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**SUBSTITUTE HOUSE BILL 1501**

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**State of Washington 64th Legislature 2015 Regular Session**

**By** House Early Learning & Human Services (originally sponsored by Representatives Zeiger, Kagi, Magendanz, Muri, Walkinshaw, Walsh, Ryu, Robinson, Hayes, Stokesbary, Gregerson, Condotta, Sawyer, Jinkins, Farrell, Senn, Appleton, Goodman, and McBride)

AN ACT Relating to public-private financing for prevention-focused social services; adding a new section to chapter 43.41 RCW; and creating a new section.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec.**  (1) The legislature finds that there are many prevention-based social service programs and services that demonstrably result in positive impacts for individuals and families that are cost-beneficial and that efficiently utilize government resources. However, because government resources are limited, the state is often unable to fund these programs or services.

(2) The legislature also finds that new, innovative financing models, such as pay-for-success initiatives, are emerging, and these new models allow the upfront expenditure of private funding by nongovernmental entities. These contracts with private entities for upfront investments allow the public to benefit from prevention-focused programs and services while shifting the risk of these innovative programs to private investors. In addition, these innovative financing models provide an opportunity for governments to move away from a model of paying service providers for a defined quantity of services to a model where investors are reimbursed by the state only upon the successful completion of agreed-upon financial and social outcomes stemming from the social service intervention.

(3) A pay-for-success contract is an agreement between a government entity, an investor, and a social service provider. Under this contract, an investor pays for a social service that targets a specific population, with designated outcomes that must be achieved. The government entity will then pay the investor an amount specified in the contract only if the designated outcomes are met.

(4) The legislature further finds that pay-for-success contracts encourage partnerships between public, private, and philanthropic sectors, emphasize accountability in the rendering of services, and encourage the use of sophisticated program evaluations.

(5) The legislature intends to provide a state-level framework for pay-for-success contracts if nonstate moneys are available. This framework is intended to support the implementation of pay-for-success contracts if federal or philanthropic funds are available. The legislature does not intend that any state moneys be provided for pay-for-success contracts.

NEW SECTION. **Sec.**  A new section is added to chapter 43.41 RCW to read as follows:

(1) As used in this section:

(a) "Intervention" means a social service intervention that could involve maternal or child health, early childhood education, juvenile justice, homelessness, or child welfare areas.

(b) "Investor" means a private person or entity that pays for an intervention under a contract with the office.

(c) "Payment" means nonstate moneys paid to an investor if the intervention meets the performance measures and outcomes agreed to in the contract and as determined by a third-party evaluator.

(d) "Provider" means a social service provider that delivers the intervention.

(2) Upon receipt of sufficient nonstate funds as identified in subsection (7) of this section, the office is authorized to procure and enter into a multiyear pay-for-success contract with an investor or investors and a provider. This pay-for-success contract must require that the investor finance an intervention as described in this section. The office shall designate performance measures and outcomes related to the prevention of homelessness and interaction with justice systems. Subject to this section and the terms of the pay-for-success contract, the investor or investors must receive a payment from the office at the end of the contract term if the intervention meets the performance measures and outcomes agreed to in the contract and as determined by a third-party evaluator.

(3) The resulting contract must include: (a) A requirement that a substantial portion of the payment be conditioned on meeting specific outcomes based on specified performance measures; (b) a requirement that no more than five million dollars may be spent by the investor on the social service intervention; (c) that any future payment to an investor cannot exceed ten million dollars; and (d) an objective process by which an independent evaluator must determine whether the performance targets are met. The term of this contract may not exceed four years. The office shall consult with the institute for public policy and the department of social and health services in reviewing and selecting the resulting contract.

(4) Clearly defined, measurable performance targets for the social service intervention must be identified by the office in consultation with the institute for public policy and the department of social and health services. At a minimum, these outcome measures demonstrate decreased recidivism rates among participants. Upon completion of the intervention identified in the pay-for-success contract, but before the end of the contract term, the intervention participants must be monitored by the independent evaluation for a period of time to identify whether the intervention met the performance targets.

(5) The office, in consultation with the institute for public policy and the department of social and health services, shall estimate the savings to the general fund resulting from the intervention meeting the performance targets established under subsection (4) of this section. The office, in consultation with the institute for public policy and the department of social and health services, shall develop a methodology for calculating the savings. The projected savings resulting from achievement of the performance targets must be used to determine the payment provided to the investor in the pay-for-success contract if the performance targets are met.

(6) Pursuant to the terms of the contract and this section, the office shall provide a payment to the pay-for-success investor upon completion of the pay-for-success contract and after a determination is made by an independent evaluator that the identified performance targets were achieved.

(7) No state moneys may be used to procure, manage, or make payments related to the pay-for-success contracts authorized in this section. The office shall determine if and when they have secured sufficient nonstate moneys to procure, manage, and make payments related to the pay-for-success contracts. Authorization for the office to procure, manage, or make payments related to the pay-for-success contracts in this section is contingent upon securing sufficient nonstate moneys to execute and carry out the pay-for-success contracts.

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