
Social Impact Bonds As a New Financing Mechanism: A Case Study on Reentry Programming in Maryland

**Presentation to the
House Appropriations Committee**

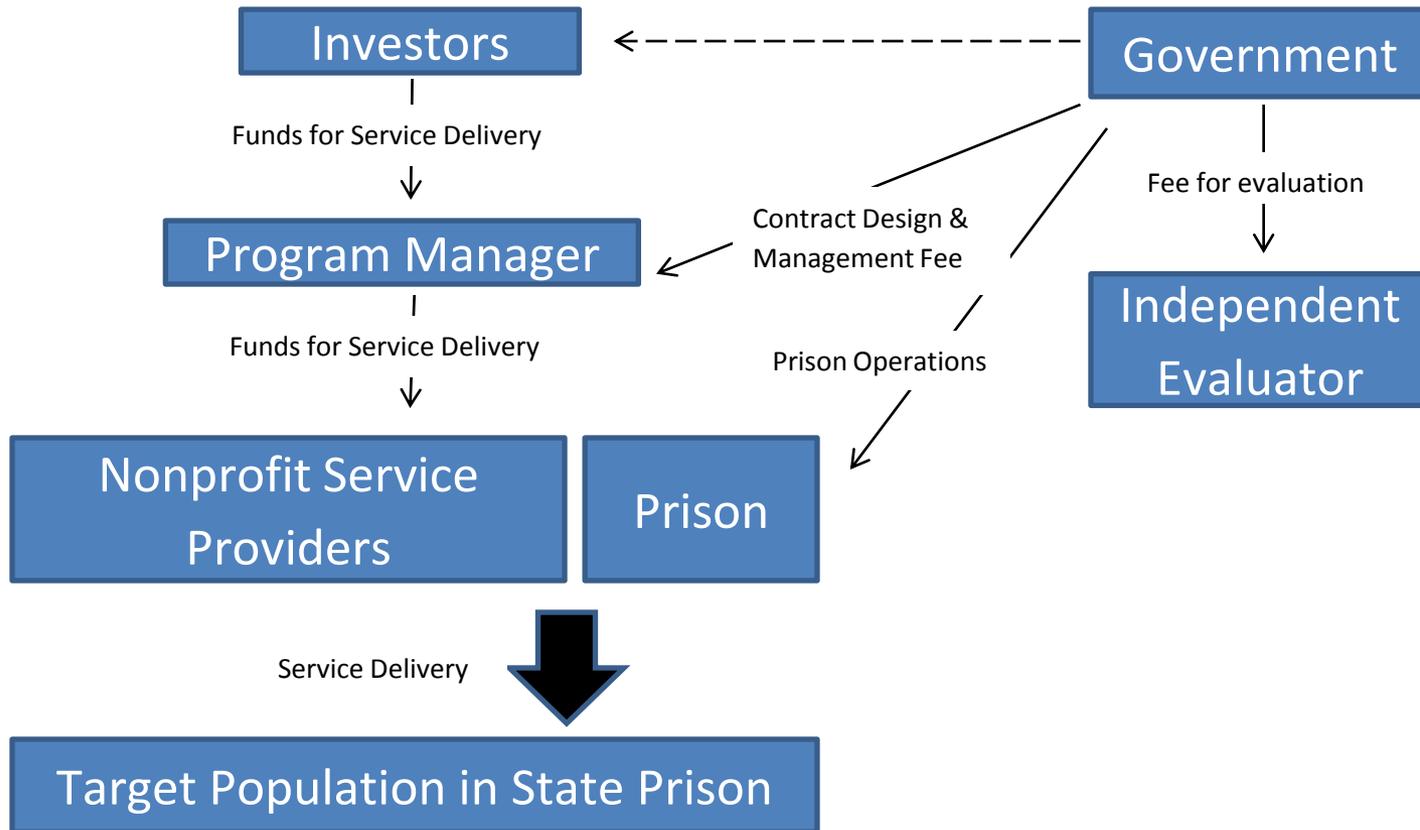
**Department of Legislative Services
Office of Policy Analysis
Annapolis, Maryland**

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What Is a Social Impact Bond?

- A hybrid type of performance-based contract
 - Includes investors
- Investors provide upfront capital
 - Decreases risk to service providers
- Payment to investors is based on outcomes and savings to government

Illustration of a Social Impact Bond



How Does It Relate to the Department of Public Safety and Correctional Services?

