



# WESTMINSTER

## Staff Report

TO: The Mayor and Members of the City Council

DATE: April 15, 2015

SUBJECT: Study Session Agenda for April 20, 2015

PREPARED BY: Don Tripp, City Manager

Please Note: Study Sessions and Post City Council meetings are open to the public, and individuals are welcome to attend and observe. However, these meetings are not intended to be interactive with the audience, as this time is set aside for City Council to receive information, make inquiries, and provide Staff with policy direction.

Looking ahead to next Monday night's Study Session, the following schedule has been prepared:

*A light dinner will be served in the Council Family Room* 6:00 P.M.

### CITY COUNCIL REPORTS

1. Report from Mayor (5 minutes)
2. Reports from City Councillors (10 minutes)

### PRESENTATIONS

1. City Council Training Opportunities
2. Update on Meetings with the Fire Department - **Verbal**

6:30 P.M.

### EXECUTIVE SESSION

1. Discussions with the City Attorney for the Purpose of Receiving Legal Advice on Pending Litigation in the Brandt v City of Westminster Case as Authorized by Section 24-6-402(4)(b), C.R.S., and Section 1-11-3(C)(3), W.M.C. - **Verbal**
2. An executive session with the City Attorney to receive legal advice on open meetings laws pursuant to W.M.C. Sections 1-11-3(3) and (8) as well as C.R.S. Sections 24-6-402(4)(b) and (e) - **Verbal**
3. Discuss strategy and progress on negotiations related to economic development matters for the Westminster Urban Center Redevelopment, disclosure of which would seriously jeopardize the City's ability to secure the development; discuss strategy and progress on the possible sale, acquisition, trade or exchange of property rights, including future leases; and provide instruction to the City's negotiators on the same as authorized by WMC Sections 1-11-3(C)(2), (4), and (7) as well as Colorado Revised Statutes, Sections 24-6-402 (4)(a) and 24-6-402(4)(e) - **Verbal**

### INFORMATION ONLY ITEMS

1. Social Impact Bonds
2. Foothills Animal Shelter IGA and Dog Licensing

Additional items may come up between now and Monday night. City Council will be apprised of any changes to the Study Session meeting schedule.

Respectfully submitted,

Donald M. Tripp  
City Manager

**NOTE:** Persons needing an accommodation must notify the City Manager's Office no later than noon the Thursday prior to the scheduled Study Session to allow adequate time to make arrangements. You can call [303-658-2161](tel:303-658-2161) /TTY 711 or State Relay) or write to [mbarajas@cityofwestminster.us](mailto:mbarajas@cityofwestminster.us) to make a reasonable accommodation request.



WESTMINSTER

## Staff Report

City Council Study Session Meeting  
April 20, 2015



**SUBJECT:** City Council Training Opportunities

**PREPARED BY:** Debbie Mitchell, Director of General Services  
Matthew Booco, Business Operations Coordinator

### **Recommended City Council Action**

1. Discuss Council's interest in periodic training and development opportunities.
2. If an interest exists, provide Staff with potential goals and objectives that Council would seek to gain from this initiative.
3. Provide Staff feedback and direction on the 2015 Council Training and Development options for format, scheduling and topics.

### **Summary Statement**

The City has substantial training and development resources that it currently provides to City Staff. These resources could be shared with Council if the desire exists. The delivery of these resources would be presented in a customized format to meet Council's needs, goals and objectives.

**Expenditure Required:** TBD

**Source of Funds:** TBD

## **Policy Issue**

Should Staff proceed with the development of a Council Training and Development Program for 2015?

## **Alternatives**

1. City Council could direct Staff not to develop a Council Training and Development Program for 2015.
2. City Council could direct Staff to form a Council Training and Development Program based on Staff's recommendations as outlined in the background section of this report.
3. City Council could direct Staff to research other solutions to achieve Council's goals and objectives in relation to periodic Council training and development.

## **Background Information**

City Council has expressed interest in periodic training and development opportunities. The City Manager directed Staff to explore the possibility of City Staff providing a solution to this request. Staff believes the best approach to address Council's request is to develop a calendar of Council Development and Training options for 2015. To that end, Staff proposes the following:

### **Suggested Delivery Platform**

- On a regular periodic basis, 30 to 60 minute presentations could be held at study sessions;
- Tours and trainings conducted outside of Council's normal meeting times; and
- Annual scheduled feedback meetings between Council and Staff to address training program needs.

### **Suggested Topics**

- Home Rule in Colorado;
- Ex Parte Communication;
- Department Specific Overview of Operations;
- Westminster Economic Development Authority 101;
- Media and other Communication Strategies;
- Diversity;
- Legal Updates;
- Critical Conversation Approaches;
- Historic Preservation in Colorado;
- Council/Manager Form of Governance History;
- City of Westminster - Graffiti Management; and
- Any other topic Council has an interest in.

If implemented, the deliberate approach of this program would accomplish the following:

- Enhance lines of communication between, Council, Staff and community stakeholders;
- Provide Council with a comprehensive understanding of City operations;
- Align training and development opportunities of both Council and Staff; and
- Ensure consistency within the City's governance and operational processes.

The recommended approach would create a dynamic and nimble program. As the needs of Council change, the program would be responsive in addressing these needs. In addition, this platform allows for continued

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input on potential new training and development opportunities. This collaborative effort between Council and Staff would exemplify the City's core value of "Teamwork."

The creation of a Council Training and Development Program supports Council's Strategic Plan Goal of "Visionary Leadership & Effective Governance." The outcomes of this comprehensive approach will enhance Council's governance and leadership of the organization.

