

Colorado Legislative Council Staff Fiscal Note
STATE and LOCAL
CONDITIONAL FISCAL IMPACT

Drafting Number: LLS 14-0629 Prime Sponsor(s): Sen. Johnston; Zenzinger Rep. Pettersen	Date: April 14, 2014 Bill Status: Senate Education Fiscal Analyst: Josh Abram (303-866-3561)
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SHORT TITLE: PAY FOR SUCCESS CONTRACTS FOR EARLY CHILDHOOD ED

Fiscal Impact Summary	FY 2014-2015	FY 2015-2016
State Revenue		
State Expenditures	Workload increase.	
FTE Position Change		
Appropriation Required: None.		

Summary of Legislation

This bill creates the Pay for Success Contracts for Early Childhood Education Services Program (program) in the Office of State Planning and Budgeting (OSPB). The program permits the OSPB to enter into a "pay for success" contract for the provision of early learning and development services. The bill also permits one or more school districts to enter into pay for success contracts.

Under a pay for success plan, the government contracts for the implementation of a desired program and agrees to pay the contractor with any government savings that are directly or indirectly a result of the contractor's services. The contractor then uses the payments to recoup its cost to implement the program, and to repay other investors. The responsibility for program success is placed on the contractor, who only receives payment by meeting defined performance targets, and only if sufficient direct or indirect reductions in government spending accrue as a result of the contractor's efforts.

A pay for success contract is entered into with a third-party organization and its subcontractors. This "lead contractor" will agree to use its own money or borrow money to pay the cost of providing the early childhood education services. Any contract between the OSPB, one or more school districts, and a lead contractor must include provisions that:

- clearly define the type, scope, and duration of the early education services to be provided and the specific outcomes to be achieved based on defined performance targets;
- provide a process by which an independent evaluator can determine that defined performance targets have been achieved;
- specify the procedures to be followed in order to request success payments; and
- state that the OSPB, or the local board of education who are partners to the contract, must approve any request for payment to the lead contractor and that the obligation to make success payments are subject to available appropriations.

The contract may require that any state department or agency that anticipates a cost savings as a result of the provision of early childhood education services deposit money from these savings into a newly created fund, and preauthorize the payment of such moneys to the lead contractor if defined performance targets are met.

The bill creates the Pay for Success Contracts Fund in the State Treasury. The principal of the fund consist of moneys appropriated or transferred to the fund that have become available or are expected to become available due to direct or indirect reductions in state spending resulting from the provision of early childhood education programs, or from moneys received from a school district that has joined a contract as an additional party. The total amount of state money credited to the fund may not exceed \$25 million.

State Expenditures

The OSPB may experience a workload increase to negotiate pay for success contracts; however, no estimate of the increased cost to accomplish this work is currently available. This fiscal note assumes that the OSPB can research potential contracts and conduct preliminary negotiations within existing appropriations; however, should the office discover potential to establish a pay for success contract, additional personnel and associated operating expenses are needed to negotiate and oversee the contract. Under those circumstances, the office will need to seek additional resources via the annual budget process.

Local Government Impact

School districts and county providers of early childhood educational services may receive assistance from contractors who provide these services and who entered into a pay for success contract with OSPB or one or more school districts.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State and Local Government Contacts

Education

Human Services

Office of State Planning & Budgeting