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An Examination of Using Social Impact Bonds to Fund Education in Maine

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Executive Summary

As resolved in H.P. 285 - L.D. 418 (Chapter 52) and requested by the Maine Legislature's Joint Standing Committee on Education and Cultural Affairs, the Maine Education Policy Research Institute (MEPRI) has conducted a study to examine current policies and investigate feasibility of using Social Impact Bonds as a funding mechanism for public education programs in Maine. There are currently various models, opportunities and challenges when considering the use of Social Impact Bonds to fund public education programming and innovation. Many insights are emerging from the existing models and recent programs in the United States and across the globe, some of which are achieving their outcomes and some that did not achieve their goals.

A key component of the Social Impact Bond is developing a mutually beneficial contract for monetary lending with a private investor for a needed social service. Social Impact Bonds (SIBs) can offer critical initial resources to kick start innovative public services or pilot groundbreaking organizational structures for providing essential social services. However, SIBs are complex lending mechanisms with many partners, structural features and substantial financial investment. Lenders must be willing to engage in comparatively higher-risk investments. Service providers must be prepared for rigorous evaluation and possible identification of failure based on monetized, tightly-defined outcomes. Significant challenges can arise when considering all of these components of Social Impact Bonds, yet they may provide exciting opportunities for certain services and specific lenders. In addition, other existing examples of private-public agreements that may offer alternative methods for funding high-priority public education initiatives in Maine are also introduced in this report.

An Examination of Using Social Impact Bonds to Fund Education in Maine

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Study Purpose & Methods

As resolved in H.P. 285 - L.D. 418 (Chapter 52) and requested by the Maine Legislature's Joint Standing Committee on Education and Cultural Affairs, the Maine Education Policy Research Institute (MEPRI) has conducted a study with the purpose of examining current policies and investigating the feasibility of using Social Impact Bonds as a funding mechanism for public education programs in Maine. MEPRI is a nonpartisan research institute funded jointly by the Maine State Legislature and the University of Maine System.

To this end, this study of Social Impact Bonds utilized a review of existing research literature, published reports, and other relevant public documents. In addition, interviews were conducted with experts in related fields, including leaders in Maine economic development and philanthropic investment. Findings from these various sources were compiled into this final report.

Defining Social Impact Bonds

There are currently various models, opportunities and challenges when considering the use of Social Impact Bonds to fund public education programming and innovation. Many insights are emerging from the existing models and recent programs in the United States and across the globe, some of which are achieving their outcomes and some that did not achieve their goals. The distinction found in current Social Impact Bonds (SIBs) from traditional funding mechanisms is their use as a means to more immediately implement measures of "social innovation." Situated within a broader category of “pay

for performance" or "pay for success" structures, a main goal is to "**provide rapid and rigorous evidence** about what works" and **build collaboration among governments as well as nonprofit and for-profit partners** to address social problems (Azemati et al., 2013; Crowe, Gash & Kippin, 2014).

One key to embarking on the work to consider SIBs for funding education is to understand the core goals and needs of the recipients of the service being provided as well as the vision of the private investors, taxpayers, state officials and legislative leaders involved. However, there are some common components of many existing SIBs that can be used to guide consideration of engaging in such investment opportunities. Structural features, key players and service model qualities often found in existing SIBs or similar pay for performance contracts are discussed in the sections below.

Common Structural Features

There are some core elements of Social Impact Bonds, although model variations are evolving. In fact, SIBs are not necessarily even technically bonds in the traditional definition. SIBs may look more like a social impact investment, an equity investment, or a structured product than a municipal bond. Municipal market bonds are a loan scheduled for set period of time. They are bought and sold on the market. The borrower pays back the loan, with interest if paid back at maturity or without full interest if paid back early—making a profit or loss depending on activity in the market (Schultz, 2012).

In contrast, pay for performance contracts, such as impact bonds, have been used in various social service arenas developed with fixed price and fixed outcomes that offer savings or profit contingent upon whether greater productivity or efficiency is achieved (Manso, 2011). Pay for performance structures include development impact bonds, social impact bonds, pay for success financing contracts or performance clauses within procured service agreements. Most of these financing models involve government agencies and have similar components that are mutually agreed-upon by the service providers, agencies and investors. The variations in name often refer to specific elements of the contract, targeted recipient (i.e. development impact bonds partner aid

agencies and private investors in a developing country context) or arenas of the service (e.g. construction, military defense, regional development, social services, etc.). Social Impact Bonds usually focus on social services and welfare in areas such as education, housing, criminal justice (reducing recidivism), and health.