Respectfully submitted,

Donald M. Tripp  
City Manager



## Staff Report

Information Only Staff Report  
April 20, 2015



SUBJECT: Social Impact Bonds

PREPARED BY: Robert Byerhof, Treasury Manager  
Fred Kellam, Senior Financial Analyst

### Summary Statement

This report is for City Council information only and requires no action by City Council.

### Background Information

Social Impact Bonds (SIBs) provide a unique financing mechanism to fund programs addressing social issues, such as “recidivism, homelessness, workforce development, preventative health care, and early childhood and home visiting programs”. Introduced within the last couple of years, SIBs have gained some traction as a means to fund programs addressing social needs.

#### SIB’s Definition:

*An arrangement between one or more government agencies and an external organization where the government specifies an outcome (or outcomes) and promises to pay the external organization a pre-agreed sum (or sums) if it is able to accomplish the outcome(s).*

Although SIB includes the term “bond”, this funding mechanism does not take the form of a typical bond and operates similar to a performance contract between the government agency and the external organization responsible for achieving specific outcomes.

#### Basic Structure of a SIB

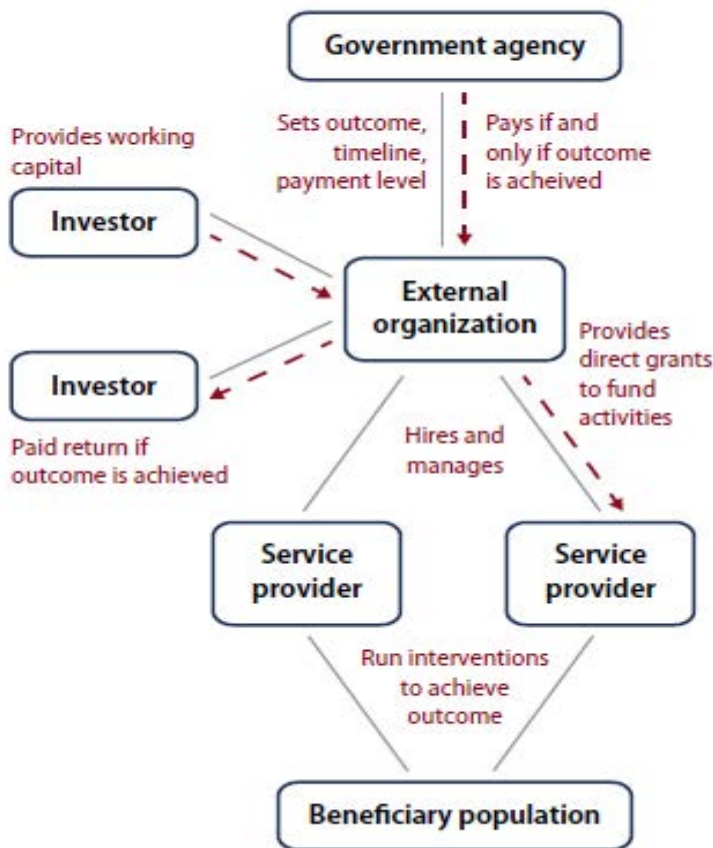
Funding for SIBs comes from investors, typically those with philanthropic missions, to front the costs associated with a qualified program; this partnership is established between the external organization sponsoring the program and the investor. A government agency also partners with the external organization by establishing an agreement to pay the external organization if the program’s goals are met. If the program is not successful, the government agency is not liable for repayment for the investment fronted.

It is critical for SIB agreements to be structured with clearly defined and measurable outcomes as the primary involvement of the government agency in a SIB arrangement is to promise repayment to the external agency only if desired outcomes are achieved by the program. The government agency’s role has minimal control, if any, over the method in which the outcomes are achieved.

An example of a potential outcome may be program designed to reduce teenage drop-outs by 10%. An external organization sponsoring the program submits a proposal designed to achieve this outcome and the investor provides the funding to the external organization to implement the project. The agreement between the government agency and the provider defines the measures of success and payment terms. For this example, a 10% reduction of teenage drop-outs to be met within a certain time horizon (3-5 years). If the goal is met, the government agency then reimburses the external organization for the costs fronted by the investor, including a return on the investment.

Below is a diagram outlining the structure of a SIB Agreement:

### What is a social impact bond?



Source: Center for American Progress. "What are Social Impact Bonds?"

SIBs are not yet mainstream and pilot initiatives are underway in some areas of the country. Colorado applied and was recently awarded technical support to implement an agreement through the Harvard Kennedy School Social Impact Bond Lab recently. A pilot program with Denver’s Front-end User Project for the homeless is under consideration for use of SIB funding.

If SIBs gain traction and widespread acceptance, they may be considered as a tool for the Council to consider to address a social issue within Westminster. Prior to implementing such an initiative, further study will be necessary to understand costs, risks and benefits of a program. Additionally, guidance from the State on the criteria to establish a program and address any conflicts with State amendments, such as TABOR will need to be addressed.

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*This report supports the City's Strategic Plan goal of Visionary Leadership and Effective Governance by informing the Council of a fledgling program designed to provide creative financing fronted privately to address social issues and government's role to structure agreements with a program provider with measurable results and in turn, reimburse investors only if objectives have been achieved.*

Respectfully submitted,

Donald M. Tripp  
City Manager

Attachments - What Are Social Impact Bonds?

