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STATE OF RHODE ISLAND

IN GENERAL ASSEMBLY

JANUARY SESSION, A.D. 2020

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A N A C T

RELATING TO STATE AFFAIRS AND GOVERNMENT -- RHODE ISLAND PAY FOR
SUCCESS ACT

Introduced By: Representatives Cassar, Costantino, Alzate, Knight, and Shanley

Date Introduced: February 26, 2020

Referred To: House Finance

It is enacted by the General Assembly as follows:

1 SECTION 1. Title 42 of the General Laws entitled "STATE AFFAIRS AND
2 GOVERNMENT" is hereby amended by adding thereto the following chapter:

3 CHAPTER 160

4 RHODE ISLAND PAY FOR SUCCESS ACT

5 **42-160-1. Short title.**

6 This act shall be known and may be cited as the "Rhode Island Pay for Success Act."

7 **42-160-2. Legislative findings.**

8 The general assembly hereby finds and declares as follows:

9 (1) Pay for success, a form of outcomes-based contracting, raises funds from non-state
10 government investors to pay for the provision of an innovative intervention that will effectively
11 address a social challenge resulting in cost savings and improved outcomes. The government
12 identifies a social challenge, then social impact bonds are sold to investors to provide the upfront
13 capital for the agreed upon intervention. Pay for success contracts are executed detailing the
14 outcomes, associated repayment and evaluation process to be conducted by a third party. The
15 proceeds are dispersed to a nonprofit organization(s) that will execute the intervention delivering
16 services and other resources, such as housing, to the target population. A third-party evaluator
17 monitors the outcomes of the intervention to determine if success was met. If the intervention
18 improves financial and social outcomes in accordance with established metrics, the government, as

1 outcome payor, pays back the investors with interest using a portion of the savings accrued from
2 the successful outcomes. If the evaluator determines that success was not met, meaning there is no
3 improvement in financial or social outcomes, the investors lose money.

4 (2) The Rhode Island executive office of health and human services is the appropriate state
5 entity to oversee a five (5) year pay for success pilot program and evaluation. The executive office,
6 in collaboration with the Rhode Island coalition for the homeless, shall provide yearly progress
7 reports to the general assembly beginning no later than January 30, 2021, and annually thereafter
8 until January 30, 2026. These reports will include recommendations on a proposed structure for
9 entering into pay for success contracts, for administering the program, and for any and all matters
10 related thereto that the executive office deems necessary to administer future pay for success
11 projects at the conclusion of the pilot program in 2025. As a condition of this project, HUD requires
12 that a third party conduct a transparent and rigorous evaluation of the intervention to determine
13 whether the outcomes have indeed achieved success. The evaluation results will be reported yearly
14 to the governor and general assembly.

15 (3) In 2016 the United States Department of Justice (DOJ) and the United States
16 Department of Housing and Urban Development (HUD) awarded funding to the Rhode Island
17 coalition for the homeless to pursue a pay for success social impact bond in Rhode Island focusing
18 on housing and supportive services for persons experiencing homelessness who are high utilizers
19 of the health care and justice systems. Based on data matching between the executive office of
20 health and human services (Medicaid), the state of Rhode Island department of corrections, and the
21 homeless management information system (HMIS), a 2017 feasibility study was conducted. The
22 study demonstrated that a pay for success project could achieve considerable savings through an
23 intervention consisting of permanent housing and supportive services (permanent supportive
24 housing or (PSH) for the target population. The pilot program will leverage up to eight hundred
25 seventy-five thousand dollars (\$875,000) in outcome payment funding from the HUD/DOJ grant
26 as well as the intervention and third-party evaluation process described in the grant agreement.

27 **42-160-3. Definitions.**

28 For the purpose of this chapter, the following terms, phrases, words and their derivations
29 have the meaning given in this chapter. When not inconsistent with the context, words used in the
30 plural number include the singular number and words used in the singular number include the plural
31 number:

32 (1) “Coordinated entry system (CES)” means the partnership of all homeless service
33 providers in the state through this initiative of the Rhode Island continuum of care. CES manages
34 all diversion/entry to the shelter system through the coordinated entry hotline and manages the

1 permanent housing placement part of the program, once persons are in a shelter or are living on the
2 street.

3 (2) "Executive office" means the Rhode Island executive office of health and human
4 services.

5 (3) "Homeless management information system (HMIS)" means the database used to
6 collect information in order to track and report on the scope of homelessness prevention/assistance
7 and human service needs across the Rhode Island continuum of care (COC) as well as individually
8 at each organization. The Rhode Island coalition for the homeless is the current HMIS state lead.

9 (4) "Homelessness" means the category 1 and category 4 definitions outline by HUD:

10 (i) Category 1-Literally homeless: the situation of an individual or family lacking a fixed,
11 regular, and adequate nighttime residence, meaning:

12 (A) Has a primary nighttime residence that is a public or private place not meant for human
13 habitation;

14 (B) Is living in a publicly or privately operated shelter designated to provide temporary
15 living arrangements (including congregate shelters, transitional housing, and hotels and motels paid
16 for by charitable organizations or by federal, state and local government programs); or

17 (C) Is exiting an institution where he or she has resided for ninety (90) days or less and
18 who resided in an emergency shelter or place not meant for human habitation immediately before
19 entering that institution.

20 (ii) Category 4-Fleeing/attempting to flee domestic violence: Any individual or family
21 who:

22 (A) Is fleeing, or is attempting to flee, domestic violence;

23 (B) Has no other residence; and

24 (C) Lacks the resources or support networks to obtain other permanent housing.

