
A BILL FOR AN ACT

RELATING TO SOCIAL IMPACT BONDS.

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

1 SECTION 1. The legislature finds that a new social and
2 financial landscape and competition for scarce public dollars
3 has required a sometimes painful prioritizing of government
4 functions to provide for the public good in a fiscally prudent
5 manner. Legislators across the United States have been
6 searching for new and creative ways to ensure that necessary
7 programs and services do not suffer, but in the shuffle,
8 programs that focus on prevention, that have yet to demonstrate
9 effectiveness, have silently been languishing in the shadows.

10 Impact investment-investment in nonprofit organizations and
11 companies that address social issues-has grown to fill this
12 void. While the majority of impact investment has focused on
13 microfinance, farming, and other fields for which return on
14 investment is relatively obvious, social impact bonds may be an
15 option more uniquely suited to a state government's efforts to
16 address issues within the social sphere.

17 The legislature further finds that social impact bonds
18 connect private investors with government entities to fund



1 social programs and services with no initial outlay of taxpayer
2 funds. Also referred to as pay-for-success contracts, social
3 impact bonds rely on defined and measurable outcomes to
4 determine the rate of return, if any, on the money invested. In
5 essence, the bonds bring together investors, nonprofits, and
6 government to finance preventive programs expected to lead, in
7 the long run, to overall cost savings.

8 For example, New York City, the first in the United States
9 to use social impact bonds, is currently funding programs aimed
10 at reducing youth recidivism rates through social impact bonds
11 "purchased" by Goldman Sachs. The Wall Street company invested
12 \$9,600,000 over four years in the programs on the projection
13 that the programs will reduce recidivism rates by ten per cent
14 in that time. If the outcome is met, New York City will use
15 taxpayer funding to repay the company. If the outcome is
16 exceeded, Goldman Sachs will receive an additional return on its
17 investment from the city. If, instead, the defined outcome is
18 not met, no taxpayer funds will be expended and Goldman Sachs
19 will be out the money it invested. The legislature further
20 finds that social impact bonds are structured to obtain proven
21 solutions with no risk to taxpayer funds and public budgets.
22 They are a financing tool that may, according to Mayor Michael



1 R. Bloomberg, "empower governments to innovate in ways they
2 wouldn't otherwise attempt."

3 As such, social impact bonds may be a creative and flexible
4 way for the State to invest in early education programs and work
5 toward ensuring that all children in the State get off to a
6 solid and supported beginning. Therefore, the purpose of this
7 Act is to require the executive office on early learning, in
8 consultation with the department of budget and finance, to
9 conduct a study on the feasibility of using social impact bonds
10 as a means of funding early learning programs and services
11 within the State.

12 SECTION 2. (a) The executive office on early learning, in
13 consultation with the department of budget and finance, shall
14 conduct a study on the feasibility of using social impact bonds
15 as a means of encouraging private investment in early learning
16 for children ages zero to five to reduce federal and state
17 expenditures related to those services. The executive office on
18 early learning, in consultation with the department of budget
19 and finance, may request the assistance and services of
20 employees of any other department, board, bureau, commission,
21 task force, or agency as it may require and as may be available
22 to facilitate its work.



1 (b) In conducting the study, the executive office on early
2 learning, in consultation with the department of budget and
3 finance, shall consider:

4 (1) The potential pool of investors likely to invest in
5 social impact bonds both within and outside the State;

6 (2) The State's capacity to effectively administer a
7 social impact bond program;

8 (3) Nonprofit organizations with the capacity to make
9 effective use of funding supplied through social
10 impact bonds and with the likelihood to meet
11 predefined and measurable outcomes based on the
12 following factors:

13 (A) The economic feasibility of programs and services
14 provided;

15 (B) The degree to which the programs and services
16 will advance statewide and local strategies and
17 objectives;

18 (C) The degree to which the programs and services
19 will maximize the leverage of other state funds;
20 and

21 (D) The degree to which the programs and services
22 align with the goals and objectives of the



1 executive office on early learning, the
2 improvement of social outcomes, and the
3 stimulation of private sector investment and
4 expansion;

5 (4) The size and characteristics of the target population
6 that would benefit from early learning programs and
7 services funded through social impact bonds;

8 (5) The projected financial value of the improvements that
9 may result from social impact bond investments,
10 including projected public sector savings and
11 projected returns to investors;

12 (6) The availability of metrics to analyze projected
13 financial value and impacts beyond financial savings
14 and returns, such as social outcomes;

15 (7) Statutory changes necessary to effectuate a social
16 impact bond program and any potential statutory
17 prohibitions that may prevent such a program from
18 being implemented; and

19 (8) Any other issues as may arise in the course of
20 conducting the study.

21 (c) The executive office on early learning, in
22 consultation with the department of budget and finance, as part



1 of the study, shall also consider the feasibility of
2 establishing a social impact bond pilot project. In determining
3 the details of a pilot project, the executive office on early
4 learning, in consultation with the department of budget and
5 finance, shall consider the following elements:

6 (1) The solicitation of donations from philanthropic
7 organizations and other private sources;

8 (2) Bond contract terms and conditions, including pre-
9 defined public sector savings thresholds; and

10 (3) Metrics to project and measure financial and social
11 outcomes.

12 (d) The executive office on early learning, in
13 consultation with the department of budget and finance, shall
14 submit the feasibility study and any recommendations for action,
15 including proposed legislation, to the governor and the
16 legislature no later than twenty days prior to the convening of
17 the regular session of 2014. The legislative reference bureau
18 shall assist the executive office in preparing the feasibility
19 study, recommendations, and any proposed legislation.

20 SECTION 3. This Act shall take effect upon its approval.



Report Title:

Social Impact Bonds; Early Education

Description:

Requires the Executive Office on Early Learning, in consultation with the Department of Budget and Finance, to conduct a study on the feasibility of using social impact bonds to fund early learning programs and services in the State, with the assistance of the Legislative Reference Bureau. (HB1402 HD1)

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