- Fact Sheet: Social Impact Bonds in the United States



# What Are Social Impact Bonds?

## An Innovative New Financing Tool for Social Programs

By Jitinder Kohli, Douglas J. Besharov, and Kristina Costa    March 22, 2012

*This is the first in a series of issue briefs that looks at Social Impact Bonds and their value to government agencies. Subsequent pieces will focus on getting the SIB agreement right; models for SIBs and their long-term potential; defining and measuring outcomes for SIBs; and appropriate roles for government agencies in the SIB process.*

Below we answer basic questions about Social Impact Bonds—what they are, where they can be most useful, and how they differ from traditional government contracts. We also look at some of the issues government needs to consider before beginning Social Impact Bonds. These arrangements show real potential to help solve difficult social problems and give taxpayers better value for their money.

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### What are Social Impact Bonds?

Social Impact Bonds are a new and innovative financing vehicle for social programs that flip traditional government funding structures on their head. Instead of paying upfront for a proscribed set of services, SIBs allow government to focus funds on approaches that work—without paying a dime if agreed-upon outcomes are not achieved. SIBs work by bringing together government agencies, social service providers, and philanthropically minded financiers to achieve better results for people receiving social services and for the taxpayers funding those services.

The Social Impact Bond concept is relatively straightforward: Government agencies define an outcome they want to accomplish and agree to pay an external organization a sum of money if the external organization achieves that outcome. This unusual mechanism promotes innovation in public services by putting taxpayer dollars toward the most effective approaches. This is markedly different from normal funding arrangements for social programs, in which agencies typically commit to funding activities regardless of the outcome.



While Social Impact Bonds are still in their infancy, the concept has enormous potential in areas of social policy such as homelessness, juvenile delinquency, preventive health care, and workforce development. In particular, SIBs could become a key vehicle for funding prevention initiatives designed to save government money over the long term.<sup>1</sup> Early interventions to reduce homelessness or smoking, for example, could lead to considerable reductions in Medicare and Medicaid spending—not through program cuts but through lower hospitalization rates.

## What's the difference between Pay for Success and Social Impact Bonds?

There are lots of references to “Pay for Success” arrangements and “Social Impact Bonds.”<sup>2</sup> Sometimes people use the terms interchangeably to mean the same thing, and sometimes they mean different things. It can get very confusing for the lay reader.

In this issue brief, we use the term Social Impact Bonds rather than Pay for Success to avoid this confusion. By SIB, we are referring to a relatively narrow and truly innovative concept where payment from government is tied solely to outcomes and where government places few controls on the external organization.

When the term Pay for Success was first used in the United States in February 2011 it was synonymous with Social Impact Bonds.<sup>3</sup> But over time it has been used in looser ways to describe a variety of situations where government payments are in some manner dependent on successful outcomes, including traditional performance contracting where bonus payments might be available to contractors. But those arrangements are not new—and so we think it's important to separate out the SIB concept as the truly innovative idea it is.

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### A definition of Social Impact Bonds

Before we delve deeper into the concept, let's start with a simple definition of Social Impact Bonds:

*An arrangement between one or more government agencies and an external organization where the government specifies an outcome (or outcomes) and promises to pay the external organization a pre-agreed sum (or sums) if it is able to accomplish the outcome(s).*

In addition, SIBs require:

- Government to place few, if any, controls on the way that the external organization accomplishes the outcome
- Government to cooperate with the external organization so that it is able to take the actions necessary to achieve the outcome—for example, by ensuring access to relevant data
- A clearly defined population and clarity on what a “successful outcome” would be

Some things to note:

- All payments are contingent on the outcome being achieved. If outcomes are not achieved, the government pays nothing. Hence, risk is transferred from the government to the external organization or its investors.
- The crux of the relationship is between government and the external organization committed to accomplishing the outcome. While there may be other players present (as discussed below), they are not essential to the concept, and they do not have a direct relationship with government.
- While Social Impact Bonds are likely to be particularly useful in areas where accomplishing outcomes results in direct savings for government, not all Social Impact Bonds have to result in government savings.

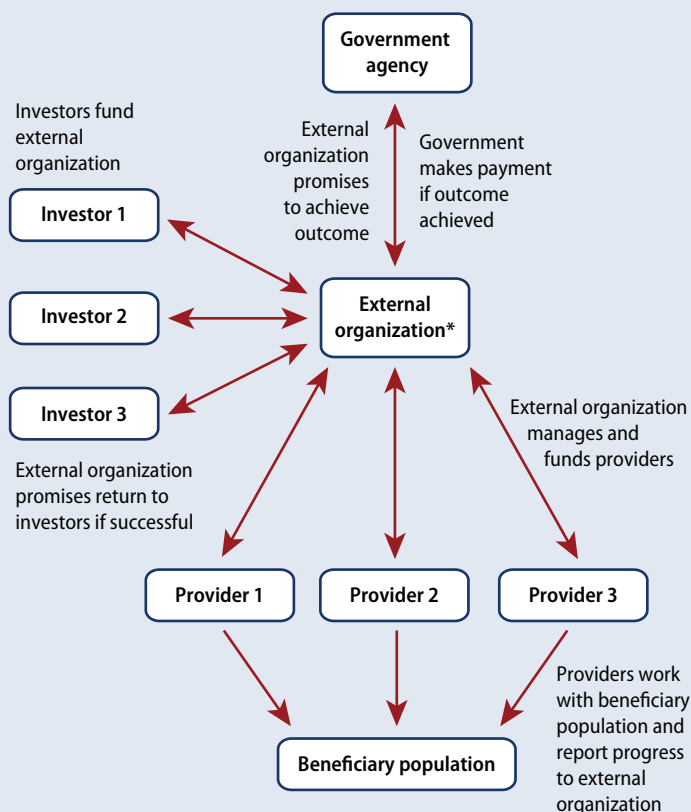
## The first Social Impact Bond: Peterborough prison

