Travis County Commissioners Court Agenda Request

Meeting Date: October 15, 2013

Prepared By/Phone Number: Cynthia Finnegan, (512) 854-4713
Elected/Appointed Official/ Dept.Head: Roger Jefferies, County Executive, Justice and Public Safety
Commissioners Court Sponsor: Judge Sam Biscoe

AGENDA LANGUAGE:
CONSIDER AND TAKE APPROPRITE ACTION ON APPLICATION TO MANPOWER DEMONSTRATION RESEARCH CORPORATION (MDRC) TO PROVIDE TECHNICAL ASSISTANCE AND TRAINING ON SOCIAL IMPACT BONDS TO TRAVIS COUNTY CRIMINAL JUSTICE PLANNING DEPARTMENT.

BACKGROUND/SUMMARY OF REQUEST AND ATTACHMENTS:

In 2012, The Criminal Justice Planning (CJP) Department was presented with the opportunity to apply for funding as a Justice Reinvestment Initiative (JRI) Phase II site. Under the guidance of a community consortium that was created to guide JRI work, plans for a pilot program targeting frequent users of the county jail who were chronically homeless and mentally ill were drafted. This pilot program provides permanent supportive housing for twenty-two participants, as well support services that include intensive case management and other ancillary services.

Travis County was awarded $300,000 in federal funding, $69,012 in private foundation funding, and access to housing vouchers valued at $82,800 to thoroughly fund this pilot program. The start date was March 1, 2013, and continues through 2015. CJP is partnering with Foundation Communities, a local non-profit agency, to provide both housing and support services for the target population.

In order to examine new and existing funding strategies to sustain the JRI projects permanent supportive housing, CJP has completed a technical assistance request application to MDRC, a non-profit located in New York City, New York and Oakland, California.

Social impact bonds (SIBs) are a new tool attracting private investment companies to finance social programs. SIBs are viewed by many government agencies and philanthropic organizations as a promising way to reduce the risks associated with funding public programs and increase accountability. In many cases, SIBs bring together private and public investment to help reduce the burden on cash-strapped government budgets.

If selected for technical assistance, MDRC will provide training and information at no cost to Travis County.

STAFF RECOMMENDATIONS:
Staff recommends approval of application to MDRC.

ISSUES AND OPPORTUNITIES:
Travis County applied for this grant to fill a gap in our community: housing and support services for chronically homeless men and women who are mentally ill and who cycle in and out of the County Jail. The goal is to positively impact the population, resulting in fewer jail bookings and less jail bed days consumed by the program participants. Social impact bonds provide a potential alternative option for funding.

FISCAL IMPACT AND SOURCE OF FUNDING:
There is no cost to Travis County. This is a technical assistance request funded to MDRC by the Annie E. Casey and George Gund Foundations. Purchasing, PBO and the Auditor have been briefed on this request, but do not require sign-off because no funds are involved.

REQUIRED AUTHORIZATIONS:
N/A

JUSTICE & PUBLIC SAFETY DIVISION

Roger Jefferies, County Executive
P.O. Box 1748 Austin, Texas 78767 Phone (512) 854-4415 Fax (512) 854-4417

Criminal Justice Planning
Roger Jefferies
(512) 854-4415

Counseling & Education Services
Caryl Colburn
(512) 854-9540

Juvenile Public Defender
Kameron D. Johnson
(512) 854-4128

To: Sam Biscoe, Travis County Judge
Ron Davis, Commissioner, Precinct 1
Bruce Todd Commissioner, Precinct 2
Gerald Daugherty, Commissioner, Precinct 3
Margaret Gomez, Commissioner, Precinct 4

Through: Roger Jefferies, County Executive, Justice and Public Safety

From: Kimberly Pierce, Criminal Justice Planning Manager

Date: October 8, 2013

SUBJECT: CONSIDER AND TAKE APPROPRIATE ACTION ON TRAVIS COUNTY'S TECHNICAL ASSISTANCE APPLICATON REQUEST TO MANPOWER DEMONSRATION RESEARCH CORPORATION (MDRC) FOR SOCIAL IMPACT BONDS.

The Criminal Justice Planning Department has completed an application for technical assistance on social impact bonds from MDRC, a non-profit organization based in New, City, New York and Oakland, California. MDRC is the only non-profit organization in the United States actively involved as an intermediary in designing, implementing and evaluating a social impact bond project.