Payment for these service programs using Social Impact Bonds combines pay for performance and municipal bond structures: a private investor makes initial investment, and **repayment is contingent upon agreed-upon metrics that vary by contract**. These are usually **short-term** (usually 1-5 years) timeframes for realizing observable and measurable **monetized outcomes**, and the return on investment may be a social benefit but is calculated in monetary terms. While many venture market capital investors expect a return of up to twenty percent, SIB investments usually offer less than ten percent return (McKay, 2013). However, SIBs may also offer opportunities for investors to meet federal portfolio requirements, such as those identified under the Community Reinvestment Act (Federal Financial Institutions Examination Council, 2015).

The most common model of SIB requires the government or social welfare agency to engage and hire private-sector or non-profit organizations, who in turn raise **capital for feasibility studies and operating costs.** This organization then recruits investors, manages service providers, oversees funds, as well as contracts with a program evaluator. In some cases, one organization may provide all of these components, and in other models, numerous organizations are sub-contracted by one intermediary that manages these components. "The overhead costs of the SIB financing mechanism, including fees for legal counsel, intermediary costs, evaluation expenses, and costs associated with investor due diligence, are primarily fixed costs and will constitute a smaller proportion of the total project as the size of the intervention grows. In most cases, these costs are only worth incurring for a SIB contract worth at least $20 million." (Azemati et al., 2013). The key players in most Social Impact Bond partnerships are outlined below.

Key Players

1. *Government Agencies*
    a) Established, long-term mechanisms for paying service providers (**full faith & credit authority** to certain state officials), repaying investors and maintaining contracted services of intermediary must be in place.
    b) **Sustained, multi-year attention and support** from top officials in the state. Staff at state and local level dedicated specifically to the development, oversight and management of payments and services related to pay for success contracts.
    c) **Capacity and expertise to gather rigorous evidence** of program effectiveness in 1-3-year experimental study and spend at least one year conducting feasibility studies and cost-benefit analysis.
    d) Sometimes, it is necessary to **raise matching funds from tax base.**
2. *Policymakers*
    a) **Multi-year stability** of infrastructure and repayment capacity not dependent upon specific individuals remaining in office or annual "appropriations risk" (for example, legislation to develop a dedicated "sinking fund" or "trust") is necessary to ensure program sustainability.
    b) Legislation offering **full faith & credit authority** for certain state officials enables leaders to engage in pay for performance contracts.
3. *Private-sector Investor*
    a) **Principal lender** offering initial funding for service; investment may meet lender's federal Community Reinvestment Act (CRA) portfolio requirements.
    b) **Subordinate lenders**, guarantors or philanthropic insurers provide insurance for primary lender in the case that a return on investment is not realized, may fund supporting structures (initial research, feasibility studies, payments to intermediary, etc.) or finance upstart costs.
4. *Transaction Coordinator or **Intermediary Organization***
    a) Manages funds.
    b) Structures contracts.

c) Raises capital for preliminary feasibility studies, evidence-based program model studies, proposal development and submission, and evaluator.
d) **Government agency usually pays out-of-pocket or solicits sponsoring funds** to cover the operating costs and fees of the intermediary organization.

5. *Service Provider*
    a) Must have proven experience and success in service delivery.
    b) Capacity to **collect and analyze clearly measured data** is necessary for program evaluation.
    c) Ability to **scale up** over time is often considered to identify long-term sustainability.
6. *External Evaluator*
    a) Determines "success" of services based on repayment criteria developed by investor lending the monies and public entity borrowing the monies.
    b) **The government agency usually pays out-of-pocket or solicits sponsoring funds** from subsidiary investors to cover the costs and fees of evaluation.