The first Social Impact Bond arrangement in the world is in the United Kingdom, where the British government has promised to pay an external organization called Social Finance if it is able to reduce the re-offending rate of prisoners leaving Peterborough prison.<sup>4</sup> Under the arrangement the government makes payments so long as there is a measured reduction in ex-prisoner reconviction of 7.5 percent relative to a group of similar prisoners discharged from other prisons. The greater the reduction in the rate of re-offending, the greater the payments, which are capped at around \$12 million.<sup>5</sup>

Social Finance is a nonprofit, but it does not directly provide services to current or former prisoners. Instead it has established the organization One Service, which enters into contracts with other nonprofits that work with the prisoners and manages overall progress toward achieving the outcome. Under the arrangement, One Service has significant flexibility on what it does to achieve the outcome, and the government has promised the organization its cooperation. For example, it guaranteed One Service access to the prison to support inmates.

Social Finance needs funds to pay One Service in advance of any payment from the government, so it raises money from investors. In exchange for paying the upfront costs, these investors receive an agreed-upon return if the outcome is achieved. This return is paid from the government payout that will be triggered by a reduction in recidivism of more than 7.5 percent. But this is a risky investment, as the investors stand to lose their capital if the outcome is not achieved.

*Continued on next page*



\*There are several appropriate variations on the Peterborough-style Social Impact Bond, explained in detail on page 9. The external organization may raise funds from its own balance sheet rather than from outside investors. The external organization also may choose to be one of the service providers, or the sole provider, for the intervention.

To date, the investors are all socially-minded trusts and foundations. For some foundations the prospect of repayment can make investing in a Social Impact Bond a particularly attractive proposition, compared to a traditional grant, which offers no prospect of repayment.

The British government calculated how much it is willing to pay for the outcome by looking at the savings likely to accrue to government agencies over time as a result of reductions in re-offending. These include savings in future incarceration costs as well as court and police time.

The Peterborough prisoners are all short-stay prisoners who have served for less than 12 months and they would otherwise receive little support from government programs to reduce their re-offending rates, even though around 60 percent of them typically re-offend within a year of release.<sup>6</sup>

The British government and Social Finance agreed that independent researchers should determine whether the outcome is achieved.<sup>7</sup>

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## Where are Social Impact Bonds most likely to be useful?

The concept is still new and there is a great deal to learn. But the most likely early applications will be in areas where:

- Government agencies believe they will save money as a result of the outcome being accomplished and those savings are likely to accrue over a reasonably short timeframe.
- The outcomes are observable and measurable within perhaps three to eight years of the agreement, and government payments flow in that timeframe so that investors are not asked to tie up their funds for too long.
- It is possible to observe and measure whether outcomes are achieved in an objective rather than subjective manner.
- Research shows there are effective interventions to achieve the outcome and these interventions cost less than the government is willing to pay for accomplishing the outcome. This is necessary so the external organization has a degree of confidence that it can achieve the outcome in a cost-effective manner and therefore receive enough money to repay investors.
- There are few negative consequences to the beneficiaries of the service if the external organization is unable to achieve the outcome and seeks to discontinue its services. In the Peterborough example, the services provided under the Social Impact Bond are new and not typically offered to inmates in other prisons. If they were to be discontinued, therefore, the inmates would be no worse off than those from other prisons.
- The external organization is able to influence the outcome significantly (i.e., the effectiveness of its efforts is not likely to be heavily affected by circumstances outside its control).

Here are some specific areas that governments in the United States are beginning to explore for Social Impact Bonds:

- Reducing recidivism, as in the Peterborough example
- Reducing homelessness
- Preventive public health (e.g., reducing smoking rates, obesity, etc.)
- Helping people re-enter the workforce and workforce development

There is particular interest in using Social Impact Bonds in areas where successful preventive services could reduce future public expenditures. The Peterborough SIB on recidivism is built on this premise.

We will be publishing a subsequent brief that focuses specifically on program areas where SIBs might be most useful.

## Where's the "bond"?

The term Social Impact Bond was initially coined in the United Kingdom and has taken root in the United States. But a common question is: Why is it called a "bond?"

In the Peterborough example, "bond" is the term used to describe the relationship between the investors and Social Finance. But in reality the arrangement is not very bond-like. It is much more risky than a normal bond arrangement, with investors losing their capital if recidivism rates come down by less than 7.5 percent.

We believe that Social Impact Bonds don't need to be structured in the same way as Peterborough, and in some cases there may not be any external investors. In such cases it's very difficult to identify any kind of bond in the arrangement.

In an ideal world, the term describing the concept would not include the word "bond," but it's too late to change that. Too much has been written about Social Impact Bonds by too many people to recast it. So our advice to readers is to try to ignore the word "bond", and think of it instead as a relationship between government and an external organization.

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## What are the advantages of Social Impact Bonds?

Governments around the world are getting interested in Social Impact Bonds. So what's in it for them? We believe there are four key advantages:

- **Genuinely directing resources to outcomes:** While government agencies are increasingly aware of the need to focus resources on outcomes, the reality is that most government programs still fund activities upfront. If these activities fail, taxpayer dollars are still spent. But Social Impact Bonds are different: Government only directs resources toward things that work.