- Approximately 11,000 prisoners released in fiscal 2011
- The department focused on reentry as part of its core mission
- Potential opportunity to shift financial risk and reduce budgetary pressure to fund programs

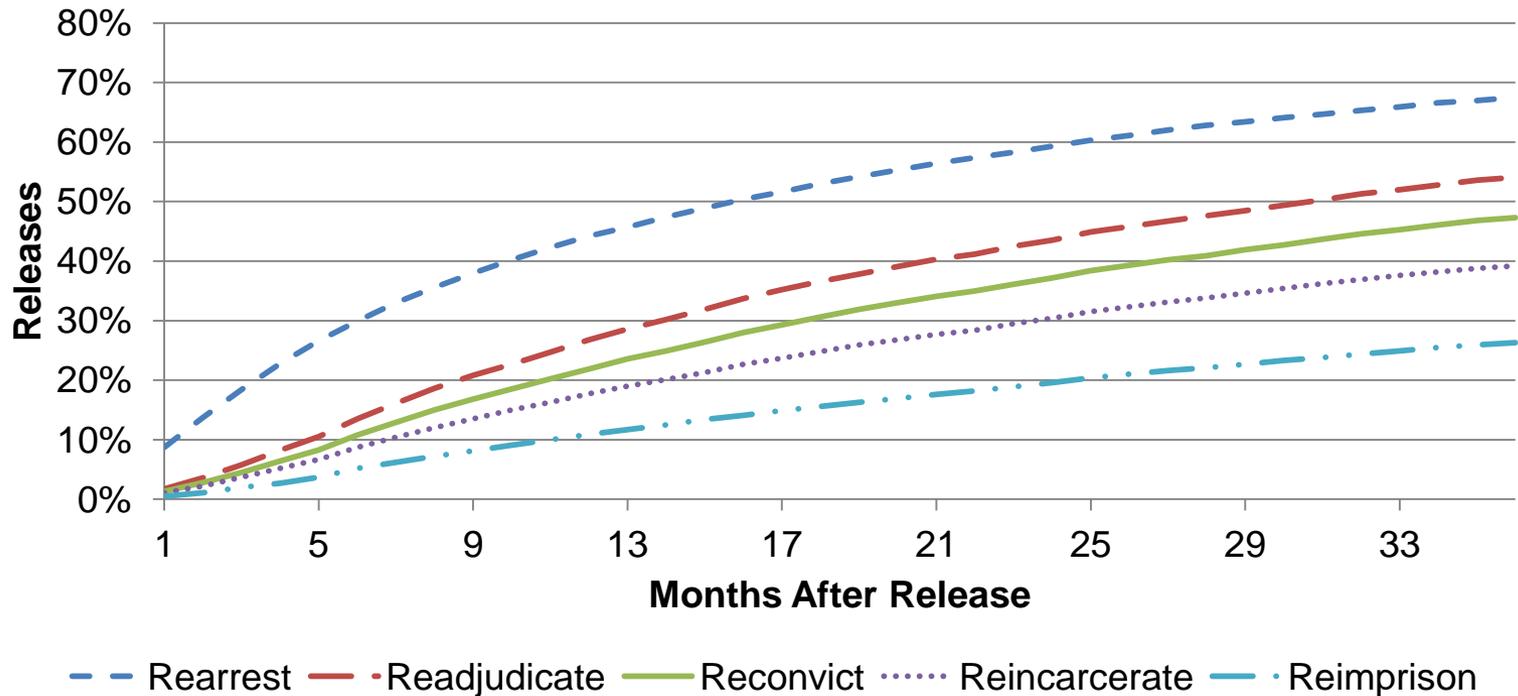


How We Evaluated

- Designed financial model using cost estimates from the Department of Public Safety and Correctional Services (DPSCS)
- Evaluated implementation history in other jurisdictions
- Interviewed national experts on reentry programming
- Conducted extensive literature review on issues relevant to a social impact bond (SIB)

Financial Model

Recidivism Rates of Prisoners Released in 15 States



Source: U.S. Department of Justice Bureau of Justice Statistics

Financial Model (Cont.)

- Assumptions
 - Three-year 27% recidivism rate
 - Three years time served after reimprisonment
 - Assumed that the program reduced the recidivism rate by 10%

Financial Model (Cont.)

