Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Early Learning & Human Services Committee

HB 1501

Brief Description: Concerning public-private financing of prevention-based social service programs.

Sponsors: Representatives Zeiger, Kagi, Magendanz, Muri, Walkinshaw, Walsh, Ryu, Robinson, Hayes, Stokesbary, Gregerson, Condotta, Sawyer, Jinkins, Farrell, Senn, Appleton, Goodman and McBride.

Brief Summary of Bill

- Authorizes the Office of Financial Management (OFM) to enter into a Pay for Success (PFS) contract with an investor and a social service provider.
- Requires that an investor pay for a social service for 16 to 20-year-olds exiting a juvenile rehabilitation institution that provides supportive housing, if a pay-for success contract is executed.
- Requires the OFM to provide a payment to the investor if designated performance measures are met, as determined by a third party evaluator.

Hearing Date: 2/6/15

Staff: Luke Wickham (786-7146).

Background:

A Pay for Success (PFS) contract or Social Impact Bond (SIB) is a contract between a private party and the public sector, where the private party pays for a social program with the potential to result in government savings. Investors are repaid if certain social outcomes are achieved, presumably with savings associated with the achievement of those outcomes.

A variety of governments around the world are piloting SIB initiatives in subject areas ranging from public safety to housing.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

The first PFS contract in the United States is a New York City project that began in 2012. For this project, Goldman Sachs provided a $9.6 million loan to a social services provider to pay for a 4-year program intended to reduce the recidivism rate for adolescent males released from Rikers Island Correctional Facility in New York City. If the program reduces the recidivism rate by 10 percent, Goldman Sachs would be repaid the full amount they invested. If the recidivism rate reduces beyond 10 percent, Goldman Sachs would make a profit. If the performance targets are not met, New York City would not make any payment.

Since the inception of the New York City project, governmental entities throughout the United States have executed PFS contracts, including the Commonwealth of Massachusetts, and the City of Chicago, among others.

Summary of Bill:

The Office of Financial Management (OFM) is authorized to procure and enter into a multi-year PFS contract with an investor or investors and a provider. This PFS contract would require that the investor(s) pay for a social service intervention for 16– to 20-year-olds exiting a juvenile rehabilitation institution, who are at risk of reentering a criminal justice system or homelessness, that provides supportive housing to these individuals and additional support services. The OFM must designate performance measures and outcomes related to the prevention of homelessness and interaction with justice systems. The investor(s) would then receive a payment from the OFM at the end of the contract term if the intervention met the performance measures and outcomes identified in the contract as determined by a third party evaluator.

The PFS contract must include:

- a requirement that a substantial portion of the payment be conditioned on meeting specific performance outcomes;
- a requirement that no more than $5 million be spent by the investor on the social service intervention;
- a requirement that any future payment from the state cannot exceed 50 percent of the projected savings based on the intervention; and
- an objective process for the independent evaluator to determine whether the performance targets are met.

The OFM must consult with the Washington State Institute for Public Policy (WSIPP) and the Department of Social and Health Services (DSHS) in reviewing and selecting the contract.

The OFM must also consult with the WSIPP and the DSHS in developing clearly defined and measurable performance targets. At a minimum, these targets must demonstrate decreased recidivism among participants. The third party evaluator must monitor the participants after completing the intervention for a period of time ending before the contract term ends to identify whether the performance targets were met.

The OFM, in consultation with the WSIPP and the DSHS, shall develop a methodology for calculating savings to the general fund from the intervention meeting the performance targets, and estimate those savings. These projected savings must be used to determine the payment provided to the investor upon meeting the targets.

If the OFM is unable to identify an investor for a PFS contract, the OFM may enter into a contract with the Housing Finance Commission to identify an investor.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.