A Social Impact Bond (SIB) is a new tool attracting private investment companies to finance social programs. SIBs are viewed by many government agencies and philanthropic organizations as a promising way to reduce the risks associated with funding public programs and increase accountability. In many cases, SIBs seek to bring together private and public investment to help reduce the burden on cash-strapped government budgets.

MDRC is seeking applications from interested parties on receiving technical assistance about implementing SIBs. MDRC's technical assistance funding is provided by the Annie E. Casey Foundation and the George Gund Foundation. If Travis County is chosen by MDRC as a technical assistance site, the technical assistance is at no cost to Travis County.

CJP's technical assistance request to MDRC is based on Travis County's need to fiscally sustain the current Justice Reinvestment Initiative (JRI) project past the life of the grant funding in 2015. The JRI project provides case management and permanent supportive housing for homeless individuals with a criminal background. SIBs would be examined to see if they would be a good fit for this project's sustainability.

At the technical assistance site, MDRC seeks to increase awareness on how SIBs can be used to spur innovation, build knowledge and improve accountability. Preference is given to applications that include an innovative intervention with a potential for operation on a large scale, have the use of evaluation to increase knowledge about what works for disadvantaged populations and a committed government partner.

Attached is an article written by MDRC that further explains SIBs and the New York City Riker's Island project.

Attachment: Using Social Impact Bonds to Spur Innovation, Knowledge Building, and Accountability. Community Investment Review, Federal Reserve Bank of San Francisco.

Travis County Criminal Justice Planning Department
MDRC Request for Technical Assistance on Social Impact Bonds
October 2013

The Travis County Criminal Justice Planning (CJP) Department located in Austin, Texas is one of several departments within the purview of the Justice and Public Safety (JPS) Division, in addition to the Juvenile Public Defender Office, the Mental Health Public Defender Office, the Office of Parent Representation, the Office Child Representation and Counseling and Education Services. The JPS Division reports directly to the Travis County Commissioners Court. The department's mission is "to support the Travis County Commissioners court and key stakeholders by providing quality data analysis, planning and implementing and sustaining county-wide initiatives for the enhancement of public safety".

This application submitted to MDRC is to apply for technical assistance on the issue of social impact bonds (SIB).

1. Location:
All services to be considered for future SIB development will be located in Austin, Texas.

2. The applicant's role in the potential SIB:
CJP is examining the potential of utilizing SIB's for permanent supportive housing for homeless individuals with criminal backgrounds. This project is a Justice Reinvestment Initiative (JRI) funded by the Center for Effective Public Policy (CEPP) with funds originating from the federal Bureau of Justice Assistance. Although it is currently a small program, CJP is providing permanent supportive housing, intensive case management, and ancillary services for up to twenty-two chronically, homeless mentally ill men and women who are "frequent fliers" in the Travis County Jail. Eligibility is determined by a Jail Impact Score, measured by frequency of jail bookings and number of jail bed days consumed in a two-year period. Travis County contracts with a local non-profit agency to provide the permanent supportive housing and support services. In addition to the $300,000 provided by the CEPP, Travis County has also received an additional $69,000 from the Laura and John Arnold Foundation located in Houston, Texas. These foundation dollars are for the sole purpose of supplementing intensive case management and supportive services to program participants. The total two-year project cost is $369,000.00 ending in FY2015. Although Travis County has no financial obligations past the initial two-year funding period, Travis County is committed to addressing locating long-term homeless housing, recidivism and the needs of ex-offenders, including those that are mentally ill. Anticipating the need to find additional local funding mechanisms to sustain this endeavor, Travis County would like to explore the potential use of SIB's as a viable funding tool.

3. The chosen intervention and any evidence of its effectiveness:
As stated above, the goal of the JRI project is permanent supportive housing and intensive case management for chronically homeless mentally ill individuals who cycle through our local jail. The JRI program is being evaluated internally by CJP staff at the doctoral research level and externally by the Urban Institute.

4. Whether there is a committed local or state government partner for the project and the role of that partner: Travis County is a governmental unit and a political subdivision of the State of Texas. Depending upon the specifics of any future developed SIB partnership with a financial institution, Travis County would play a lead role.

5. **Other partners involved in the SIB project**:
If the JRI program proves to be successful, CJP will seek additional funding to continue the program and has asked community JRI partners to do the same of their representative governing bodies. These may involve the City of Austin, local nonprofits and the local housing authorities.

