



Reason Foundation

free minds and free markets

SEARCH REASON

Google™ Custom Search

[Home](#) | [About Reason](#) | [Experts](#) | [Policy Areas](#) | [Policy Studies](#) | [Press Room](#) | [Publications](#) | [Support Reason](#)

EMAIL UPDATES

 Get weekly updates from Reason.

First Name

Last Name

Email

PRIVATIZATION & GOVERNMENT REFORM NEWSLETTER

New York Launches First State-Level Social Impact Bond Program

Privately-financed program targets recidivism reduction among recently-released inmates

Leonard Gilroy
January 29, 2014

An article in the first edition of this newsletter back in October noted the growing interest among states in the emerging tool of social impact bonds (SIBs), which are public-private partnerships in which private philanthropic organizations, financiers, nonprofits or other nongovernmental organizations finance and implement new social service delivery models on behalf of governments under a pay-for-success contract model. Since then, there have been some noteworthy developments in three states—New York State, New Jersey, and Washington State—that demonstrate that the SIB concept continues to gain steam.

The biggest news comes from New York State, where late last month, Governor Andrew Cuomo announced the launch of the first state-level SIB initiative in the country, a \$13.5 million program to reduce recidivism among 2,000 recently released prisoners through delivering intensive employment training and job placement services. Services in the four-year program will be delivered in Rochester and New York City by the nonprofit Center for Employment Opportunities (CEO). Bank of America Merrill Lynch has raised \$13.2 million from investors—\$1.3 million of which is backstopped by the Rockefeller Foundation through guarantees—and the Robin Hood Foundation invested the remaining \$300,000.

Investors will not be repaid by the state unless the program either reduces recidivism by at least 8 percent or increases employment by at least 5 percentage points; investors stand to earn a positive return on their investment if it exceeds these thresholds, up to a 12.5% cap. If the initiative reaches its performance targets, the state expects to realize \$7.8 million in savings for taxpayers.

Social Finance Inc., served as the intermediary organization to assemble the various partners and structure the investment, and Chesapeake Research Associates will serve as the independent validator to determine whether the initiative achieves its performance targets.

According to Social Finance, the project is noteworthy in two key respects. First, it is the first SIB to be distributed through a leading wealth management platform—it was available to qualified private and institutional investor clients of Merrill Lynch and U.S. Trust—and over 40 equity investors were ultimately involved in the financing. Second, New York's will be the first SIB to use a randomized control trial in determining outcome payments.

"We are proud to be the first state in the nation to launch a Pay for Success public-private partnership project to help put formerly incarcerated New Yorkers to work," Governor Cuomo said in a December press release. "This project is a win-win for our state, facilitating the reentry process of individuals into the community by boosting employment opportunities and thereby reducing recidivism rates, but requiring payment for services only if these goals are met."

OUT OF CONTROL POLICY BLOG 

Privatization & Government Reform Newsletter #5 (Mar 2014 edition) (4/1)

Open Letter Challenges Autodealer Rent Seeking in New Jersey (3/26)

Innovators in Action (March 2014 edition): Turning Pontiac, Michigan into a Contract City to Solve Financial Emergency (3/25)

Latest Round of TIGER Grants Continues Funding of Questionable Projects (3/22)

Some Good News on Highways and Bridges (3/21)

MORE BY LEONARD GILROY 

Privatization & Government Reform Newsletter #5 (Mar 2014 edition) (4/1)

Washington State Legislature Rejects Anti-Privatization Bill (3/31)

Author's Archive

RELATED MATERIALS

Tax and Budget Policy Washington State Legislature Rejects Anti-Privatization Bill
Legislation would have created barriers to competitive contracting
Leonard Gilroy (3/31)Detroit Seeking Private Partners for Water/Wastewater System
Operations & maintenance contract, long-term concession among options being explored
Leonard Gilroy (3/31)Prisons and Corrections Washington State Legislature Rejects Anti-Privatization Bill
Legislation would have created barriers to competitive contracting
Leonard Gilroy (3/31)Detroit Seeking Private Partners for Water/Wastewater System
Operations & maintenance contract, long-term concession among options being explored
Leonard Gilroy (3/31)State Government Washington State Legislature Rejects Anti-Privatization Bill
Legislation would have created barriers to competitive contracting
Leonard Gilroy (3/31)Detroit Seeking Private Partners for Water/Wastewater System
Operations & maintenance contract, long-term concession among options being explored
Leonard Gilroy (3/31)