25 (5) "Nonprofit organization" means a nonprofit organization that is exempt from federal
26 taxation pursuant to § 501(c)(3) of the federal internal revenue code, 26 U.S.C. § 501(c)(3).

27 (6) "Outcome payment" means the money paid when a pay for success contract
28 performance measure is met.

29 (7) "Outcome payor" means the entity (federal, state, local and tribal governments, or
30 other) who pays the investor with an agreed-upon return if the intervention is successful (if outcome
31 measures are achieved). The outcome payor for this pilot pay for success program will be the Rhode
32 Island state government.

33 (8) "Pay for success contract" means a written agreement to provide a program, service,
34 or economic development initiative, under which an investor provides funding that a state agency

1 agrees to repay to the investor if the service, program, or economic development initiative meets
2 the performance measures and outcomes in the agreement.

3 (9) “Permanent supportive housing (PSH)” means a permanent deeply subsidized unit,
4 tenant or project based subsidy, with supportive services, generally for persons experiencing
5 homelessness for long periods of time who also have other significant challenges such as disability
6 or mental illness. PSH evidence bases suggests that effective implementation can reduce participant
7 utilization of housing, health, and criminal justice systems. There is a strong evidence base for
8 housing outcomes such as seventy to eighty-six percent (70%-86%) reduction in shelter days and
9 twenty-five to fifty percent (25%-50%) reduction in days housing.

10 (10) “Program intermediary” means a firm that contracts with a state agency to establish
11 and deliver a service or program intervention by doing any of the following:

12 (i) Delivering or contracting for relevant services or outcomes;

13 (ii) Raising capital to finance the delivery of services or outcomes;

14 (iii) Providing ongoing project management and investor relations for the social impact
15 funding instrument.

16 (11) "Social impact bond", “pay for success bond” or "bond" means a contract between the
17 public and private sectors in which a commitment is made to pay for improved financial and social
18 outcomes that result in public sector savings.

19 (12) “Target population” means highly vulnerable persons that experience long-term
20 homelessness and incur significant costs within the criminal justice, shelter, and/or health care
21 systems, likely related to their housing instability. For example, the average annual health care
22 costs per person nationally is around ten thousand dollars (\$10,000) yet the average per person cost
23 of Medicaid claims for adults in shelter, top twenty-five (25) clients, is two hundred twenty-nine
24 thousand, six hundred ninety-five dollars and forty-four cents (\$229,695.44), as per the Rhode
25 Island Medicaid and HMIS data match for adults in shelter. Based on research locally and
26 nationally, these persons, if housed via a permanent supportive housing voucher, would benefit
27 from increased well-being and reduced health care and correctional utilization costs. Eligibility
28 will be confirmed by data matching, case conferencing, and coordination with health care providers
29 and the coordinated entry system (CES); data sources will be provided by the department of
30 corrections, executive office of health and human services, and the Rhode Island homeless
31 management information system.

32 **42-160-4. Pilot program established.**

33 There is established a five (5) year pay for success pilot program to be administered by the
34 Rhode Island executive office of health and human services. The pilot will follow the proposal

1 [outlined in the 2016 pay for success grant proposal to HUD and 2017 feasibility study. The pay for](#)
2 [success project will provide a housing and supportive services intervention \(PSH\) for one hundred](#)
3 [twenty-five \(125\) persons in Rhode Island experiencing homelessness who are high utilizers of the](#)
4 [health care and justice systems. The pilot program will leverage up to eight hundred seventy-five](#)
5 [thousand dollars \(\\$875,000\) of HUD/DOJ grant funds.](#)

6 **42-160-5. Financial limitations.**

7 [Regardless of the mechanism established by the executive office of health and human](#)
8 [services, the amount of bonds issued by the executive office pursuant to this chapter shall not](#)
9 [exceed one million five hundred thousand dollars \(\\$1,500,000\) per fiscal year or six million dollars](#)
10 [\(\\$6,000,000\) in the aggregate over the five \(5\) years of the pilot program, as determined by the](#)
11 [department; provided, no bonds shall be issued by the department after July 1, 2025, without further](#)
12 [authorization by the general assembly.](#)

13 SECTION 2. This act shall take effect upon passage.

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EXPLANATION
BY THE LEGISLATIVE COUNCIL
OF
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RELATING TO STATE AFFAIRS AND GOVERNMENT -- RHODE ISLAND PAY FOR
SUCCESS ACT

1 This act would establish a pay for success program which would support outcomes-based
2 contracting, to raise funds from non-state government investors to pay for the provision of an
3 innovative intervention that will effectively address social challenges resulting in cost savings and
4 improved outcomes. The government would identify a social challenge, then social impact bonds
5 would be sold to investors to provide the upfront capital for the agreed upon intervention. Pay for
6 success contracts would be executed detailing the outcomes, associated repayment and evaluation
7 process to be conducted by a third party. The proceeds would be dispersed to a nonprofit
8 organization(s) that would execute the intervention delivering services and other resources, such as
9 housing, to the target population. A third-party evaluator would monitor the outcomes of the
10 intervention to determine if success was met. If the intervention improves financial and social
11 outcomes in accordance with established metrics, the state would pay back the investors with
12 interest using a portion of the savings accrued from the successful outcomes. If success was not
13 met, meaning there is no improvement in financial or social outcomes, the investors lose money.

14 This act would take effect upon passage.

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