Service Program Model Selection

There are various organizations offering recommendations and technical support for developing SIBs or pay for success (PFS) contracts that would both be beneficial to the service recipients and offer a profit for the investors. To be a successful investment, the social service, innovation, or intervention to be provided must have a demonstrated track record of producing results and be well-implemented. Organizations supporting the development of SIBs--such as Harvard Kennedy School's Government Performance Lab, the Nonprofit Finance Fund, and the Corporation for National and Community Service's Social Innovation Fund--recommend some common characteristics of feasible and impactful *service program models*:

a) Selection of the program model to deliver service must be determined with prior evidence-based success using rigorous methods (usually **random**

control trial or quasi-experimental studies conducted using the selected program and very similar sample).

b) Outcomes must be clearly measured and **monetized** to determine primary investment and monetary return if successful.
c) Service should focus on **prevention or early intervention** for greatest social return.
d) Service program model established in research must be replicable by other providers and scalable to greater numbers of service recipients.
e) Service usually offers **alternative approaches to current social problems or scale up successful programs** instead of paying for government programs currently funded by taxpayers.

Recommendations change over time as new, original investment structures are emerging and evaluation of the active pay for performance models is developing. However, these considerations appear to be important in creating a SIB model that promotes social innovation, serves the participants in need, provides a worthwhile investment of taxpayer dollars and offers a return on private investments.

Financial Benefits & Considerations

A key component of the Social Impact Bond is developing a mutually beneficial contract for monetary lending from a private investor for a needed social service. Many venture market capitalists engage in substantial investment in "pilot" programs that encourage the development of innovative services or organizational structures to people who need them the most. However, in order to best serve the recipients, it is often important that the concept potentially offers **long-lasting positive effects** that can eventually be **independently sustainable** after the initial investments have expired (Ederer & Manso, 2009).

A key to maintaining the credibility of these private-public partnerships is that investors see a return on their investment and that the market structures can offer a solution to existing "broken" social service structures. Some investors may be willing to tolerate

greater risk for innovative projects offering critical social services. However, programs deemed "unsuccessful" due to **failing to meet outcome goals could present challenging public relations situations** as well as **jeopardize future support** from certain organizations and other funding sources.

For these reasons, private investors often require that the pay for success contracts include attainable outcome measures and a manageable return on investment interest rate (4-10%). Primary lenders regularly depend upon the insurance of subsidiary **guarantors** to recover their investment if the established outcomes are not met. In the existing SIB examples in the U.S., the guarantor role has been filled by philanthropic organizations or private investors who essentially act as underwriters to absorb any investment losses. In addition, SIBs, pay for success contracts and other socially-responsible investments that offer local benefits can **fulfill federal Community Reinvestment Act (CRA) requirements** intended to encourage depository institutions to help meet the credit needs of the communities in which they operate. "The CRA requires that each insured depository institution's record in helping meet the credit needs of its entire community be evaluated periodically. That record is taken into account [by supervising federal agencies] in considering an institution's application for deposit facilities, including mergers and acquisitions" (Federal Financial Institutions Examination Council, 2015).

Such investments from the private sector can in turn offer support for programming not able to be funded with existing budgetary restraints. Pay for performance agreements can leverage private capital to explore innovative ideas that will offer models for future programming or, if not successful, do not require the government to pay for the service (Gustafsson-Wright, Golden & Aigner-Treworgy, 2015). However, overhead costs and intermediary services are not typically part of the "success" payment structure, so funding to study feasibility, manage capital, and organize the various players must still be raised or dedicated. In fact, some analysts argue that performance-based investments often require short-term outcome measures that hinder creativity built on learning from early failures to create long-term success (Ederer & Manso, 2009). Therefore, many organizations promoting the use of pay for performance contracts and SIBs emphasize

the importance of developing agreements that promote sustainable opportunities with tolerance for the risk inherent in innovation.

Current Uses of Social Impact Bonds

Social Impact Bonds began to gain popularity several years ago in the United Kingdom. To date, there have been sixteen SIBs in the U.K., two in Australia and one each in various other countries, including Canada, Netherlands, Belgium, Germany and India. There are currently five established Social Impact Bond projects that are either underway or have come to fruition in the United States involving programs reducing juvenile recidivism or expanding public pre-schooling.

In Maine, pay for performance structures have been explored for partnerships providing transportation for health care, although these contracts were developed between private organizations, not government agencies. There has also been interest expressed in expanding early learning opportunities, funding housing for Maine's aging population, improving food security, providing in-school health care (community schools) and social programs sponsored by Maine-based corporations.

