefited from an outside intermediary that could identify “sweet spots” where different organizations’ goals aligned, helping them find middle ground where the trade-offs between risk and reward were amenable to all.

Currently, however, most SIB deals are on the other end of the spectrum: they involve a service provider implementing an unproven intervention with which it has limited experience, or they significantly increase the numbers of people a program serves. In such scenarios, a SIB will need a strong intermediary that can reduce the risks of failure by providing intensive program monitoring, data management, and technical assistance. These higher-risk deals also call for intermediaries with significant experience in program operations, implementation, and evaluation. For example, in the New York City SIB, MDRC visits Rikers Island at least monthly to make sure the ABLE program is implemented as intended. MDRC has been able to identify challenges as they arise and help the service providers resolve problems that could harm the program. The authors of this report interviewed the stakeholders in the New York City SIB and found that they valued the intermediary highly, especially because the SIB arrangement was so novel.

The intermediary’s role in future SIBs is likely to depend on the details of future programs and the preexisting capabilities of the other parties involved. Although an outside intermediary can help facilitate strong partnerships and compromise, it will not always be necessary. As governments and nonprofit providers gain more knowledge of the SIB model and learn how to effectively structure and manage the elements of such deals, they may be able to play the intermediary role themselves.

## **Making a Priority of Innovation**

Most areas of social policy have too few proven interventions and too many difficulties in replicating the proven models that do exist. Most could benefit greatly from innovation and knowledge development. SIBs should therefore use their accountability mechanisms to promote innovation. If SIBs do not have features that identify both effective and ineffective programs, then governments are likely to end up paying for programs that do not succeed, defeating a central purpose of the model. Benevolent supporters may need to encourage nonprofits and governments considering SIBs to make a priority of increased accountability, rigorous evaluation, and information sharing. The high-quality evidence that results could have benefits that extend beyond that particular SIB’s stakeholders.

## **Understanding the Evidence Base and the Role of Evaluation**

So much social policy is made and so many programs are funded based on little or no evidence. When government decides to invest in something, it may be that there's a range of different reasons for those decisions that drive policy, and evidence is not at the top of the list. At least with SIBs, evidence is higher up on that list. SIBs prioritize the need for data on program effect. And that's a good thing.

— Jim Parsons, Vera Institute of Justice

Early SIBs will probably focus on models that are supported by rigorous evidence. But proven models are in short supply, which may mean that some early SIBs will use relatively unproven program models with strong theoretical bases. Given the risk involved in implementing new and innovative approaches on a large scale, it will be particularly important to make sure that SIB arrangements include strong and thoughtful evaluation. MDRC has had many conversations with potential SIB stakeholders across the country and conducted many observations in the field, and is increasingly concerned that those stakeholders are not making a high enough priority of high-quality evaluations and are conducting inadequate due diligence of their chosen interventions. They are often under pressure to raise sufficient capital to cover a program investment, which can lead to underfunded evaluations. They may also be under political pressure to demonstrate that this new financing scheme can succeed, which can create incentives for weaker evaluation designs that are more likely to show spurious positive results. In fact, SIBs may even forgo plans for rigorous evaluation, replacing it with limited third-party documentation audits. Such a strategy may promote false or inaccurate reporting, and will not provide reliable evidence that the program truly led to the desired difference.

SIBs are often described as a risk-free way for governments to achieve improved social outcomes, since they only pay if those outcomes are achieved. But there is no standard for proving a program has succeeded, which makes it more likely that governments will end up paying for programs that do not achieve real impacts. Clear standards for what constitutes good evidence — and what evidence is insufficient — could keep market actors in compliance with best practices. The federal government and philanthropies could help establish such standards.

The only scenario in which SIB parties may justifiably bypass an impact study is if they are replicating an intervention that has been reliably demonstrated to work on a large scale. In such cases, an impact study could perhaps be replaced with a combination of outcome measures and an assessment that the model was used as intended. Even then, the investor and the government involved would be left with some degree of uncertainty about effectiveness. In such a situation the primary rationale for a SIB structure might be to delay repayment until the savings resulting from the program became available.

## Attracting Investment

SIB-like arrangements that are attractive to financial investors can increase investment in social programs. The New York City deal points to three things in particular that could help make future SIBs more attractive: the elimination of sharp drop-offs and caps on repayment, quicker progress assessments, and lower transaction costs.

