

Department of Legislative Services
Maryland General Assembly
2013 Session

FISCAL AND POLICY NOTE

House Bill 951
Appropriations

(Delegates Waldstreicher and Hough)

Task Force to Study Social Impact Bonds

This bill establishes a Task Force to Study Social Impact Bonds (SIBs), which is charged with studying and developing recommendations, including proposed legislation, concerning the generation, promotion, and implementation of SIBs in the State. Members of the task force are not entitled to compensation, but they may be reimbursed for expenses. The task force's report to the Governor and General Assembly is due by January 1, 2015.

The bill takes effect July 1, 2013, and terminates June 30, 2016.

Fiscal Summary

State Effect: None. Expense reimbursements for members of the task force are assumed to be minimal and absorbable within existing budgeted resources. No effect on revenues.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law/Background: SIBs represent a relatively new concept for financing and contracting for the delivery of social service programs. They are designed with the intention of shifting the financial risk of performance-based payments from providers onto investors. This allows governments to, in theory, increase the portion of funding linked to the achievement of an outcome without damaging the funding of service providers.

In many respects, SIBs are misnamed because they typically do not involve the issuance of government bonds; instead, they are performance-based contracts in which the government reimburses external investors who provide upfront capital only when specified positive outcomes are achieved. Payment amounts are based in part on the cost savings that the government realizes from the program, as determined by sophisticated program evaluations using advanced statistical methods. Program services are typically provided by nonprofit entities recruited by a program manager, who receives funding directly from the external investors rather than from the government. SIBs originated in the United Kingdom with an active pilot program in Peterborough to reduce one-year recidivism rates among short-term incarcerated offenders.

In the Overview of the Department of Public Safety and Correctional Services (DPSCS) budget analysis during the 2012 legislative session, the Department of Legislative Services (DLS) recommended that DPSCS examine the possibility of using SIBs. During the 2012 interim, DLS conducted a concurrent review of the feasibility, potential benefits, and risks associated with using SIBs to finance reentry programs; the DPSCS response to the recommendation mirrors the DLS analysis. A copy of the DLS analysis can be found at <http://mgaleg.maryland.gov/Pubs/BudgetFiscal/2013-Evaluating-Social-Impact-Bonds.pdf>.

The DLS analysis concludes that using SIBs to reduce recidivism in State prisons is not cost effective. According to the analysis, the net fiscal effect of using a SIB to yield a 10% reduction in prison reentry rates is a \$3.9 million loss to the State; a 20% reduction in recidivism, which is achieved in rare instances by highly effective reentry programs, still has a net negative fiscal effect of nearly \$450,000. The primary reasons for the net negative fiscal effect are (1) the management and program evaluation fees inherent in SIBs; (2) the cost of direct services to participants; and (3) the low marginal cost avoidance as a result of reduced recidivism. The most significant cost avoidance is achieved only when detention facilities are closed due to lack of need; this outcome is not achieved with the level of reduced recidivism accomplished by the scale of reentry programs that could be feasibly operated through a SIB.

The DLS analysis also concludes that the use of SIBs would also likely increase the cost of providing social services during the development and implementation of the SIB programs. This is due to the multi-year development phase necessary to create contracts linked to evaluations and the necessity of budgeting for contingent payments associated with both the cost of the program operations and a return on investment to outside funders.

Social impact bonds in policy areas outside of prisoner recidivism are likely to be more expensive for the State, according to the DLS analysis, because the marginal cost savings

for avoided re-imprisonment are generally higher than the cost savings for other social service programs typically associated with SIBs.

Additional Comments: DLS notes that the bill does not designate an entity to provide staff for the task force. Whichever entity is designated to staff the task force will also ultimately be responsible for processing and paying expense reimbursements for members.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Business and Economic Development, Board of Public Works, Department of Budget and Management, Center for American Progress, Department of General Services, Comptroller's Office, Department of Legislative Services

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