High Priority Areas of Investment

Social Impact Bonds have received great attention since 2010 in the United Kingdom, Europe, Canada, the United States and across the globe. However, pay for success (PFS) or performance clauses have been used in government contracts for decades. When using these methods as a funding mechanism for public education programs, it is important to have support from investors, top government officials and taxpaying citizens to realize a successful PFS program. Therefore, local or regional priorities may vary from the recommendations at the national level. However, the following areas have been identified by the federal government, supporting organizations and key investors as top priorities with high impact potential:

- Criminal Justice
- Homelessness

- Early Childhood Education
- Workforce Development

This identification has been reinforced by the issues addressed in the United States' five established SIBs in New York (New York City and statewide), Utah, Illinois (Chicago), and Massachusetts. These SIBs have either related to programs **reducing juvenile recidivism** or **expanding public pre-schooling**. In addition, eighteen states have passed related legislation and/or begun conducting feasibility studies to explore using PFS or SIB funding mechanisms for various other areas of social service.

State & Federal Legislation

In the United States, federal legislation (HR 4885 - Social Impact Bond Act) was introduced in 2014 by Indiana Rep. Todd Young that "required Secretary of Treasury to seek proposals from states or local governments for SIB projects." It included $300 million in supporting funds and was referred to Committee on Ways and Means but died in Congress. In 2015, Rep. Young introduced **HR 1336 - Social Impact Partnership Act** that required the Director of the Office of Management and Budget to seek proposals from states or local governments for SIB projects, funded feasibility studies and established a related council. This bill was introduced in March and referred to the Committee on Ways and Means.

Many states have begun exploring the possibilities of SIBs with proposed legislation and state-funded feasibility studies. Related legislation has been introduced related to SIBs or PFS models in the following states: NB, NJ (pocket vetoed), OK, RI, TX, VT, and WA. **Legislation was passed enabling state to enter into SIB or PFS contracts** in CT, MA, OK, PA, WA, and UT. **Feasibility studies** have been or are being conducted in AZ, CA, CO*, CT*, HI, IL*, MA*, MI*, NY*, NJ, OH*, SC*, UT, DC. Several of these studies (*) were selected to receive technical support from the Harvard Kennedy School's Government Performance Lab (formerly named the Harvard SIB Lab), which is in part funded by federal **Social Innovation Fund** grants and other private investors (including Bloomberg, Rockefeller and Pritzker).

The first SIB in the United States started a few years ago involving a juvenile recidivism reduction program at Rikers Island in New York. Since then, similar programs involving **juvenile recidivism reduction and homelessness** have been established in Massachusetts and New York state. (See Appendix A for profiles of the Rikers Island and Massachusetts SIB projects.) In addition, SIBs focusing on reducing special education rates and improving student achievement through increased **preschool programming** are in progress in Utah and Illinois (Chicago) and described below.

Profiles of Social Impact Bonds Funding Education in U.S.

The following profiles outline the two current programs in the United States using SIBs to fund education initiatives. (See Appendix A for profiles of two non-education SIBs established in the U.S.):

Chicago 2014 - Expansion of Child-Parent Center (CPC) Early Childhood Program

In 2012, Human Capital Research Collaborative (HCRC) at University of Minnesota received a grant from the U.S. Department of Education's Investing in Innovation Fund (i3) to expand their Child-Parent Center to three public schools in Chicago. Building on these resources, the following SIB project was developed:

I. Service Program
   a. *Service provider:* Six public schools (3 part of i3 grant, 2 currently implementing CPC, 1 new school) serving low-income communities w/ shortage of Pre-K openings due to lack of funding.
   b. *Target Sample:* 2,620 public school children over 4 years (approx. 1/2 of Chicago eligible children).
   c. *Program Goals:* Increase K readiness, improve g3 literacy & reduce special education services.
   d. *Program Model:* Child-Parent Center model that provides half-day preschool & parent support programs as a PK to g3 intervention.

