



Department of Public Safety and Correctional Services

Office of the Secretary

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INMATE GRIEVANCE OFFICE

January 10, 2013

The Honorable Edward J. Kasemeyer
Chairman, Senate Budget and Taxation Committee
3W, Miller Senate Building
Annapolis, Maryland 21401-1991

The Honorable Norman H. Conway
Chairman, House Committee on Appropriations
Room 121, House Office Building
Annapolis, Maryland 21401-1991

RE: DPSCS' Joint Chairmen's Report on Social Impact Bonds

Dear Chairman Kasemeyer and Chairman Conway:

The language on page 92 of the 2012 Joint Chairmen's Report requested the following information of the Department of Public Safety and Correctional Services' Maryland Parole Commission. The language states:

"...[D]evelop a request for information (RFI) in order to begin examining the possibilities of utilizing Social Impact Bonds (SIB) to provide programs and services aimed at impacting successful re-entry and lowering recidivism. In addition to the RFI, DPSCS should submit a report to the budget committees discussing the findings of the RFI, preliminary data from the Peterborough Prison pilot program in the United Kingdom, information gathered from the Massachusetts RFI or other states considering SIBs, impediments to using SIBs, and the results of the Public Safety Compact, including outcomes and estimated savings. The report shall be submitted to the budget committees no later than January 1, 2013."

Please find attached the report detailing the Department's findings on Social Impact Bonds. I hope that the reported information meets with your approval. I hope that this report will be informative and helpful to you and your Committee members. If the Department can be of any further assistance, please do not hesitate to contact me at 410-339-5005.

Sincerely,

Gary D. Maynard
Secretary

Attachment

- c: Senator James E. DeGrange, Sr., Chair, Senate Public Safety, Transportation, and Environment Subcommittee
- Delegate James Proctor, Vice Chair, House Committee on Appropriations
- Delegate Galen Clagett, Chair, House Subcommittee on Public Safety and Administration
- Members of the Senate Budget and Taxation Committee
- Members of the House Committee on Appropriations
- Mr. Matthew Gallagher, Chief of Staff, Governor's Office
- Mr. Catherine Motz, Deputy Chief of Staff, Governor's Office
- Ms. Stacy Mayer, Governor's Chief Legislative and Policy Officer
- Ms. Shanetta Paskel, Governor's Deputy Legislative Officer
- Ms. Kate Henry, Policy Analyst, Department of Legislative Services
- Mr. Christopher McCully, Budget Analyst, Department of Budget and Management
- Ms. Chantelle Green, Staff, House Committee on Appropriations
- Mr. Matthew Bennett, Staff, Senate Budget and Taxation Committee
- Ms. Cathy Kramer, Department of Legislative Services
- Ms. Sarah Albert, Department of Legislative Services
- Deputy Secretary G. Lawrence Franklin
- Deputy Secretary J. Michael Stouffer
- Assistant Secretary/Chief of Staff Rhea L. Harris
- Director Kevin C. Loeb, Office of Legislative Affairs
- Director Christina Lentz, Office of Grants, Policy, and Statistics



**DEPARTMENT OF PUBLIC SAFETY AND
CORRECTIONAL SERVICES**

Report on Social Impact Bonds

January 9, 2013

Governor Martin O'Malley
Lt. Governor Anthony G. Brown
Secretary Gary D. Maynard

BACKGROUND

In the 2012 Legislative Session, the Maryland General Assembly required the Department of Public Safety and Correctional Services (DPSCS) to submit a report on Social Impact Bonds. The following language can be found on page 92 of the Joint Chairmen's Report,

The committees direct the Department of Public Safety and Correctional Services (DPSCS) to develop a request for information (RFI) in order to begin examining the possibilities of utilizing Social Impact Bonds (SIB) to provide programs and services aimed at impacting successful re-entry and lowering recidivism. In addition to the RFI, DPSCS should submit a report to the budget committees discussing the findings of the RFI, preliminary data from the Peterborough Prison pilot program in the United Kingdom, information gathered from the Massachusetts RFI or other states considering SIBs, impediments to using SIBs, and the results of the Public Safety Compact, including outcomes and estimated savings. The report shall be submitted to the budget committees no later than January 1, 2013.

The Department has prepared this report as required by the Operating Budget language.