TODAY'S TOP TOPICS

- ▶ Innovators in Action 2014
- ▶ Revitalizing Detroit After Bankruptcy, a Panel Discussion and Q&A Session
- ▶ Pension Reform Case Study: Rhode Island

SUBSCRIBE TO REASON MAGAZINE
[click here](#)



Take Reason with you wherever you go.



Download the FREE Reason iPhone app!

Support
reason
with your
Capital One
Visa® Card



Apply Today!

New York State has been an incubator of sorts for SIBs in the United States. In 2012, New York City became the first local government in the U.S. to launch a similar SIB program focused on recidivism reduction, aimed at reducing recidivism among young adults released from the Rikers Island correctional facility. That initiative is discussed in greater detail [here](#).

Earlier this month, the New Jersey Legislature approved Assembly Bill 3289 (the “NJ Social Innovation Act”)—which would have established a five-year social impact bond pilot program designed to attract private funding for state preventative and early intervention healthcare programs for low-income and uninsured residents in order to lower costs to the state—but the bill was vetoed by Gov. Chris Christie, who allowed the bill to expire without executive action.

Under the bill, the New Jersey Economic Development Authority (NJEDA) would have administered the program and solicited private or philanthropic grants to fund the startup of one or more social impact bond contracts. NJEDA would have guaranteed loans made by private lenders at up to 100% of the value of the loan agreements, capped at \$3 million annually (or \$15 million total over the five-year authorization period). NJEDA would have also been responsible for establishing an internal study commission to help select a nonprofit partner to deliver program services, guide implementation and prepare annual progress reports.

Despite the setback, State Assemblyman Angel Fuentes plans to revisit the issue of social impact bonds. “I look forward to working with the Governor’s office to make this a stronger piece of legislation so we can open the door to the groundbreaking opportunities outlined in the bill,” Fuentes noted in a press release on the bill’s veto. For more on the NJ Social Innovation Act, see [this recent NJSpotlight.com article](#), and follow the bill on Twitter [here](#).

Washington State is also considering legislative action on social impact bonds with the introduction this month of [House Bill 2337](#), a bipartisan bill to establish a state-level social impact bond pilot program. The bill, introduced by State Representative Hans Zeiger along with 20 co-sponsors, would establish a 14-member social investment steering committee to develop a social impact bond implementation plan by December covering at least one pilot program to finance and deliver prevention-focused social or health care services. It would also require the state’s Office of Financial Management or another agency to issue a request for proposals to implement the pilot programs by July 2015 and begin implementation by January 2016. The steering committee would also be required to produce annual reports on pilot project implementation and any recommendations for expanding the program to other prevention-focused social or healthcare services.

“The old bureaucratic models of solving problems have too often fallen short; we need to embrace creativity and innovation as we seek to address some of the most difficult issues before us,” Rep. Zeiger said in a press release. “It is time we engage the private sector in solving some of our biggest public problems.”

For more on social impact bonds, see my recent articles [here](#) and [here](#), as well as our [August 2013 interview](#) with Jane Newman, international director at Social Finance UK, which helped to pioneer the SIB concept in the United Kingdom.

Leonard Gilroy is director of government reform at Reason Foundation and is the editor of the Privatization & Government Reform Newsletter, available [here](#). This article was featured in the January 2014 edition of the newsletter.

Criminal Justice Reform

Washington State Legislature Rejects Anti-Privatization Bill
Legislation would have created barriers to competitive contracting
Leonard Gilroy (3/31)

Detroit Seeking Private Partners for Water/Wastewater System
Operations & maintenance contract, long-term concession among options being explored
Leonard Gilroy (3/31)



APRIL 2014 ISSUE

