

HUMAN CAPITAL PERFORMANCE BONDS(HUCAP)

Agenda

- A New Idea
- How it Works
- Implications for Budget and Policy
- Goals/Status/Plans

TWIN CITIES RISE! *example*

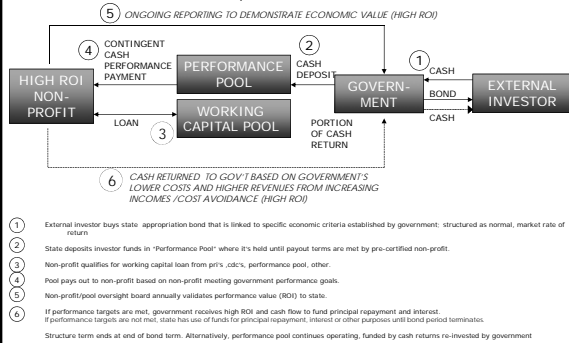
- "Pay for Performance" contract established by Mn. Legislature in 1997
- Based on economic value established by higher tax receipts and lower government subsidies from increased incomes
- \$10,000 increase in income assumed \$3,800 cash value/yr. and p.v. of \$31,000 (actual is \$50,000)
- TCR! paid \$9k at placement, \$9k at retention
- State's 13 year ROI= 624% (\$33.4M benefit for \$4.6M investment)

HUMAN CAPITAL PERFORMANCE BOND

- **WHAT IS IT :**
Market Rate, State AA bond that funds high performing human services
- **WHO INVESTS:**
Private investors, financial institutions, banks seeking a market rate of return; social investors
- **WHY DOES IT WORK:**
Economic return (ROI) of providers exceeds the state's cost of borrowing

Human Capital Performance Bond

Proposed Structure for State



HUCAP ACCOUNTING

- Individuals tracked through their Social Security #
- Incremental taxes and entitlement savings "booked" where benefit occurs (e.g. revenue, human services budgets)
- Cash benefit kept in Finance dept. account
- All Interest, Principal and Administrative Costs paid from Finance Dept account.

POLICY AND BUDGET IMPLICATIONS

- Neutral or Positive Cash Flow to State
 - Cost of Debt @14% (4% interest, 8% Principal, 2% admin)
 - Provider Cash return above 14%

- Annual Appropriation Bond Accepted in Marketplace

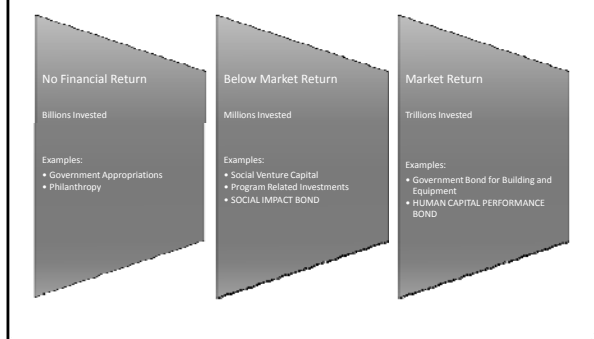
- State Bonding Not Required Long-Term To Fund Bond

- Establishes Framework for Allocating Appropriations

COMPARISON

	Social Impact Bonds	Human Capital Performance Bonds
Purpose	Capital for High Performing Social Enterprises	SAME
Metric	Economic Value from Social Outcome	SAME
Key Issue	Accurate Measurement of Value	SAME
Structure	Below Market Venture Fund	Market Rate AA bond
Risk	All to Investors	Providers, State, Investors

CONTINUUM OF SOCIAL INVESTING



STATUS

- Statute Passed in July 2011 for \$10 million Bond
- Economists completed feasibility for workforce development, adult day care, addiction treatment, Supportive housing
- Evaluation plan developed.
- Planning underway for operating pilot including nonprofit participation, payment structure, reporting , working with state authorities.
- Awaits Minnesota Court Case on "Tobacco Bonds"

SUMMARY

- Systems change for government and non-profit sectors
 - "pay for performance" based on economic value
 - ROI allocates capital to best social performers
- Generates incremental investment for human services at no cost to Government, Taxpayers
- Encourages more strategic investing by providers
- Cuts across structural issues in all major spending areas of government.