- **Overcoming government silos, which should improve effectiveness:** Government agencies find it hard to think beyond the silos of different programs. But the best way to reduce recidivism, for example, might be some combination of support to help offenders find jobs and housing, alongside overcoming their drug dependency or anger issues and developing a deeper understanding of crime's consequences on victims and society. The optimal mix of support may vary significantly for each individual offender. Government programs usually don't work that way, however. Instead, separate programs will likely focus on each of the different components of a successful strategy to reduce re-offending. As a result, those who need support to reduce re-offending may receive patchy help from one or more of these programs, each of which has little incentive to work with the others. But with a Social Impact Bond focused on reducing recidivism the external organization has a strong incentive to coordinate these different approaches in order to successfully achieve the outcome.
- **Allows funding to shift toward effective approaches:** Governments find it hard to move money from ineffective programs to those that work well. Sometimes this is because government agencies are poor at measuring whether programs work, focusing their energy on disbursing funds instead of measuring impact. But even where that data exists, the political barriers to realigning resources can be tremendous. Even programs that are ineffective have vocal supporters and these supporters are often good lobbyists, focusing their influence on senior officials in the executive branch or on appropriators in the legislative branch who determine budget priorities. But with a Social Impact Bond, the external organization has strong incentives and sufficient freedom to direct funds to approaches that work—and the process of doing so is depoliticized.
- **Scaling innovations:** While government agencies often talk of the importance of scaling successful innovations, in reality innovative approaches that work at the small scale often find it hard to attract the government funding needed to grow. Sometimes this is because government agencies don't always know what works, and sometimes it's because funding streams are overly prescriptive and only provide support to approaches that meet tightly defined criteria. But with Social Impact Bonds the external organization is encouraged to identify approaches that have worked elsewhere and look to scale them up or expand them into new regions.

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## Challenges for government

Social Impact Bonds are a new concept, and there is considerable interest from federal, state, and local governments, particularly because the SIBs seem particularly suited to tight fiscal times.

But governments need to consider a few issues:

- **Defining outcomes is not easy:** Defining a meaningful outcome and determining the correct “price” to pay if it is accomplished is hard, and will require a set of skills that government agencies may not readily possess. It’s also important for outcomes to be objectively and rigorously measurable to avoid disagreement between government and the external organization about whether the outcome has been achieved and payment is due. Often it will be necessary to appoint a third-party organization that determines whether the outcome has been achieved—and specifies the methodology it uses to determine this.
- **Avoid worrying about investor return:** Government agencies should set a payment schedule for the outcome based on what they think the outcome is worth to them and society as a whole. But government will have a natural tendency to tie payment to what it considers to be acceptable returns to the external organization or its investors. This is not the right way forward. For the model to work well, governments should focus on what they are willing to pay for the outcome and resist the tendency to judge what they deem to be an acceptable return for investors.
- **Clarity of roles:** Social Impact Bonds require government agencies to take the lead in negotiations with external organizations on the correct outcome and price. But government agencies must leave day-to-day decisions to the external organization or its partners. In particular, government agencies need to be willing to cede considerable power over how the external organization achieves the outcome. If government tells the organization how to do the job it defeats the flexibility and innovation inherent in SIBs.
- **Building trust is essential:** These are complex arrangements and require considerable trust between government agencies and external organizations. Governments will need to ensure that procurement processes are not so formal that they constrain the ability to build trusting relationships with external organizations, while at the same time delivering value for taxpayer dollars. Government agencies, for example, will want to meet with key people from external organizations as part of the decision-making process.
- **Funding promises must be firm:** Social Impact Bonds are multiyear arrangements where government promises payment in future years if the external organization achieves the outcome. But appropriations processes can make it difficult for govern-

ment to make guaranteed promises about spending in a future year. Indeed, a change in administration or composition of the legislature can take place between the commitments government makes and its payments. Government agencies will need to find ways to offer external organizations firm guarantees that payments will be made if outcomes are accomplished.<sup>8</sup>

- **Define exit arrangements:** The external organization has strong incentives to do its best to achieve the outcome, but the payment’s “all or nothing” nature means the external organization also has an incentive to walk away if its efforts are falling short and it thinks the chances of accomplishing the outcome are very low. Government will therefore need to negotiate mechanisms for an orderly termination of the arrangement if necessary. It will also need to make sure that in the event of termination those who received services are no worse off than they would have been. If government agencies do not realize termination is a real possibility there is a risk they will be tempted “bail out” external organizations by renegotiating agreements.
- **Benefits can accrue to different agencies and at different levels of government:** Take homelessness, for example. If there is a reduction in chronic homelessness in a community, the local housing department could see considerable savings, but so could the federal government in programs such as Medicaid or the Veterans Health Administration.<sup>9</sup> Payments to external organizations, therefore, should ideally be funded by a combination of agencies. That gives rise, however, to significant logistical challenges in government that may need to be overcome.

It is important for government to recognize that Social Impact Bonds are not a panacea. They could be transformative for many social programs, but they also will be inappropriate in many areas.

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### Isn't this just a performance contract?

Social Impact Bonds differ from traditional government performance contracts in two key ways. First, most performance contracts contain a significant fixed payment from government to the contractor for the activities alongside a bonus for achieving results. But in a SIB the upfront payment is zero, and any actual payment hinges on accomplishing the outcome.

A second key difference is that in most performance contracts the government places major constraints on how contractors operate. For instance, a government contract recipient may be required to use only approved materials and methods. The Social Impact Bond model doesn't contain these prescriptive requirements, and the external organization has considerable freedom on how to achieve the outcome.

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## Does a SIB have to be done the way it's being done in Peterborough?