6. **Plans for evaluation as part of the SIB:**
Travis County believes that justice reinvestment is a data-driven approach to reduce criminal justice spending and a reinvestment in savings in strategies designed to increase public safety. Managing and allocating criminal justice populations more cost-effectively, generating savings that can be reinvested in evidence-based strategies that increase public safety while holding offenders accountable is a primary goal to working with any future SIB initiatives. Any programs managed by CJP will as a matter of course require program evaluation.

7. **Resources that have been secured for financing the program, intermediary, or evaluation costs:**
Travis County has not secured any additional funding for the JRI program past FY2015. However, we are currently in the process of anticipating our future funding needs and actively pursuing funding strategies that may be of use, such as SIB's.

8. **Projections or modeling of lay-back accounting, program scale, key outcomes, and necessary investment:**
Travis County has not yet completed these functions for the purpose of SIB's and would need the requested technical assistance to implement.

9. **The role of the intermediary and whether that intermediary has been chosen:**
Travis County CJP does not have a financial intermediary chosen.

If selected for technical assistance by MDRC, Travis County would like to accomplish the following:

- ✓ Explain the SIB concept to up to 40 to 45 selected key decision-makers in a formal presentation. This would be followed by a question and answer session. We believe this would inform and start additional SIB funding discussions at the local level.
- ✓ Determine if the SIB function is a feasible legal option in Texas with pay-back strategies, determining potential impact and potential cost savings for existing and future criminal justice programs.
- ✓ Discussion of potential SIB arrangements and structures with financial institutions.
- ✓ Development of a two-page SIB overview and fact sheet.

Using Social Impact Bonds to Spur Innovation, Knowledge Building, and Accountability

David Butler, Dan Bloom, and Timothy Rudd
MDRC

In this article, we propose a vision of a social impact bond (SIB) model that moves beyond just achieving cost-savings to spurring innovation, knowledge-building, rigorous evaluation, and, potentially, outcomes that go beyond cost savings. We discuss two of the key rationales for SIBs: securing new resources to expand programs more broadly and ensuring that government only pays for successful programs that save money. Both are important goals but are also limited. We therefore propose a more expansive vision of the SIB model.

We draw on our experience as the intermediary for a New York City SIB (NYC SIB) project that is attempting to lower recidivism and improve the lives of 16- to 18-year-olds in New York City's Rikers Island jail. This project is the first of its kind in the United States. Over the next year, we will be writing about the experience of designing, implementing, and beginning to test the potential of this program set within a complex and dynamic political and service environment. Other partners include the New York City Department of Correction, the Mayor's Office, the Bloomberg Family Foundation, Goldman Sachs, the Osborne Association, Friends of Island Academy, and the Vera Institute of Justice.

What is a SIB?

SIBs are innovative financing arrangements that aim to increase the pool of money available for preventive services. In a SIB, investors provide financing to operate federal, state, or local-run programs that aim to achieve predetermined outcomes. Generally, these outcomes are expected to save government money, for example, by reducing the need for beds in prisons or homeless shelters. The government entity agrees in advance that, if the program meets its goals, it will use the savings to pay back the original investment, plus a return. Usually, an intermediary organization puts the pieces together–identifying appropriate interventions and service providers, making a match between government agencies and investors, helping to structure the financial deal, and monitoring the program as it operates. This is the role MDRC is playing in the NYC SIB. An independent evaluator will confirm that the program has achieved the pre-specified goals and determine whether the government is obligated to pay back the investors.

Using SIBs to Finance Replication of Proven Programs

SIBs have been described as an ideal vehicle for going to scale with proven prevention programs that currently operate on a small scale. Public agencies facing severe budgetary pressure often are caught in a vicious cycle: they must spend money on prisons, shelters, public assistance and other services, leaving less for programs that might reduce the need for such spending in the first place.

SIBs may offer a way out of this bind. However, it is important to consider some complicating factors. Profit-seeking investors will be most interested in social programs or models that are proven–and thus quite likely to produce savings–but identifying "good bets" is easier said than done. Most social programs, including many that are quite well known, have little or no solid evidence behind them. For many others, the available evidence is mixed, limited, or based on problematic evaluation designs. Even successful programs have not necessarily generated impacts of the magnitude necessary to pay for themselves and yield a return for an investor.