### Eliminating Sharp Repayment Drop-Offs

Can anyone say with confidence what the difference between an 8.5 percent [recidivism] reduction and an 8.4 percent [recidivism] reduction really is? Is the difference between 8.5 percent and 8.4 percent substantially different from the difference that occurs between 8.4 percent and 8.3 percent? No, but the return drops off a cliff.

— Andrea Phillips, Goldman Sachs

Sharp drop-offs in repayment increase investor risk, and caps on financial returns limit their potential reward. The two features together produce an investment structure that is particularly unattractive to investors. For example, in the New York City SIB, a 10.0 percent reduction in recidivism results in complete repayment of principal while a 9.9 percent reduction in recidivism results in a 50 percent loss. Similarly, an 8.5 percent reduction results in 50 percent repayment of principal while an 8.4 percent reduction results in 100 percent loss.

Such repayment “cliffs” make it very difficult for investors to understand the risk of default.<sup>4</sup> If a government entity truly believes that small changes in effect size represent an absolute difference between success and failure, then it may be necessary for benevolent funders to step in to “smooth the curve” for more traditional investors. For example, in the New York City deal Bloomberg Philanthropies provided a guarantee to reduce the potential repayment cliffs for Goldman Sachs. This will probably be true for most SIBs: a benevolent investor may need to eliminate steep cliffs between success and failure if the SIB is to attract investment.

### Performance Indicators and Quicker Progress Assessments

There need to be more and earlier performance indicators. One of the challenges in the New York City SIB deal is that investors wait three years to have recidivism data and indicators of whether the program is likely to succeed.

— Andrea Phillips, Goldman Sachs

Early performance indicators increase investor confidence in SIB deals. From the investor’s perspective it is very uncertain whether the intervention funded by the New York City SIB

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<sup>4</sup>Evaluations are also generally not designed to provide confidence in such small distinctions. Rather, they are generally meant to show that a program produces a positive impact unlikely to be observed by chance.

is “working,” because impact data will not be available until July 2015. In the interim, the intermediary is monitoring indicators for performance such as participants served, number of sessions held, and milestone steps achieved in the curriculum, but it is unknown how these interim indicators relate to the program’s ultimate success or failure. SIBs would be more appealing to investors if they included more early assessment opportunities. New, simplified methods that allow evaluators to analyze administrative data without sacrificing robustness may make these types of early assessments possible.

### **Reducing Transaction Costs**

I think that an exciting vision for the future is making SIBs less risky, and a little bit cheaper here.

— James Anderson, Bloomberg Philanthropies

The New York City deal had high transaction costs, and did not include additional funding for intermediary and evaluation services (the \$9.6 million loan pays only for program services, not the costs incurred by the intermediary or the evaluator). Furthermore, due diligence in the contract negotiations was costly. Transaction costs must come down dramatically in order for SIB arrangements to become more common. But transaction costs will probably decrease as the model becomes increasingly known and accessible, standards for evidence develop, and investors come to see SIBs as less new and risky. In fact, this seems to be happening in the United Kingdom, where organizations involved in SIBs are developing standard tools such as template contracts.

Despite the need to reduce transaction costs, it will be important to protect critical elements of the SIB structure, such as rigorous independent evaluation. Otherwise the short-term pursuit of transaction cost savings could bring severe long-term consequences, such as governments paying for ineffective programs.

### **Looking Ahead**

SIBs have been proposed for programs that are intended to save governments money in a relatively short time. Such projects may be a good starting place to build support for SIBs, yet the goal of most social programs is not primarily to save money but to improve the lives of low-income and at-risk individuals and families.

Fortunately, SIBs do not inherently require governments to save money. They could be structured to encompass other socially desirable goals that do not lead to government savings, so long as a government can identify what it is willing to pay to achieve those goals. SIBs could be designed to finance programs to increase high school graduation rates, boost persistence in

college, improve young children's cognitive and behavioral skills, or produce better mental health outcomes for adolescents. All of these areas have promising interventions — in some cases proven ones — that could be adopted on a large scale. Additional funding for these kinds of programs is at least as hard to find as funding for programs that may generate short-term savings, and the potential benefits to society, though harder to measure, are similarly appealing.

Thus far, though, government entities have not seriously considered what they are willing to pay for outcomes in these fields. It is worth exploring whether those amounts would be sufficient to cover program costs and pay an acceptable return to investors. Current efforts to shift social and educational programs toward performance-based and incentive funding provide a foundation for this type of exploration. If SIBs are to realize their full potential, then they should be expanded beyond immediate government savings to other socially desirable goals.