II. Funding

a. Repayment will be $2,900 for each school-ready kindergartener from programs + $750 for each literacy-proficient child in g3 + $9,100 for each year a CPC participant avoids special education services.

b. *Cost-Benefit Analysis*: HCRC

c. Funders:

- Goldman Sachs Social Impact Fund $7.4 million senior loan financing
- Northern Trust Corp $5.4 million senior lender (community development portfolio investment - Chicago HQs)
- JB & MK Pritzker Family Foundation $4 million subordinate lender (community development portfolio investment - Chicago HQs)
- City of Chicago & Chicago Public Schools $9.4 million
- State of Illinois $4.5 million
- Finnegan Family Foundation - funding program evaluation, years 1 & 2

d. *Project Funds Coordinator:* Illinois Facilities Fund

III. Contract and Service Management

a. *Community Intermediary* & Recruitment: Metropolitan Family Services

b. *Program Evaluator* - TBD

c. *Technical Assistance* - Harvard Kennedy School SIB Technical Assistance Lab (procurement & data analysis)

The Utah High Quality Preschool Program 2014 - Early Childhood Education

In March 2014, UT Legislature passed HB96 Utah School Readiness Initiative allocating funds to support quality grants to local education agencies and private providers to increase the quality of EC programming and allow the Board to enter into PFS financing contracts with private investors on behalf of the State. With this action, the following SIB project was developed:

I. Service Program

a. *Service Provider*: Granite School District, Park City School District, YMCA of Northern Utah, Guadalupe School & two private childcare providers

b. *Target Sample*: Year One 595 3- and 4-year-olds attending preschools who would have otherwise been waitlisted (up to five cohorts = 3,500 children)

c. *Program Goals*: Each student identified prior to kindergarten by a standardized test (Peabody Picture Vocabulary Test) as below average and therefore predicted to use special education and remedial services in grade school who is not deemed eligible for special education services in the given year is considered "success."

d. *Program Model:* Voices for Utah Children and Granite School District targeted pre-kindergarten curriculum to increase school readiness and academic performance, established success with experimental research.

II. Funding

a. Total savings for Year One calculated as $281,550 ($2,607 per child fixed per annum payment allocated for special education by State for 110 children identified by predictive testing).

b. 95% of savings + interest rate of 5% ($2,470) paid to investor for each predicted child that does not receive special education services in that school year grades K-6 until loan + 5% interest is repaid then 40% of savings ($1,040) from grade K-6 of remaining participants; Utah will retain 100% of savings on grades 7-12.

c. Funders

- Goldman Sachs (headquarters located in Salt Lake City) $4.6 million senior loan financing through Social Impact Fund, 5% interest rate
- J.B. Pritzker $2.4 million junior loan financing
- United Way of Salt Lake $1 million grant for 1st cohort
- Salt Lake County $350,000 grant for 1st cohort
- State of Utah repayment funding for cohorts 2-5

III. Contract and Service Management

a. *Research & Analytic Support* - Voices for Utah Children

b. *Training and Professional Development* - Granite School District

c. *Performance Account Manager* - Park City Community Foundation

Outcomes of Year One (2014-2015) indicated that 109 of 110 children predicted to utilize special education services did not use special education services in kindergarten. Therefore, the program was evaluated as being successful, and Salt Lake County United Way paid 95% of realized savings ($267,000) to Goldman Sachs.

Considerations for SIBs in Maine

Recent legislation and related investment projects in Maine have focused consideration of using Social Impact Bonds to fund the expansion of extended learning programs and early childhood education for Maine's children. Therefore, this report also examines the potential and challenges in considering SIBs to fund these specific educational opportunities.

Extended Learning Opportunities

The *Report of the Commission to Study the Adequacy and Equity of Certain Cost Components of the School Funding Formula* (2014) provides a review of national research literature and the results of a study completed by the Maine Education Policy Research Institute with Maine school districts examining impacts and costs of extended learning programs, specifically summer school opportunities. A key consideration from analysis of both Maine and national data regarding extended learning programs is that there is **substantial variation in the types of existing programs** offered with various levels of understanding about the direct impact and outcomes of these programs. While HP 285-LD 418 defines an extended learning program as "a program that creates educational opportunities for students whose educational needs and abilities exceed those addressed by the general curriculum," this definition could encompass a wide variety of programming including special education services, non-special education academic or social interventions provided during school hours, after-school programming, summer schools and individual tutoring.

