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No Success Like Failure: N.Y. Sees Social Impact Bond Pluses.

A New York City program aimed at cutting recidivism rates among Rikers Island adolescent prison inmates failed to meet its desired goal.

As a result, the city paid nothing for it.

That made the nation's first social impact bond a success, according to city officials and others involved with the program. Under the pay-for-performance vehicle – bond is a misnomer in the traditional muni bond sense, though supporters find the buzzword catchy – the city is not on the hook.

The program, which began in 2012, was originally pegged for four years but reduced after a predetermined three-year checkpoint. Its structure enabled city officials to experiment without risk to taxpayers, according to First Deputy Mayor Tony Shorris.

"This social impact bond allowed the city to test a notion that did not prove successful within the climate we inherited on Rikers," he said. "We will continue to use innovative tools, both on Rikers and elsewhere."

Vera Institute of Justice, a nonprofit, was the independent evaluator of the program, called Adolescent Behavioral Learning Experience, or ABLE. The benchmark was whether the program reduced recidivism among 16-to-18 year-olds who entered Rikers in 2013 by 10% or more. Intervention focused on social skills, personal responsibility and decision-making.

"The program did not reduce recidivism and therefore did not meet the pre-defined threshold of success," Vera said in a statement.

The program will end on Aug. 31.

Goldman Sachs provided a \$7.2 million loan to nonprofit MDRC, which oversaw the project. Bloomberg Philanthropies, the personal charity of former Mayor Michael Bloomberg, provided a \$6 million loan guarantee. Goldman thus loses \$1.2 million. Had the program gone the full four years, Goldman's investment would have been \$9.6 million, with Bloomberg Philanthropies' backstop at \$7.2 million.

Though modeled after a prison program in Peterborough, U.K., New York's is the first anywhere involving a major financial institution.

"This can unlock new pieces of funding, private capital especially," said Jim Anderson, who leads the government innovation program at Bloomberg Philanthropies. "It also brings a laser-like focus to measurable data. Everyone has an incentive. We're not doing this to feel good. We want positive results."

“Even though we didn’t get the result with the program that we all wanted and hoped for, we now know that definitively, thanks to the social impact bond structure that we put in place.”

Goldman is involved with three other such programs under its impact investing umbrella. Two involve early childhood education in Salt Lake City and Chicago, with kindergarten preparedness the yardsticks, while the other is criminal justice-oriented in Chelsea, Mass., outside Boston, for which Massachusetts earmarked up to \$27 million.

“We’re proud to have been part of this public-private partnership that used a new financing model to tackle a difficult issue in a time of government budget constraints,” said Andrea Phillips, vice president in Goldman’s urban investment group.

“Social impact bonds can fill a gap and are designed to align government, service providers and investors around outcomes at no cost to taxpayers if targets are not met. While we certainly hoped for greater impact in this case, we learned a great deal along the way and remain committed to investing in projects that support important public initiatives.”

Working with New York City Mayor Bill de Blasio’s office and the city Department of Correction, social justice organization MDRC contracted with the Osborne Association, which ran the program in conjunction with Friends of Island Academy.

“The social impact bond let us test the program without taxpayer expense,” said Kristin Misner-Gutierrez, director of social services for the city’s deputy mayor for health and human services and former chief of staff in that office under Mayor Michael Bloomberg’s administration.

City officials say the program, while missing its benchmarks, generated significant buy-in from Rikers management, uniformed and nonuniformed staff and school personnel, and that the experience of implementing it may plant a seed for further innovation in criminal-justice related programs.

“This administration is committed to a number of reforms at Rikers Island,” said Misner-Gutierrez.

The social bond concept is gathering momentum against a backdrop of tight government spending.

Many states are adapting or considering pilot programs. For instance, in Pennsylvania, where a battle between Gov. Tom Wolf and the legislature over the proposed \$30 billion budget has extended past the fiscal-year deadline, Wolf’s administration issued a request for information related to a pay-for-success proposal.

“It’s a trending activity,” said Anderson. “How do we help local governments better influence decision-making? One way is to shift more to a pay-for-success performance bond.”

THE BOND BUYER

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