



STATE OF CONNECTICUT
DEPARTMENT OF CHILDREN AND FAMILIES

Public Hearing Testimony
Human Services Committee
February 20, 2014



S.B. No. 105 AN ACT CONCERNING SOCIAL INNOVATION INVESTMENT

The Department of Children and Families supports S.B. No. 105, An Act Concerning Social Innovation Investment. We believe that this legislation will provide an important statutory framework for future social innovation investment initiatives for the State of Connecticut.

Overview of Social Impact Bonds (SIBs)

In the Pay for Success (PFS) model, a promising intervention is identified for being brought to scale based on its potential for producing positive social outcomes.

Operating funds for the intervention are raised by an intermediary organization from private and philanthropic investors. In addition to raising capital, the intermediary organization is also responsible for coordinating the various partners and monitoring the performance of the service providers. Government then commits to repaying investors if a rigorous evaluation demonstrates that pre-agreed upon outcome targets are achieved. If outcome targets are exceeded, investors can earn a return. If targets are not met, government does not repay investors.

Payments to investors relative to achieved outcomes are based on the savings and benefits produced by the project. By basing payment on performance rather than the quantity of services delivered, this mechanism aligns the incentives of the investors, intermediary, and service provider(s) with interests of the public and assures that taxpayers pay only when the initiatives are effective.

Criteria for SIB Interventions

To be eligible for SIB financing, interventions must meet the following criteria:

- Evidence that the intervention is effective to give investors confidence that they are likely to meet minimum performance thresholds and get repaid.
- The intervention should produce sufficient social benefits and budgetary savings for the public sector to compensate for the cost of the intervention.
- A robust evaluation of the intervention should be feasible. Outcomes should be measurable and able to be evaluated. The target population should be well-defined and sufficiently large to allow for a comparison / control group.

Benefits of SIBs for Providers

PFS contracts enable service providers to have access to multi-year funding sources while performance risk is borne by the private sector in partnership with government. Funding through SIBs will account for service providers' financing needs to build capacity and scale services.

There is also the potential for the private sector's market-oriented discipline to foster innovation and improve program effectiveness.

With rigorous evaluations central to the PFS model, PFS projects can expand understanding of what programs are efficacious and how to enhance them. For providers this means an opportunity to test their interventions in a rigorous manner and build an evidence base that will better position them to attract philanthropic capital separate from an SIB initiative.

DCF's SIB Project

In April 2013, DCF's application was accepted to receive pro bono technical assistance from Harvard Kennedy School's Social Impact Bond Technical Assistance Lab (SIB Lab) to support the Department's efforts to develop an SIB project.

On 2/14/14, DCF issued an RFP having as its aim the provision of cost-effective services for families involved or at-risk of becoming involved in the child protective services system and who are also impacted by substance use.

Substance abuse is a leading cause of removal of children, with over 70% of cases in which children are removed citing substance abuse as a concern. Substance abuse treatment services can be costly for families. By preventing removal, or reunifying children following a period of treatment for parent(s) or caregiver(s), the state averts costs associated with lengthy court involvement and long-term stays in foster care.

Through this RFP, DCF seeks to partner with an intermediary organization to identify and implement promising interventions and to raise capital from investors to finance the project's operating costs. The intermediary also will manage the performance of the service provider(s) delivering the intervention during the course of the project.

In November 2013, DCF issued a Request for Information (RFI) to gather suggestions for this initiative from families, intermediaries, investors, providers, and other interested persons or entities. In response, DCF received more than a dozen responses from interested entities.

More information about DCF's efforts to develop a Social Impact Bond project is posted on DCF's website: <http://www.ct.gov/dcf/cwp/view.asp?a=2534&Q=534038>.