PURPOSE

The purpose of the report is to provide the Department's findings regarding the use of Social Impact Bonds (SIBs) in other jurisdictions, relevance of SIBs to Maryland, and potential problems relative to SIBs. The report addresses the following issues:

- 1) Defining SIBs,
- 2) Findings from the Peterborough Prison pilot,
- 3) Information from RFI's completed in the US, and,
- 4) Findings from Maryland's Public Safety Compact.

PROJECT DESCRIPTION: WHAT ARE SOCIAL IMPACT BONDS?

Social Impact Bonds (SIBs), also known as Pay for Success or Social Benefit Bond models, refer to a contract between a public agency and a private organization(s) with a shared goal of improving social outcomes. SIBs require performance-based contracts where the government entity provides a fixed-rate of reimbursement to a private organization based not only on costs incurred but also a combination of quality and outcome measures. This innovative financing tool promotes measureable, positive social outcomes with the financial support of external investors. The private organization (i.e., investor) funds the project with

an expectation of a return on their investment if the desired social benefit results from the initiative/project. Typically, SIBs require measureable, clearly defined outcomes that are to be achieved within a designated timeframe. Government funds are not released until and unless the goal is achieved.

Proponents argue that SIBs provide financial support for various social programs that are otherwise experiencing reductions or losses in funding. It is also suggested that SIBs generate cost savings to the public agency, thereby allowing the agency to use taxpayer contributions in a more effective manner. In addition, supporters claim that SIBs increase the rigor of evidence used in policy making. To date, re-entry programming has been the target of many SIB initiatives in the United States.

However, opponents of SIBs argue that the use of external investors can hinder innovation and development of effective programming. Incorporating external investors in social outcomes reduces the flexibility for renegotiation that is often permissible in standard performance-based contracts (see section “Maryland’s Public Safety Compact”). As noted previously, agencies gain interest from investors with the prospect of achieving desired results. The use of innovative programs/policies may be replaced with only standard approaches to criminal justice policy and programming since agencies may be unable to adequately project results. In other words, agencies may be less likely to search for new approaches to doing business because the risk is shifted to being able to produce specific results. This, in turn, defeats the purpose of the SIB model.

Furthermore, opponents note that the long-term effects of programming are not considered in SIB contracts. For example, under the SIB structure, investors will have an expectation of seeing the desired results within a specified period of time. However, with many criminal justice programs, there can be numerous long-term benefits to programming that are not realized for many years to come (i.e., 3-year recidivism rates, steady employment, sobriety). As a result, progress can be distorted for any programs that cannot demonstrate immediate positive outcomes. In cases where SIBs provide for a five-year time-frame, SIBs remain dependent on the assumption that evidence will exist at the end of the five-year time-frame to nearly definitively prove the desired results have been achieved. If the desired results are not achieved, the investor is compensated.

PRELIMINARY FINDINGS FROM PETERBOROUGH PRISON PILOT PROGRAM (UK)

The SIB model is being piloted at Peterborough Prison in the United Kingdom through a project to reduce recidivism rates among released prisoners. These offenders have a one-year recidivism rate of approximately 60 percent. The goal is to reduce one-year recidivism rates among short-term incarcerated offenders. The project itself took two years to develop due, in part, to the complexity of the contract.

Unique to the Peterborough program, payments are based on an undisclosed, negotiated value that considers the cost-savings to the government. According

to Social Finance UK (project manager), investors receive a return if one-year recidivism rates fall by more than 7.5 percent compared to a control group ("Peterborough Social Impact Bond," Social Finance Limited, 2011). In addition, if the one-year recidivism rate falls by a percentage greater than 7.5, investors receive an increasing return capped at 13 percent per year over an eight year period. In sum, if recidivism rates decrease, the government will make payments to the investors based on the program's measurable success stemming from returns to prison.

It should be noted that Peterborough Prison houses short-sentenced offenders, whereas Maryland's Department of Public Safety and Correctional Services houses short-sentenced (jail) offenders only in Baltimore City and longer sentenced (18 months or greater) inmates statewide.