There are **no models of existing SIBs that specifically target extended learning programs**, although general education outcomes of retention and enrollment have been explored in proposed SIBs or countries outside the U.S. Therefore, if developing a SIB as a funding mechanism for extended learning programs in Maine, it would be necessary to establish specific, monetized outcomes in a focused evidence-based program model that would have the potential for scaling-up. Based on the literature review conducted for the above-referenced MEPRI report, summer school programs may be more likely to show impacts with short-term monetizable savings than would before-school or after-school programming. However, as the terms of SIBs are ultimately determined between the funder and the government agency, this may depend on the priorities of potential investors and other key players.

Furthermore, it should be noted that some possible efficiencies within extended learning programs may be achieved within areas of programming outside education, such as Maine's Department of Health and Human Services (DHHS). For example, providing extended-day school programs may decrease DHHS payments for child care subsidies or child care tax deductions for eligible taxpayers. This suggests that implementing SIBs for this targeted outcome in Maine may need broad cooperation across multiple state agencies.

Pre-kindergarten Education

Maine has seen **significant recent investment on increasing early learning and pre-kindergarten** education. This work has included concerted local funding and programming in certain geographic regions as well as significant statewide implementation of public preschooling supported by grant monies from the U.S. Department of Education. The *Report of the Commission to Study the Adequacy and Equity of Certain Cost Components of the School Funding Formula* (2014) includes the Maine Education Policy Research Institute's examination of enrollment and cost elements involved with expanding or starting preschool programming in public school districts.

CareQuilt, Educare Central Maine and Kennebec Valley Community Action Program were recently awarded a $6 million federal grant over five years (2015-2020) to provide 72 additional low-income children and families with early childhood learning opportunities. The funds also support programming to raise the quality and scope of instructional preschool practices of 20 providers in both center-based and family child care settings in northern Kennebec, Somerset, Piscataquis, and Penobscot communities. The Maine Early Learning Investment Group added $670,000 in matching funds and received new market tax credits for their investment. In addition, the Maine Shared Services Alliance (MSSA) engaged over 200 providers statewide to offer support that would improve the financial stability and improve the quality of early care and education services. MSSA is funded by the John T. Gorman Foundation, The Davis Family Foundation, Jane's Trust, The Samuel Cohen Foundation and The Betterment Fund, among others. The service program was developed from Educare Central Maine's two-year pilot in which five school districts in Maine collaborated to research and implement an **evidence-based common screening process** for school-readiness benchmarks statewide. The results of the pilot were published in the Common Kindergarten Screening Pilot Report (2014).

In 2014, the State of Maine Department of Education received a **$14.8 million Preschool Expansion Grant from the U.S. Department of Education** to expand preschool offerings through the year 2019. At the time, 205 public preschool classrooms existed in Maine, and at least 34 new classrooms are scheduled to be added from 12 different school districts serving approximately 750 children in addition to the 5,000 students currently enrolled in 4-year-old or early kindergarten programs. As well, approximately 25 classrooms already in operation will be expanded so students can attend five days a week for the full day.

In 2013-14, approximately 13,500 students were enrolled in Maine public kindergarten. This suggests that current pre-kindergarten enrollment in public preschools served less than 40% of Maine's eligible children. However, this enrollment count did not include federally funded Early Head Start or private early learning programs such as those in

Central Maine mentioned above. It also does not include the additional programs added since 2014.

Therefore, exploration of using SIB funding mechanisms for expanding pre-kindergarten programs in Maine should determine the number of students not enrolled in any type of early learning program to examine the unmet need for pre-kindergarten programming considering recent initiatives. Interest has been expressed by members of the Maine Early Learning Investment Group in identifying other geographic regions with lower pre-kindergarten enrollment rates. Exploration of collaboration or coordination with established investing networks and existing programs might reveal the possibility of matching funds, increased services or complementary opportunities in regions of Maine needing improved and increased early childhood learning experiences.

Considerations for Rural States

There are some recommended components of developing a successful SIB that would require special deliberation in a geographically disparate state with a limited number of large foundations or depository institutions, such as Maine:

A. A large sample size (200+ students) is necessary for experimental design to establish a targeted program for replication in a proposed SIB model.
B. A large full sample size (200+ students) is also necessary to receive annual service within SIB timeframe (usually 1-5 years) in order to determine "success" of the target sample (100+ students).
C. Capacity among local service providers and state agencies must exist to scale up an initial program for the duration of the SIB and continue after the maturation of the initial investment. This should include sufficient staffing levels, on-going professional development, and physical infrastructures.
D. Existing (or resources to build) staffing and expertise in cost-benefit analysis, incentive contracting, program monitoring, program evaluation or funding to outsource intermediary oversight must be available to support the development and implementation of the service and financing. It is often recommended that

staff within the government agency and service provider be dedicated to these tasks to collaborate with intermediary personnel.