Schedule of Benefits Fiscal 2012-2016

<u>Year</u>	<u>No. of Program Participant</u>	<u>Returning to Prison Before Program Effect (No. of Persons)</u>	<u>Program Effect (No. of Persons Not Going to Prison)</u>	<u>Prison Beds Saved</u>	<u>Cost Savings</u>
2012	250	27.5	-2.75	1	\$6,357
2013	250	50.0	-5.0	5	24,271
2014	250	67.5	-6.75	11	51,431
2015	250	67.5	-6.75	17	76,280
2016	250	67.5	-6.75	19	89,571
Total	1,250	280.0	-28.0	54	\$247,908

Financial Model (Cont.)

Total Net Fiscal Impact Fiscal 2012-2016

Total Benefits

Marginal Cost Avoidance	\$247,908
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Variable Costs

Direct Services @\$2,500 Per Participant	-\$3,125,000
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Investor Return

Return on Investment @ 10%	-\$312,500
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Fixed costs

Program Evaluation	-\$150,000
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Contract Design	-300,000
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Management Fee to Intermediary @ \$50,000 Per Year	-250,000
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Net Fiscal Impact	\$3,889,592
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- Under optimistic assumptions, offsetting benefits represent less than 6% of costs

Financial Model (Cont.)

- Ran multiple scenarios
 - None of them approach fiscal balance using reasonable assumptions
- More accurate estimate would be very expensive
- Prior experience suggests that the cost dynamics are accurate

Added Budgetary Pressure

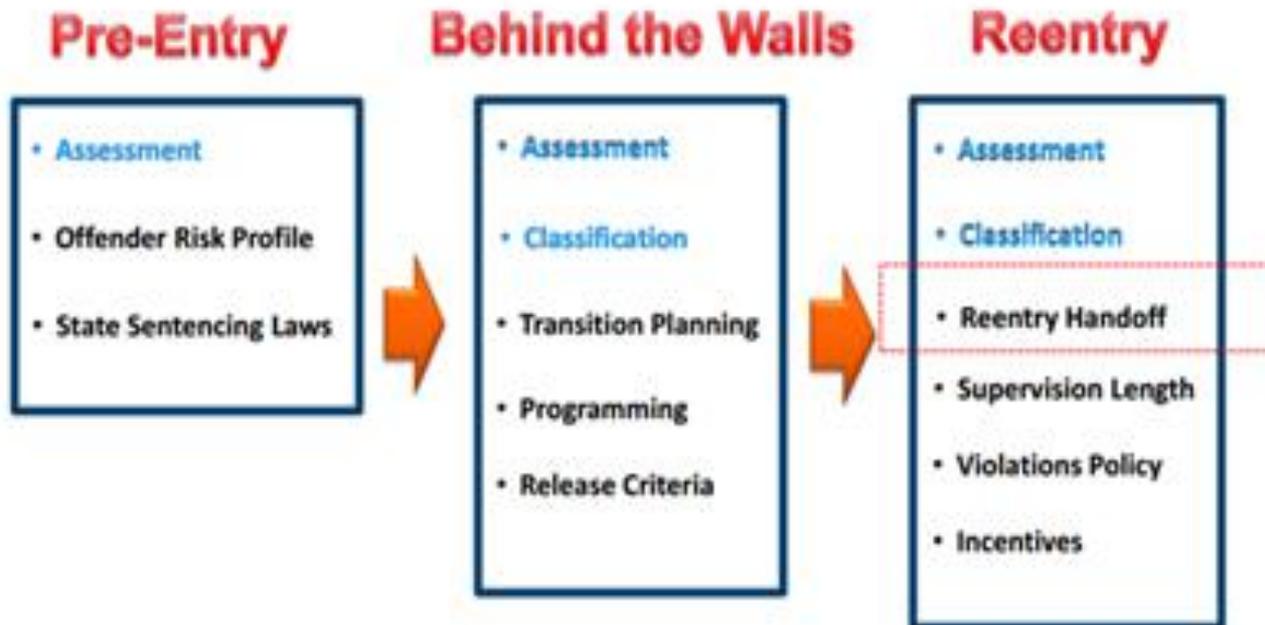
- If the program is successful, the government must compensate investors for the cost of the program plus a return on their investment
- This contingent liability must be budgeted, either upfront or on an annual basis
- Therefore, added costs of a SIB program would increase, not decrease, budgetary pressure

Other Issues

- Complexity of contract may impede risk shifting
- High stakes payments may distort evidence
- Evaluation could be inconclusive

SIB Reentry = Narrow Policy

Policies and Practices That Effect Recidivism



Recommendation

- DPSCS should continue to directly finance and operate reentry programs while pursuing other organizational and policy changes likely to have greater impact while posing less risk than a SIB financed program