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## **Denver Homeless Initiative Would be Latest to Tap Social Impact Bonds.**

In the dry and wonky world of municipal finance, a new way for state and local governments to pay for the rapid expansion of social service programs — from Massachusetts and New York to Chicago, Salt Lake City and now Denver — is gathering steam and turning heads.

And it could even save taxpayers over the long haul — at least, that's the way it's sold.

Government officials, nonprofit leaders and for-profit investors are striking deals that take on thorny challenges, such as helping ex-offenders avoid new crimes and expanding preschool access for at-risk children. Coming soon in Denver, officials want to use a deal potentially worth \$8 million to \$15 million to move up to 300 of the most chronically homeless into housing that's coupled with mental health and substance abuse treatment.

As promoted, private investors that take part put up millions of dollars to start or expand preventative programs. In just a few years, those programs start saving taxpayers money by reducing the need for costly spending in other areas — say, for frequent jail, detox and hospital stays by homeless people — which the government then taps to pay back investors, plus interest.

And if the plan fails to save money? Then the foundations, investment banks or others who put up the money wouldn't get repaid.

The arrangements are called social impact bonds or investments. Some call them “pay for success” plans.

Less than 5 years old, the financing method has taken off quickly, including in at least seven U.S. states, cities and counties. Some critics caution that it's too soon to know if the model works. They also question whether it's too easy for investment banks such as Goldman Sachs, which has signed on to a handful of deals elsewhere, to profit needlessly off already proven programs.

But Denver city officials and heads of nonprofits geared toward the homeless are palpably excited. They're forging ahead by seeking out investors and making plans for the six-year “supportive housing” program.

“We expect to save taxpayers money through the life of this program,” said Cary Kennedy, Denver's deputy mayor and chief financial officer. “In the short term, those savings will go to repay the investors. And long term, they will go toward investing in permanent supportive housing.”

Denver would draw on a housing strategy that long has shown promise here and in other places. The final amount sought from foundations and investors will depend, the city says, on how state officials work out potential Medicaid reimbursements for some of participants' health care and treatment costs.

Mayor Michael Hancock announced the city's social impact bond plan to great fanfare at last June's

Clinton Global Initiative America conference in Denver.

In coming months, Hancock's deputies, working with consulting organizations including the Corporation for Supportive Housing, hope to work out an investment deal that will launch the program by late summer or fall.

### **By the numbers**

For several years, the Denver Crime Prevention and Control Commission and other city agencies have tracked the heaviest users of city or county services, including the jail. Nearly all are homeless. Most are men. They often have addiction and severe mental health challenges.

And they're a tiny portion of the 5,812 homeless men, women and children found last year during the Metropolitan Denver Homeless Initiative's annual survey of the seven-county metro area.

On average, Denver city data show, the top 300 who cost the city the most spend dozens of nights in jail a year. It's usually for petty offenses including trespassing, public nuisance and panhandling, or for alcohol- or drug-related charges. And they make an average of eight visits to detox and two visits to the emergency room each year.

The city estimates the annual budget toll for all of those costs at roughly \$38,000 per person, or \$11.4 million.

But creating a tailored program that provides a small apartment or housing voucher, along with case managers and mental health and drug treatment to help participants achieve a firmer footing, would cost an estimated \$18,000 per person. Commission director Regina Huerter says a new pilot program called the Recovery Court so far is showing it's possible to provide similar housing and services for less than half that.

If a deal for Denver's social impact bond project wins approval, a recently selected evaluation team, headed by the Urban Institute with local evaluators, will scrutinize the city budget over the six-year project to determine the amount of savings.

The social impact investors would provide money for operating costs, but they wouldn't cover the big expense to build two new projects with 160 housing units.

Two nonprofit partners, the Colorado Coalition for the Homeless and the Mental Health Center of Denver, instead would pursue federal and state grants, donations and other typical funding sources to cover construction costs. Remaining housing would come from renting units in existing or already planned projects.

Both groups have helped homeless men and women get back on their feet. Last year, the coalition opened the Renaissance Stout Street Lofts, along with a clinic, for people such as Sammy B. Taylor.

Until he moved in last August, he had lived in a downtown parking garage for three years, spending some nights in jail when police found him. He's taking it a day at a time, and the facility offers counselors and other support when he's ready.

"Being here in this apartment, my goal is to get into a rehab, to get into a community college, finish my cooking career, open up my ministry," said Taylor, 57. "My goal is to help homeless people."