No. There are a number of variations to the Peterborough SIB that remain consistent with the Social Impact Bond model:

- **No need for external investors to be present:** If the external organization is able to raise the funds necessary for the intervention from its own balance sheet rather than from investors, that is consistent with the SIB approach.
- **No need for a separate set of providers:** The external organization can choose to be one of the service providers, or even the sole provider.
- **Targeting more than one outcome:** A number of outcomes could form the basis of the agreement and the government could promise differing payments depending on which are accomplished. For instance, the agreement could target reductions in re-offending and increases in employability for the same population and have different payments associated with both.
- **External organizations could be for-profit:** The external organization in Peterborough is a nonprofit, as are those providing services. If these organizations had a profit motive that would still constitute a Social Impact Bond.

Variations to the Social Impact Bond exist that do not result in a SIB per se but that improve on traditional contract arrangements:

- **Guaranteed payment:** The government could make a relatively modest level of guaranteed payment to the external organization even if outcomes are not achieved.
- **Obligation to continue services:** The external organization could be required to continue to provide services through the term of the arrangement or for a set period of time even when it believes it has a low chance of achieving the necessary outcomes.
- **Greater government control:** The government could place more controls on how the external organization achieves the outcome (e.g. by insisting that it only deploy techniques that government has vetted).

The agreement is not a Social Impact Bond if any of these three variations are made, and it becomes more like a performance contract. In some cases, that will be a more appropriate arrangement, as in cases where government feels it needs more control over how outcomes are accomplished.



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## Conclusion

Our country has real opportunities to better solve social problems through partnerships between the government, nonprofits, and the private sector. Social Impact Bonds are among the newest and most innovative ways to create those partnerships. Although SIBs are in their infancy, there is tremendous excitement in some state and local governments, in the federal government, and among foundations and nonprofits about the potential impact of this new model for funding social programs.<sup>10</sup>

Those interested in solving egregious social issues are right to be excited about these unusual public-private funding mechanisms. Social Impact Bonds could significantly improve the quality of public services, save taxpayer money, and offer new approaches to providing social services without requiring government to assume all of the financial risk. But most importantly, SIBs could help give taxpayers significantly better returns for their investments.

The next issue brief in this series will explain what terms are required for a Social Impact Bond contract to work correctly—and what kinds of provisions should be kept out of SIB agreements.

*Jitinder Kohli is a Senior Fellow with the Doing What Works project at the Center for American Progress.*

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*Kristina Costa is a Research Assistant at the Center for American Progress.*

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*The authors are extremely grateful to those who reviewed earlier drafts of this piece and provided insightful comments. In particular, they would like to thank Kristin Giantris, Gary Glickman, Steve Goldberg, Sarah Henderson, Kippy Joseph, Ben Jupp, Ben Kershaw, Justina Lai, Kristin Misner, Tracy Palandjian, William Pinakiewicz, Jim Robinson, Sonal Shah, Jennifer Talansky and Marta Urquilla.*

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## Endnotes

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- 2 Office of Management and Budget, "Paying for Success: The Federal Budget Fiscal Year 2012," available at <http://www.whitehouse.gov/omb/factsheet/paying-for-success>; and Todd Wallack, "Investors may fund social programs," *The Boston Globe*, June 27, 2011, available at [http://articles.boston.com/2011-06-27/business/29709425\\_1\\_nonprofits-intervention-program-social-finance](http://articles.boston.com/2011-06-27/business/29709425_1_nonprofits-intervention-program-social-finance).
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- 4 Ministry of Justice and Social Finance, "Minister Launches Social Impact Bond Pilot," Press release, available at [http://www.socialfinance.org.uk/sites/default/files/SIB\\_Launch\\_PR.pdf](http://www.socialfinance.org.uk/sites/default/files/SIB_Launch_PR.pdf).
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# Fact Sheet: Social Impact Bonds in the United States

By Kristina Costa February 12, 2014

## What is a social impact bond?

A social impact bond, or SIB, is an innovative financial tool that enables government agencies to pay for programs that deliver results. In a SIB agreement, the government sets a specific, measurable outcome that it wants achieved in a population and promises to pay an external organization—sometimes called an intermediary—if and only if the organization accomplishes the outcome. SIBs are one example of what the Obama administration calls “Pay for Success” financing.<sup>1</sup>

Investors provide the working capital for the external organization to hire and manage service providers. A third-party evaluator determines whether the outcome has been achieved. If the agreement succeeds, the government releases an agreed-upon sum of money to the external organization, which then repays its investors with a return for taking on the upfront risk. If the agreement fails, the government is not on the hook, and the investors do not get repaid with public funds.

SIBs are a potentially powerful tool for policymakers to use resources more efficiently and improve services for disadvantaged populations, even in the face of shrinking public budgets.

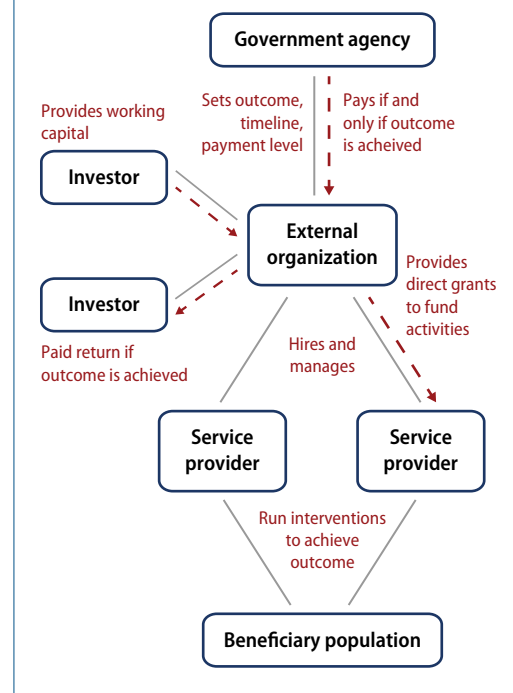
## What are the best policy areas for social impact bonds?