E. Primary lenders, subsidiary guarantors and matching funds grantors must be willing to invest adequate funds to support the development, initial realization and implementation of the service throughout the duration of the SIB contracted timeframe. Government should be prepared to assume the costs of sustaining a successful program after the maturation of the SIB contract.

Some of these constraints may be relaxed if agreeable to all stakeholders. For example, certain existing SIBs (such as Utah's "High Quality Preschool Program") have developed mutually agreed-upon contracts that do not fulfill all of these recommended elements. Some components that vary from these recommendations have come under public scrutiny (Garrett, 2015; Popper, 2015). However, local key players in Maine may develop unique pay for performance agreements that appropriately address regional needs and leverage the local resources available.

Recommendations

Private-Public Funding Partnerships

Social Impact Bonds can offer critical initial resources to kick start innovative public services or pilot groundbreaking organizational structures for providing essential social services, such as public education. However, SIBs are complex lending mechanisms with many partners and substantial financial investment. These are lending structures in which either the public partner re-pays a loan with interest (usually using shareholder or taxpayer monies) or identifies the program as failed. Lenders must be willing to engage in these high-risk investments. Service providers must be prepared for evaluation and possible identification of failure based on monetized, tightly-defined outcomes. Significant challenges can arise when considering all of these components of pay for performance contracts (Ederer & Manso, 2009; Rosenman, 2014) or Social Impact Bonds (Pauly & Swanson, 2013).

Therefore, it is often recommended that private-public partnerships for funding social services such as education should focus on the program being provided and determine a funding structure that is a best fit for all key participants (National Development Council, 2015). Social Impact Bonds certainly may provide this structure for certain programs and specific lenders, but there are also other existing private-public relationships with alternative structures for funding high-priority public education initiatives. These include:

- Private foundation grants and matching funds,
- Municipal bonds,
- New market tax credits,
- Pay for performance or pay for success contracts,
- Public-private partnerships,
- Social impact investments,
- Equity investments, and
- Structured products.

Depending on scale, scope, and nature of the specific education program desired, an alternative structure such as those listed above may be better suited to the needs of investors, service providers, governmental agents, and policymakers involved.

Policy Recommendations

With careful consideration of the educational benefits for children in Maine and thorough deliberation of the necessary investments or requirements of specific lending structures, Social Impact Bonds and pay for performance models could offer valuable funding opportunities. The following recommendations are offered to guide potential work in developing policies and building necessary public awareness to allow for the creation of such structures.

1) Create legislation that a) enables officials to enter pay for performance contracts and b) secures funding for development and repayment of such contracts.

2) Use rigorous research findings to select a targeted educational service that is an area of need in Maine or a specified region of the state and would result in positive and monetizable results.
3) Engage key private partners to discuss potential areas of service and financing structures.
4) Identify dedicated capacity within government agencies, especially the Maine Department of Education.

Conclusion

There are various possibilities for developing private-public partnerships to fund effective practices that improve the educational opportunities for Maine's public school systems and the children who attend them, including the use of Social Impact Bonds. Keys to creating a successful partnership are understanding the goals of all stakeholders and remaining true to the essential outcome: improving the lives and educational experiences of Maine's children.

Sustained, multi-year attention and support from top officials in the state and service providers in the region, county, city or town is critical. Also, staff at state and local level must be dedicated specifically to the development, oversight and management of payments and services related to pay for success contracts. In addition, there must be the capacity and expertise to gather rigorous evidence of program effectiveness in experimental and feasibility studies and cost-benefit analysis.

Policymakers may establish legislation giving full faith and credit authority for payments and setting up a sinking fund to maintain reliable payment capability over the life of a lending agreement. This can allay potential investor concerns about the risk of depending on a future legislature to appropriate disbursements at maturation. However, a realistic vision must encompass access to markets, service and product supply chains, in addition to substantial monetary commitment, from a primary lender and subsidiary guarantors that are interested in innovative education initiatives and tolerant of financial risk. In addition, average cost savings from the "success" measure must be

substantial enough to balance the costs of development and implementation if those are not subsidized by secondary investors. A scale-up design should consider geography, time, and service provider capacity and have a sustainability plan for implementation after the terms of the SIB expire. Furthermore, it is important to consider diminishing returns even of a successful program.