### **Making an investment**

The rapid rise of social impact bonds is rooted in an experiment in 2010 in Peterborough, England.

Seventeen investors, including the New York-based Rockefeller Foundation, pooled about \$8 million for a six-year prisoner re-entry program. Offenders serving sentences of less than a year get intensive pre- and post-release counseling and resettlement services to reduce their likelihood of committing new crimes, which would cost the government more money.

Governments in Europe, the United States and elsewhere have adapted the model to take on a range of issues, setting repayments to investors based on how successful the programs become.

Foundations bearing big names, including Rockefeller, Pritzker and Bloomberg, are among the leading supporters, sometimes backing up investments from Goldman Sachs or joining local nonprofits and other sources.

Since the first project, “we’ve seen social impact bonds move from concept to execution faster than any other social innovation in years,” said Kippy Joseph, the Rockefeller Foundation’s associate director for innovation.

She says the financing method offers an innovative way to expand the reach of evidence-based, preventative programs.

In 2012, New York City started a nearly \$10 million program meant to reduce re-offending by delinquents at Rikers Island. New York state has a \$13.5 million program to provide training and employment to released adult prisoners.

In Salt Lake City, the local United Way and two school districts have started a \$7 million expansion of preschool for at-risk children, predicting a reduction in special education costs later.

With similar goals, Chicago recently announced a \$17 million pre-kindergarten initiative.

Massachusetts has launched two social impact bonds in the last year: a \$27 million deal to provide outreach, life skills and employment training to young men on probation or leaving juvenile prisons, and a \$3.5 million project to house the homeless, with the promise of savings on emergency shelters and Medicaid costs.

And in Cuyahoga County, Ohio — surrounding Cleveland — officials just started a \$4 million program to provide help and housing to homeless families. The hoped-for result: reduced out-of-home foster care for children.

Cities and states have been encouraged to join those places by nonprofits and universities that have received federal grants, championed by the Obama administration, to help them come up with plans to tackle social problems.

Now Denver and Colorado are getting help on the city’s project from the Social Impact Bond Technical Assistance Lab at Harvard’s Kennedy School of Government. It sent program fellow and Colorado native Tyler Jaeckel to help full time for a year.

Kennedy and Jaeckel were in Salt Lake City last week to pitch Denver’s plan to big foundations and other potential investors that took part in a White House-sponsored innovation summit on the pay-for-success model.

## **Weighing risk**

Critics point out that these funding schemes are so new that none of the deals have resulted in repayments to investors, including in Peterborough.

Rick Cohen, a nonprofit consultant and writer for Nonprofit Quarterly, questions the interest rates Goldman Sachs negotiated.

"Often, (the projects are) being developed for programs and activities that are pretty well known to be effective," Cohen said, including for supportive housing for the homeless. "The issue is, if they're so clearly effective, why not just simply do them rather than pay a private investor 6, 8, 10, 12 percent?"

His concerns are echoed by Jon Pratt, executive director of the Minnesota Council of Nonprofits.

"One of the compelling arguments for it has been that this will be an end-run around the lack of political will," Pratt said, to avoid asking taxpayers to fund a new social program, however promising.

Denver's Cary Kennedy, asked about such concerns, described up-front investor money as a way to jump-start the transition from the current high jail and hospital costs to the point, in a few years, when a reduction in those costs will enable the program to pay for itself. Essentially, the investor money builds a bridge, though the city may have to set aside some reserves as insurance.

And Kennedy says interest is necessary — averaging a typical 5 percent, with for-profit investors likely asking for more — since the funders are taking the risk the program will fail and they won't get anything back.

"We'll look at paying a risk-weighted rate," she said.

### **Drawing on experience**

If the idea of the government providing housing for the homeless sounds familiar, that's because Denver has done so on a smaller scale for years, as part of its perhaps-too-hopefully-named "Ten Year Plan to End Homelessness," now being reformulated.

That plan has drawn on taxpayer money and on partners' fundraising, but advocates say the effort hasn't grown fast enough.

"I think what Denver's Road Home (program) has demonstrated is that we know what works to end homelessness," especially for the hardest cases, said John Parvensky, president of the Colorado Coalition for the Homeless. "What was missing was this level of investment."

Denver City Council members, who will weigh whether to approve any social impact bond deal, say they're eager to scrutinize the details. Not all are completely sold yet.

"Every major city has a homeless problem," said at-large Councilwoman Debbie Ortega, formerly executive director of Denver's Homeless Commission. "I commend the administration for looking at something creative that is helping us try to figure out how to solve this problem."

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