At this early stage, SIBs are most appropriate for areas in which:

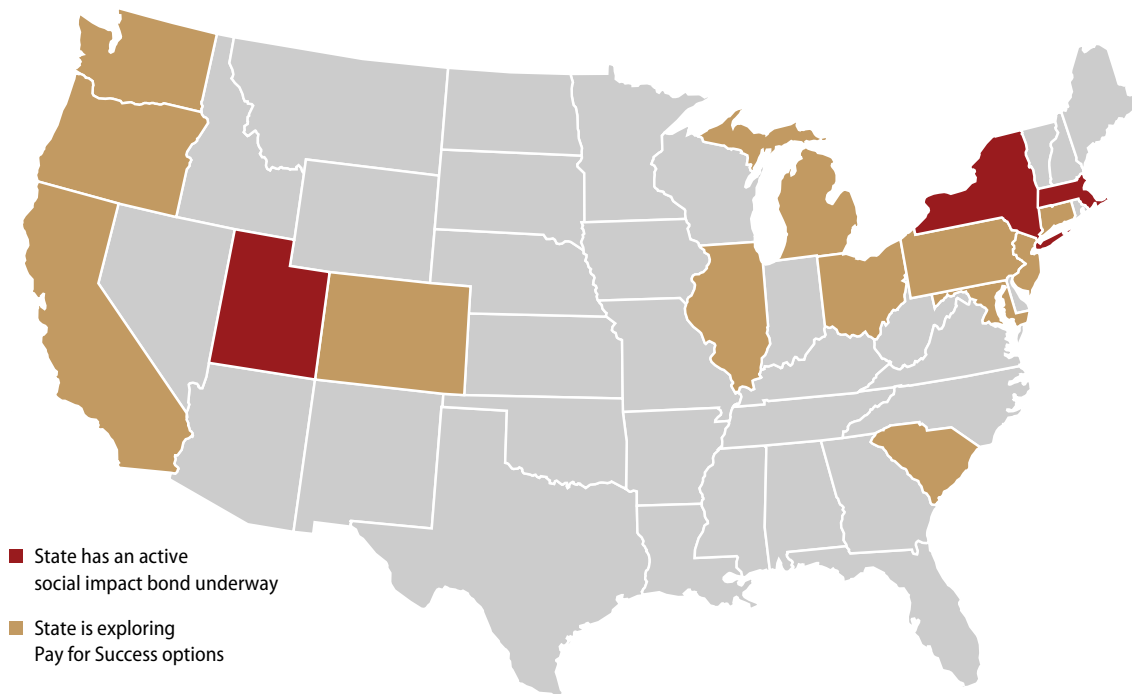
- Outcomes can be clearly defined and historical data are available
- Preventive interventions exist that cost less to administer than remedial services
- Some interventions with high levels of evidence already exist
- Political will for traditional direct funding can be difficult to sustain

Examples of such areas include recidivism, homelessness, workforce development, preventive health care, and early childhood and home-visiting programs, among others.

**FIGURE 1**  
What is a social impact bond?



## Where have social impact bonds been used in the United States?



### California

- First pilot program testing feasibility of social impact bonds in preventive health

### Colorado

- Received support from Harvard Kennedy School Social Impact Bond Lab, or HKS SIB Lab

### Connecticut

- Passed legislation enabling the state to enter into social impact bond contracts, June 2012
- Received support from HKS SIB Lab

### Illinois

- Received support from HKS SIB Lab

### Maryland

- Bill introduced in House of Delegates to create a task force to study social impact bonds

### Massachusetts

- Launched social impact bond to reduce recidivism among juvenile offenders in December 2013
- Negotiating a second social impact bond for chronic homelessness
- Received support from HKS SIB Lab
- Passed legislation, January 2012

### Michigan

- Received support from HKS SIB Lab

### New York state

- Launched social impact bond to reduce recidivism and increase employment in January
- Received support from HKS SIB Lab

### New York City

- Launched first social impact bond to reduce recidivism among juvenile offenders in August 2012

### New Jersey

- Bill in state legislature to administer five-year social impact bond pilot program and study on health care

### Ohio

- Received U.S. Department of Justice Second Chance Act grant
- Received support from HKS SIB Lab

### Oregon

- Pay-for-Success pilot included in governor's 2013-2015 budget proposal

### Pennsylvania

- Pay-for-Success legislation introduced in 2013

### South Carolina

- Pay-for-Success legislation introduced in 2013
- Received support from HKS SIB Lab

### Utah

- Launched social impact bond to fund early childhood education in 2013

### Washington, D.C.

- Issued procurement for feasibility study in 2013

### Washington state

- Bill introduced in the House of Representatives to enable the use of social impact bonds and other pay-for-performance vehicles

Sources: Sonal Shah and Kristina Costa, "Social Finance: A Primer" (Washington: Center for American Progress, 2013), available at <http://www.americanprogress.org/issues/economy/report/2013/11/05/78792/social-finance-a-primer>; Kristina Costa and Sam Ungar, "Social Impact Bonds Make Progress in Massachusetts, New York State" (Washington: Center for American Progress, forthcoming); and House Bill 2337, State of Washington, 63rd Legislature (2014), available at <http://apps.leg.wa.gov/documents/billdocs/2013-14/Pdf/Bills/House%20Bills/2337.pdf>.

## Endnote

- 1 The White House, "Paying for Success," available at <http://www.whitehouse.gov/omb/factsheet/paying-for-success> (last accessed February 2014).