The federal government and private foundations have recently begun to articulate a system of tiers to describe the strength of evidence supporting particular social programs. Only those in the highest tier–validated by multiple randomized control trials–are considered "proven," and there are very few such programs. Therefore, there is a very small pool of potential SIB deals. Perhaps more important, there is a long history of programs that have achieved strong results in small pilots but were not successful when replicated on a larger scale. Social programs and the problems they address are often complex and not well understood. Moreover, interventions have to be delivered within systems–for instance, criminal justice, foster care, or welfare systems–and the rules, regulations, and operating cultures of those systems often vary. When a program achieves positive results, the success may be attributable to a wide range of factors, and it is often difficult to identify exactly why the program worked. This makes it hard to replicate success and, in a SIB context, it puts tremendous pressure on the providers delivering the service and the intermediary responsible for overseeing program implementation. In the NYC SIB, we understood the marketing appeal of calling a program a "safe bet" in trying to attract private investors, but we were also aware of the replication challenges and the resulting risks of failure. Although there was considerable evaluation-based evidence supporting the program model we selected– some might have described it as "proven"–we were careful not to characterize the program in that way and were forthcoming about the implementation and scaling challenges.

Using SIBs to Ensure the Government Pays Only for Successful Programs

The idea of Pay for Success (PFS) is not new: government agencies have been writing performance-based contracts with social service providers for many years. In those contracts, rather than paying providers based on their costs, payment is determined by outputs (such as meeting program enrollment and participation targets) or on outcomes (such as achieving job placement or job retention goals) or on some combination of the two.

The appeal of such arrangements is clear, particularly when payments are linked to outcomes. However, the record has been mixed, in large part because the outcomes a program achieves can be an unreliable measure of its impact–and 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. An example of this discrepancy was demonstrated in a study of the Job Corps program, which found little correlation between the impacts that individual programs achieved (as measured in a randomized control trial) and their performance relative to the Department of Labor's performance measures.

Not addressing the "net impact" question is a significant weakness in the high-stakes world of performance-based contracting because these contracts create powerful incentives for capital-starved service providers to "cream" (target participants most likely to succeed) as a way to maximize revenue. Government agencies have become more sophisticated in trying to minimize the risks of creaming by, for example, referring service populations to contracted providers with "harder to serve" characteristics, or requiring outcomes that are more difficult for people to achieve on their own. While these responses can mitigate the risk of creaming, they seldom eliminate it.

SIBs potentially offer advantages over traditional performance-based contracts. For example, a SIB may provide upfront funding for nonprofit service providers, who cannot wait to be paid after the fact. At least in theory, SIBs also include an independent assessment of the program's performance. But the SIB structure does not, in itself, address the problem of creaming or the potential mismatch between outcomes and impacts. The only way to ensure that government pays for success is to ensure that the evaluation or validation process compares the outcomes of program participants with those of a reliable comparison or control group.

Expanding the Vision of SIBs

Using SIBs to Spur Innovation and Build Knowledge

Given the dearth of models with strong evidence of effectiveness and the challenges of replicating success, it is important to consider whether SIBs or SIB-like arrangements can be used to spur innovation, build knowledge, and increase the number of truly effective programs. We believe they can.

One might think of tiers of SIBs, corresponding roughly to the evidence tiers described above. The top tier would focus on the small number of programs with strong evidence of effectiveness and demonstrated ability to achieve positive impacts at scale and in diverse settings. In those few cases, the primary purpose of the SIB would be to identify financing to support further replication and expansion. The risk of failure would still exist, but it would be the smallest of the tiers, which might be appealing to certain kinds of investors who are interested in low-risk ventures and are willing to accept relatively modest rates of return. Commercial banks looking to fulfill Community Reinvestment Act requirements might fit the bill.

A middle tier would include programs that have limited, mixed, or incomplete evidence. Here, the risk of failure is greater, which might warrant a different mix of investors. For example, foundations might need to act as a "backstop" to limit the downside risk for for-profit investors. These might include equity investors, who are prepared to assume higher risks than commercial banks in return for larger returns. The intermediary role would require more detailed program knowledge, and more rigorous and in-depth evaluation would be needed in order to accurately measure program impacts and shed light on the replication/scaling process. Foundations or the federal government might support the evaluations, which would be more elaborate than what might be deemed sufficient for the narrow purpose of determining whether investors should be paid back. For example, it would be optimal to include robust implementation research to understand why replication succeeds in some places and fails in others.

