

HOUSE BILL REPORT

HB 2337

As Reported by House Committee On:
Early Learning & Human Services

Title: An act relating to public-private financing for prevention-focused social services and health care services.

Brief Description: Concerning public-private financing for prevention-focused social services and health care services.

Sponsors: Representatives Zeiger, Kagi, Magendanz, Sawyer, Jinkins, Parker, Walsh, Morrell, Farrell, Hayes, Kochmar, Freeman, Walkinshaw, Roberts, Clibborn, Dahlquist, Orwall, Tharinger, Habib, Robinson and Goodman.

Brief History:

Committee Activity:

Early Learning & Human Services: 1/27/14, 1/29/14 [DPS].

Brief Summary of Substitute Bill

- Establishes the Washington Social Investment Steering Committee with 14 members.
- Requires that the Washington Social Investment Steering Committee develop an implementation plan for at least one pilot that uses social impact bonds or other public-private financing for social or health care services.
- Requires that the Office of Financial Management issue a request for proposal to implement the pilot or pilots by July 1, 2015, and that the pilot or pilots be implemented by January 1, 2016.

HOUSE COMMITTEE ON EARLY LEARNING & HUMAN SERVICES

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 12 members: Representatives Kagi, Chair; Freeman, Vice Chair; Walsh, Ranking Minority Member; Fagan, Goodman, MacEwen, Ortiz-Self, Roberts, Sawyer, Senn, Young and Zeiger.

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.

Minority Report: Do not pass. Signed by 1 member: Representative Scott, Assistant Ranking Minority Member.

Staff: Luke Wickham (786-7146).

Background:

A social impact bond is a contract between a private party and the public sector, where the private party commits to pay for improved social outcomes that result in public sector savings. This private-public financing method is also known as a Pay for Success Bond or a Social Benefit Bond. These bonds do not offer a fixed rate of return. Investors are repaid if certain social outcomes are achieved, presumably with savings associated with the achievement of those social outcomes.

A variety of governments around the world are piloting social impact bond initiatives in subject areas ranging from public safety to housing. For example, Goldman Sachs provided a \$9.6 million loan to a social services provider to pay for a four-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, and if it reduces by less than 10 percent Goldman Sachs would lose money.

Summary of Substitute Bill:

The Washington Social Investment Steering Committee (Steering Committee) is established with 14 members as follows:

- two Senators from each caucus;
- two members of the House of Representatives from each caucus;
- one representative from the largest Washington union representing state employees;
- one representative from a community development financial institution;
- an expert in econometrics analysis and evaluation;
- one representative from an entity that invests philanthropically;
- one representative from the University of Washington Evidence-Based Practice Institute;
- one representative from a direct service provider; and
- one consultant with knowledge and expertise in social impact bonds.

The co-chairs of the Steering Committee must be two legislative members, one from the House of Representatives and one from the Senate, and each must be from different caucuses. The first meeting of the Steering Committee must occur no later than July 1, 2014. Private funding and grants must be used to provide facilitation and consulting services for the Steering Committee. The members of the steering committee and the organizations they represent are excluded from providing services or training as part of the pilots.

By December 1, 2014, the Steering Committee must develop an implementation plan for at least one pilot program that uses social impact bonds or other public-private financing mechanisms to finance and deliver prevention-focused social or health care services. The plan must include identification of:

- a financing model to be used for the pilot program, including a description of the financing mechanism for any use of state funds and for obtaining private financing;
- target populations and services;
- specific and measurable outcomes and establishment of baselines;
- a process for measuring the outcomes; and
- legislative action needed to implement the pilot.

By July 1, 2015, the Office of Financial Management (OFM) or a state agency designated by the OFM shall issue a request for proposal to implement the pilot(s). The pilot(s) must be implemented by January 1, 2016. By December 1, 2015, and annually thereafter, the steering committee must provide a report to the Legislature and Governor.

State employees, state officers, and legislative officers are excluded from public service ethics requirements when soliciting gifts, grants, or donations for the limited purpose of facilitation, consultation, or providing expertise to further the duties of the Steering Committee.

Substitute Bill Compared to Original Bill:

The representative from the Office of the State Treasurer is replaced with a representative of the largest Washington union representing state employees as a member of the Steering Committee. The members of the Steering Committee and the organizations they represent are excluded from providing services or training as part of the pilots. State employees, state officers, and legislative officers are excluded from public service ethics requirements when soliciting gifts, grants, or donations for the limited purpose of facilitation, consultation, or providing expertise to further the duties of the Steering Committee.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) This bill would create the Steering Committee. Pay for success financing models will be in the forefront during 2014. State and local organizations need to look to private-public financing models. This is about engaging the private sector to solve public problems. With limited resources and new demands for social solutions, social impact bonds must be considered. Social impact bonds are not bonds in the normal sense. These bonds provide the opportunity to invest in a social program with the promise of performance

payment. The careful approach provided in this bill is the correct approach for Washington. Social impact bonding provides public-private collaboration and financing for social service programs. The challenges around this bill are large as well, because new partners will be working together and this is not a good mechanism for implementing new programs. Social impact bonds shift value rather than create it. This is a brand new area. There are no programs that have come full circle yet. There are many different ways to monetize the effects of these programs. There are not any that are paying huge dividends. It would be important to attract investors that are interested in social issues. The design in New York was to identify a group of youth between ages 16 and 18, give them access to an intervention, and study their recidivism rate after participation in that intervention. Many people are interested in investing in things that have a potential to make a profit, so there could be a combination of investors with a social orientation and investors that are interested in profit. It is important to determine the metric used to determine payout. The payment to the investor should be withheld until there is enough time to measure the effectiveness of these programs. These need to be big programs, not small pilot programs. There needs to be a robust, independent evaluation to ensure the credibility of this undertaking. Social impact bonds are an exciting concept. In recent years, the Legislature has shown great support for programs that improve the lives of children and families. This bill is an extension of previous work to encourage public-private partnerships and programs focused on improving the lives of children and families. Many policy bills are thwarted because there is not enough revenue to support them. In the very worst case scenario this would be a good try. This would give social service agencies the motivation to solve the challenges of need and resources.

(Opposed) None.

Persons Testifying: Representative Zeiger, prime sponsor; Erin Shannon, Washington Policy Center; Ben De Haan, Partners for Our Children; Chris Ericksen and Eric Trupin, University of Washington; Jeanine Livingston, Washington Federation of State Employees; Lauren Platt, Nurse-Family Partnership; Seth Dawson, National Alliance on Mental Illness; and Nancy Sapiro, Jewish Federation.

Persons Signed In To Testify But Not Testifying: None.