PRELIMINARY FINDINGS: RFI –MASSACHUSETTS, MINNESOTA, AND NEW YORK

Massachusetts

After a lengthy procurement process, in August 2012, Massachusetts announced that they would be undertaking a Pay for Success pilot project, namely Social Innovation Financing, in which nonprofit social service providers selected by the state would develop initiatives to tackle homelessness and juvenile crimes. The agencies will receive funding from foundations for start-up costs and if they can demonstrate a success in reducing homelessness and juvenile crime, they will receive funding back from the government. Through a Request for Information (RFI), Massachusetts solicited responses from service providers by asking general information to gauge their ability to manage a project and measure outcomes. For more information on the RFI, please visit:

<http://www.beta.mmb.state.mn.us/doc/budget/pay-performance/presentations/massachusetts.pdf> Similar to the process noted in the Peterborough Pilot, the development process took Massachusetts approximately two years.

Minnesota

Minnesota recently released two RFI's asking the public questions about the potential design of a pilot program. The state would issue bonds of up to \$10 million dollars to finance a pay for success pilot if there is enough positive feedback on the RFIs. The first RFI was issued to service providers and the second was for third parties. Massachusetts and Minnesota have chosen two different options for paying for the benefits. Massachusetts has requested budgetary authorization (for \$50 million) to pay service providers if they achieve their outcomes. Minnesota will repay the bond, in part, from the financial benefits that the service providers programs created- which may be realized in the state's budget.

New York City Rikers Island Prison

In 2012, NYC announced the United States' first social impact bond. The project's goal is to reduce recidivism rates for individuals exiting Rikers Island Prison. As proposed, the project starts with a loan in the amount of \$9.6 million from investors (Goldman Sachs Urban Investment Group) and a \$7.2 million dollar grant from a Guarantor (Bloomberg Philanthropies). Then, an intermediary agency is appointed to act as a middle man between the investors and the providers by supporting implementation and providing financial and risk management support. The social service providers (non-profit) then deliver the reentry programs that reduce recidivism rates. An independent validator (Vera Institute) measures and reports outcomes. The Government (NYC Department of Corrections) then pays the intermediary for successful outcomes, and that money then funnels back up to the original investors. However, if the outcomes are not realized, the intermediary will be responsible for re-paying a portion of the loan back to the investors.

MARYLAND'S PUBLIC SAFETY COMPACT

The Public Safety Compact (PSC) aims at improving outcomes for drug-dependent incarcerated persons and reducing prison costs by appropriately releasing prisoners after they complete prison-based drug addiction treatment and other programming and on the condition that they will continue treatment and receive re-integration services in the community. The PSC focuses on offenders returning to Baltimore City. Since FY2010, more than 350 eligible offenders have been identified for the PSC.

Currently, the Department is averaging twelve favorable parole decisions to the PSC per month. On average, eight inmates per month are being released to the program, as the Department continues to struggle with obtaining the original goal of ten to fifteen participants per month. The Department regularly works with a team of stakeholders to determine the best approach for increasing the number of inmates that can benefit from the PSC. The Department has considered, for example, expanding to neighboring jurisdictions and/or changing the eligibility criteria for time left to serve. Regular communication, analysis, and is vital to the effectiveness of the PSC.

CONCLUSION

As noted in the Department of Legislative Services (DLS) "Evaluating Social Impact Bonds as a Financing Mechanism" (December 2012), SIB hope to "...generate cost savings; help finance social programs; shift outcome risk; link payments to outcomes; increase the rigor of evidence used in policy decisions; and stimulate innovative solutions" (p. 2). However, based on the findings of the DLS report, re-entry programming cannot produce sufficient results "... to justify the operational costs or risks of engaging in this form of high-stakes contracting" (p. 15). Although the current SIB model does not appear to be conducive to re-

entry programming, the Department will continue to pursue similar opportunities with experienced investors that are able to work within the uniqueness of re-entry programming. As witnessed with other efforts in the Department, when given more flexibility than what is often available in standard SIB programs, investors and the government can work together to create more effective, efficient, and functional programming options. The Department remains interested in pursuing unique financing arrangements, but will continue to do so cautiously. At the same time, the Department continues to monitor the progress of other jurisdictions using SIB models and, if an appropriate opportunity arises, the Department will consider pursuing any relevant options supported by the Department's mission and local stakeholders.

Re-entry programming is a priority for the Department. The impact of positive programming on recidivism and social outcomes is indisputable. The noted risks of SIBs, however, must be carefully weighed when considering future funding options (see "Evaluating Social Impact Bonds as a Financing Mechanism", DLS, 2012).