The lowest and riskiest tier would focus on innovation. It would test programs that have a strong theoretical basis and/or promising results from very small-scale studies. In effect, these SIBs would resemble traditional demonstration projects, with tightly controlled implementation and rigorous, in-depth evaluation. The most likely investors for these initiatives would be foundations or the federal government, which have a history of promoting and testing innovation. However, certain kinds of profit-seeking investors might also play a role given that these programs attempt to improve outcomes that may save government money or may simply be something that government is willing to pay for. Rather than selling future promises to pay to investors, it may be feasible for government payments to be reinvested in additional SIBs that focus on innovation, or if the program is successful, the agencies might also agree to pick up the cost of the intervention moving forward so it can continue to run.

Omitting Impact Studies Could Imperil SIBs

In our conversations with potential SIB stakeholders across the country, we have grown concerned that support for high-quality evaluations is not a priority. The pressures to raise sufficient capital to cover the program investment can lead to underfunded evaluations. The political imperative to demonstrate the success of this new financing scheme can create incentives for weaker evaluation designs that are more likely to show positive results, but that are spurious.

In this environment, SIBs may forgo plans for serious evaluation and replace them with limited third-party documentation audits. Such a strategy may identify intentionally false or inaccurate reporting, but it will not provide evidence that the program truly led to cost savings. Only in those few cases in which the SIB is replicating an intervention that has been reliably demonstrated to work at scale should SIB parties consider omitting an impact study. In such cases they could perhaps replace it with a combination of outcome measures and an assessment of fidelity to the model. But even here, investors and government would be left with some uncertainty about effectiveness. Indeed, if there is no risk, no uncertainty, then why would it be in the best interest of government to use a SIB structure? After all, it would cost the government more money not to run a program that saves money.

Broadening the Definition of Success

SIBs have been proposed for programs that are intended to realize government savings in a relatively short time period. These kinds of projects are probably the right place to start in building support for SIBs. However, 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. SIBs could be structured to encompass other socially desirable goals that do not lead to government budget savings but do lead to societal improvements, so long as government can decide what it is willing to pay to achieve specific goals. SIBs could be designed to finance a range of different outcomes from increasing high school graduation rates and persistence in college, to improved cognitive and behavioral skills for young children, or better mental health outcomes for adolescents. All of these areas have promising, and perhaps even some proven, interventions with the potential to be scaled up. And additional funding for these kinds of programs is in at least as short supply as funding for programs that may generate short-term savings. But thus far, we have not seriously asked ourselves what we are willing to pay for this kind of success. Whether that amount would be sufficient to cover program costs and pay an acceptable return to investors is an open question worth exploring.

Conclusion

SIBs, as currently described, are a new financing strategy with the potential to attract new money to pay for innovative social programs. At the same time, it is critical to consider how the strategy could be used to continue to build knowledge about what works. There are too few proven interventions, and too many difficulties in replicating even those few programs, to minimize the role of innovation and knowledge-building. Therefore, we have offered a different view of how SIBs could be structured to promote innovation. Unless we consider these and other alternatives, government is likely to end up paying for success that is never realized or the reservoir of SIB-ready ideas will run dry very quickly.

SIBs can also help ensure that government only pays for successful programs, and they are, potentially, a significant advance over earlier PFS approaches. Achieving that goal, however, will require continued support for rigorous evaluation. Finally, if we hope to realize the full potential of SIBs, we must expand our expectations for success beyond immediate government savings to explore how SIBs can be applied to accomplishing other socially desirable goals.

David Butler is a senior adviser at MDRC and has led the development and implementation of many of MDRC's demonstration projects and evaluations in the "health and barriers to employment" policy area. He is currently leading MDRC's ABLE project, the first social impact bond to be tested in the United States.

Dan Bloom directs MDRC's "health and barriers to employment" policy area, which designs and evaluates programs for groups seeking to gain a foothold in the labor market, including former prisoners, disconnected youth, low-income noncustodial parents (usually fathers), welfare recipients, and others. He is currently directing two large-scale federal projects that are testing subsidized and transitional employment programs.

Timothy Rudd is a research associate at MDRC and analyzes the cost and effectiveness of programs across MDRC's policy areas (jails, schools, higher education, employment, and pre-kindergarten) using a variety of frames including benefit-cost analysis. He played a valuable role in the negotiations of the financing for the first U.S. social impact bond.