**Appendix A**

**Major Stakeholders in the New York City SIB Deal**



**The Urban Investment Group (UIG) of Goldman Sachs Bank** was established in 2001. It makes investments and loans that benefit urban communities. Through its comprehensive community development platform, UIG is a catalyst in the revitalization of underserved neighborhoods. UIG has committed more than \$3 billion, facilitating the creation and preservation of approximately 13,000 housing units — the majority of which are affordable to low, moderate, and middle-income families — as well as over 1.3 million square feet of community facilities and nearly 2 million square feet of commercial and retail space.

**Bloomberg Philanthropies** was created by Mike Bloomberg to encompass all of his charitable giving in five areas of focus: arts and culture, education, the environment, government innovation, and public health. In 2012, Bloomberg Philanthropies distributed \$370 million. To date, Mike Bloomberg has donated more than \$2.4 billion to a wide variety of causes and organizations.

**The Mayor’s Office** of the City of New York administers city services, develops and implements policies and initiatives, and enforces city and state laws within the five boroughs of New York City: Brooklyn, the Bronx, Queens, Manhattan, and Staten Island. The Mayor’s Office is located in New York City Hall.

**MDRC** is a nonprofit, nonpartisan education and social policy research organization dedicated to learning “what works” to improve programs and policies that affect low-income populations. Created in 1974 by the Ford Foundation and a group of federal agencies, MDRC is best known for mounting large-scale demonstrations and evaluations of real-world policies and programs aimed at low-income people. MDRC is based in New York, NY and Oakland, CA.

**The Osborne Association** is a nonprofit social service organization founded in 1931 and known for developing effective programs that offer a broad range of treatment, educational, and vocational services to more than 8,000 people affected by incarceration each year. Osborne operates at several sites throughout the state, including the Bronx, Brooklyn, Poughkeepsie, and 20 other state prisons and city jails.

**Friends of Island Academy** is a nonprofit social service organization founded in 1990. As pioneers in adolescent prisoner reentry in New York City, Friends was created to provide pre- and postrelease transitional support services to adolescents in adult jails, working in the alternative schools on Rikers Island (known at that time as Island Academy).

**The New York City Department of Correction (DOC)** is responsible for New York City’s inmates, housing the majority of them on Rikers Island. Today, Rikers Island is the DOC’s main base of operation, with ten separate jails capable of housing up to 17,000 inmates.

**The Vera Institute of Justice** is an independent, nonpartisan, nonprofit center for justice policy and practice, with offices in New York, NY, Washington, DC, New Orleans, LA, and Los Angeles, CA. Founded in 1961, the Vera Institute of Justice combines expertise in research, demonstration projects, and technical assistance to help leaders in government and civil society improve the systems people rely on for justice and safety.

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## About MDRC

MDRC is a nonprofit, nonpartisan social and education policy research organization dedicated to learning what works to improve the well-being of low-income people. Through its research and the active communication of its findings, MDRC seeks to enhance the effectiveness of social and education policies and programs.

Founded in 1974 and located in New York City and Oakland, California, MDRC is best known for mounting rigorous, large-scale, real-world tests of new and existing policies and programs. Its projects are a mix of demonstrations (field tests of promising new program approaches) and evaluations of ongoing government and community initiatives. MDRC's staff bring an unusual combination of research and organizational experience to their work, providing expertise on the latest in qualitative and quantitative methods and on program design, development, implementation, and management. MDRC seeks to learn not just whether a program is effective but also how and why the program's effects occur. In addition, it tries to place each project's findings in the broader context of related research — in order to build knowledge about what works across the social and education policy fields. MDRC's findings, lessons, and best practices are proactively shared with a broad audience in the policy and practitioner community as well as with the general public and the media.

Over the years, MDRC has brought its unique approach to an ever-growing range of policy areas and target populations. Once known primarily for evaluations of state welfare-to-work programs, today MDRC is also studying public school reforms, employment programs for ex-offenders and people with disabilities, and programs to help low-income students succeed in college. MDRC's projects are organized into five areas:

- Promoting Family Well-Being and Children's Development
- Improving Public Education
- Raising Academic Achievement and Persistence in College
- Supporting Low-Wage Workers and Communities
- Overcoming Barriers to Employment

Working in almost every state, all of the nation's largest cities, and Canada and the United Kingdom, MDRC conducts its projects in partnership with national, state, and local governments, public school systems, community organizations, and numerous private philanthropies.