# WESTMINSTER

## Staff Report

Information Only Staff Report  
April 20, 2015



**SUBJECT:** Foothills Animal Shelter IGA and Dog Licensing

**PREPARED BY:** Aric Otzelberger, Assistant to the City Manager  
Kim Barron, Police Commander

### Summary Statement

This report is being provided to brief City Council of proposed dog license fee changes, reserve account requirements and operating assessments under the City's current obligations with Foothills Animal Shelter. This item is for information only and does not require any action from City Council at this time.

### Background Information

In November 1996, City Council authorized the City Manager to enter into an Intergovernmental Agreement (IGA) with Table Mountain Animal Center (in 2010 the name was changed to Foothills Animal Shelter (FAS)) for the provision of all animal sheltering functions to be effective January 1, 1997. The IGA set out the method for calculating each participating agency's annual assessment for FAS operating expenses. Jefferson County and the partnering cities entered into a separate IGA in 2007 creating a County-Wide Dog Licensing Program in which the revenue generated from the dog licensing would be used towards \$9.7 million in construction costs of a new animal shelter facility. The dog licensing program applies to both the Jefferson County and Adams County portions of Westminster. In 2012, the two existing IGA's governing FAS and the County-Wide Dog Licensing Program were combined. The revised IGA updated the operational agreements for the governing and usage of FAS. Under this agreement, the City's budgeted and annual assessments are used to repay the construction debt, while revenue generated from the Dog Licensing Program offsets FAS operational costs.

Since 2013, operating expenses for the shelter have exceeded projections and revenue. Funds in operating and capital reserve accounts for FAS have been depleted. Despite increased dog licensing efforts, compliance rates have remained consistent, averaging approximately 20% collectively. Financial review by the FAS Board of Directors, made up of one person from each participating jurisdiction, along with the FAS Executive Director, has determined that the current financial position of FAS is not sustainable. The immediate goal is to cut expenses where practical and increase revenues where possible. In order to position FAS for long-term financial sustainability, the FAS Board recommends increasing licensing fees, amending the IGA to reduce the capital reserve account and increasing local jurisdiction assessments in 2016.

License fees are currently set at \$15 for altered (spayed/neutered) and \$30 for unaltered dogs. These fees have not been adjusted since the licensing program's inception in 2007. In December 2014, the FAS Board and FAS staff met with participating entities' city/county managers to decide upon a recommended license fee structure for consideration. The proposed new fee structure is a flat rate of \$20 per dog, regardless of altered state, which would be effective July 1<sup>st</sup>, 2015. Most participating jurisdictions are reporting only 3-5% of their unaltered dog population is licensed. It is unknown if those figures are reflective of the current altered/unaltered cost differential or if those who have unaltered dogs are less likely to license their dogs due to the higher costs.

Per IGA requirements, the City must meet a minimum licensing compliance rate of 20% of the estimated dog population in the City. For the past several years, the City has met this requirement, achieving an average 22% compliance rate. This equates to approximately \$100,000 in operating revenue for the FAS. Under the proposed \$20 license fee and with the current reality that most licensed dogs in Westminster are altered (\$15 license fee), it is anticipated that this fee adjustment will be an increase for most residents. This license fee increase for altered pets has the potential to generate an additional \$32,000 per year for FAS operations based on current licensing numbers.

As a result of expenses exceeding revenue over the past several years, the Board of Directors agreed to allow FAS to spend from reserve accounts to meet operating expenses. Both the FAS operating reserve and capital reserve will be exhausted at the end of 2015. A subsequent review of IGA-required reserve balances and what is prudent from a financial management standpoint has resulted in a recommendation from the FAS Board to reduce the capital reserve account requirement from \$500,000 to \$350,000 through an amendment to the IGA. The FAS current proposed financial plan allows for annual replenishment of both operational and capital reserve accounts. The operating reserve would be built back to the IGA-required level of three months of the previous year's operating expenses by 2018. The capital reserve would be incrementally built to the new proposed \$350,000 level by 2020.

The City's current financial obligation to FAS is approximately \$88,000 per the IGA for debt repayment for the facility. Per the IGA, licensing fees and other revenues are committed to fund operating costs. However, based on current operations and assuming approval of a proposed \$20 licensing fee, FAS faces a \$750,000 structural budget deficit starting in 2016. In response, the proposed financial plan assumes an additional assessment to participating jurisdictions in 2016 to cover operating expenses and close this gap. The FAS financial plan shows this additional assessment decreasing each year with elimination in 2023. The assumption behind this approach is that increased fundraising activities, grants, gifts and other contributions will offset and eventually replace this additional assessment for the participating governments. This assumption raises some questions, especially considering past experience with the now-dissolved FAS Foundation. Westminster representation on the FAS Board has raised concerns over the years regarding cost containment and realistic cost recovery assumptions with revenue producing activities of the FAS. Westminster representation will continue to voice these concerns and advocate for proper expenditure controls to balance the proposed increases in licensing fees and financial support from local jurisdictions.

Despite financial challenges of FAS, Staff believes that continued participation in a regional shelter approach makes practical and economic sense. Staff will prepare additional analysis for future discussions with City Council regarding the additional assessment, which will be considered by City Council as part of the 2016 Budget review process this summer. Staff has the understanding that the FAS Board will be presenting recommendations to the Jefferson County Commissioners regarding the

Staff Report – Foothills Animal Shelter IGA and Dog Licensing

April 20, 2015

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license fee and capital reserve requirement in the near future. The City may be asked to provide formal documentation regarding support for these proposed changes.

Respectfully submitted,

Donald M. Tripp  
City Manager