If these critical components are recognized and guide the development process, Social Impact Bonds and pay for performance contract-structured funding have the potential to provide support for Maine's public education programs and initiate innovative approaches to educational needs in the state.

Appendix A - U.S. (non-education) Social Impact Bond Profiles

Massachusetts 2014 - Reduce Recidivism in Justice-involved Youth

- 2012 State of Massachusetts Legislature authorized Secretary of Administration and Finance to enter into pay for success contracts, with up to $50 million in success payments backed by the full faith and credit of Commonwealth of Massachusetts and created the Social Innovation Investment Trust Fund. Using this foundation , the Massachusetts Juvenile Justice Pay for Success Initiative was launched in January 2014:
    - Service Program
        - *Service Provider*: Roca, Inc. is a nonprofit organization offering juvenile justice intervention programming with at 25-year history of reducing incarceration rates.
        - *Target Sample*: 929 at risk males age 17-24 in or exiting juvenile justice system in MA.
        - *Program Goals*: Reduce the number of days participants spend in prison, improved job readiness & increased employment rates.
        - *Program Services*: Street outreach, targeted life skills, education, employment preparation involving two years of programming and two years of follow-up support services.
    - Funding
        - U.S. Department of Labor awarded MA Juvenile Justice PFS Initiative a grant of $11.7 million and additional funding for success payments over nine years.
        - Service provider (Roca) deferred $3.26 million (15%) of service fees until success is determined.
        - Project Intermediary (Third Sector Capital Partners, Inc.) deferred 15% of service fees until success is determined.
        - Upon achieving higher levels of success, funders receive percentage of return of "savings."

        - *Funders*
            - Goldman Sachs - $8 million senior loan financing through Social Impact Fund
            - The Kresge Foundation - $1.33 million junior loan financing
            - Living Cities - $1.33 million junior loan financing
            - Laura & John Arnold Foundation - $3.34 million grant
            - New Profit - $1.81 million grant
            - The Boston Foundation - $300,000 grant
    - *Independent & Statistical Evaluator* - The Urban Institute, conducting randomized control trials to determine impact of service
    - *Project Intermediary* - Third Sector Capital Partners, Inc.
    - *Independent Validator* - Public Consulting Group, assessing evaluation methodology and verify service outcomes
    - *Technical Assistance* (procurement & data analysis) - Harvard Kennedy School SIB Technical Assistance Lab

New York City 2013 - Adolescent Behavioral Learning Experience

- Service Program
    - *Service Provider*: Osborne Association & Friends of Island Academy
    - *Target Sample*: 4,000 men, age 16-18 detained at Rikers Island
    - *Program Goal*: Reduce recidivism by 10%
    - *Service*: Three-year intervention of Moral Reconation (cognitive behavioral) Therapy, which previously demonstrated positive outcomes in RCTs, to improve social skills, personal responsibility and decision making.
- Funding
    - *Project Intermediary* (set up financial arrangements, selected intervention & service provider, trained staff, piloted intervention, monitored program fidelity and participation, repays loans to

primary funder) - MDRC (formerly Manpower Demonstration Research Corporation)

- *Funders*
  - Goldman Sachs - $9.6 million senior loan financing, repayment structure includes ROI based on performance/savings
  - Bloomberg Philanthropies - $7.2 million grant to MDRC to guarantee Sachs loan (if goals not met) or reprogram future efforts (if goals are met) & pays MDRC for pilot and intermediary costs
  - New York Mayor's Office - evaluation costs

- *Independent & Statistical Evaluators* (quasi-experimental evaluation) - Vera Institute of Justice
- *Technical Assistance* - Harvard Kennedy School SIB Technical Assistance Lab

Outcomes demonstrated that 87% of incarcerated target population attended at least one session of program, and 44% reached "programmatic milestone." This resulted in an 8.5% rate of recidivism, falling short of the 10% goal. On August 31, 2015, the Adolescent Behavioral Learning Experience programming funding ended and services were no longer provided to the Rikers Island detainees.

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