



# STATE FISCAL IMPACT

<b>Drafting Number:</b> LLS 15-0605	<b>Date:</b> April 1, 2015
<b>Prime Sponsor(s):</b> Rep. Garnett; Rankin	<b>Bill Status:</b> House Business, Affairs and Labor
Sen. Johnston; Martinez	<b>Fiscal Analyst:</b> Clare Pramuk (303-866-2677)
Humenik	

**BILL TOPIC:** PAY FOR SUCCESS CONTRACTS

Fiscal Impact Summary*	FY 2015-2016	FY 2016-2017
<b>State Revenue</b>		
<b>State Expenditures</b>	<b><u>\$40,0780</u></b>	<b><u>at least \$41,483</u></b>
General Fund	34,164	34,726
Centrally Appropriated Costs**	5,914	6,757
<b>FTE Position Change</b>	0.5 FTE	0.5 FTE
<b>Appropriation Required:</b> \$34,164 - Office of State Planning and Budget (FY 2015-16)		

\* This summary shows changes from current law under the bill for each fiscal year.

\*\* These costs are not included in the bill's appropriation.

***This fiscal note should be considered preliminary. It will be revised when new information becomes available.***

## Summary of Legislation

This bill creates the Pay for Success Contracts Program (program) in the Office of State Planning and Budgeting (OSPB). The program permits the OSPB to enter into "pay for success" contracts for the provision of social services. The bill also permits one or more local governments to enter into pay for success contracts.

Under a pay for success contract program, 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 social services. Any contract between the OSPB, one or more local governments, and a lead contractor must include provisions that:

- clearly define the type, scope, and duration of the social 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
- specify that the OSPB, or the local government 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.

A pay for success contract cannot require the state to use federal moneys to make success payments unless permitted under federal law for that purpose. The OSPB, one or more local governments, or the OSPB and one or more local governments, are required to issue a request for proposal (RFP) and make the RFP available on the OSPB website. The OSPB must make the proposed contract available on its website and provide an opportunity for public comment prior to adoption.

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 social services, or from moneys received from a local government that has joined a contract as an additional party.

### **State Expenditures**

***The OSPB will have an increase in General Fund expenditures of \$40,078 and 0.5 FTE in FY 2015-16 and at least \$41,483 and 0.5 FTE in FY 2016-17 to implement this bill.*** While the purpose of a pay for success contract under this bill is to realize savings in the provision of social services, no estimate of savings can be made until the specific aspects of a contract are determined.

Initially, the OSPB requires 0.5 FTE and associated operating costs to establish the Pay for Success Contracts Program. OSPB staff are expected to conduct research and convene a stakeholder process to determine what social services are candidates for a pay-for-success contract and to identify prospective contractors and investors. OSPB staff will develop an RFP and evaluate the proposals they receive. If the OSPB chooses to establish a pay for success contract, additional personnel and associated operating expenses will be needed to negotiate and oversee the contract. Once those needs are defined, the OSPB will need to seek additional resources via the annual budget process.

<b>Table 1. Expenditures Under HB15-1317</b>		
<b>Cost Components</b>	<b>FY 2015-16</b>	<b>FY 2016-17</b>
Personal Services	\$29,028	\$31,899
FTE	0.5 FTE	0.5 FTE
Operating Expenses and Capital Outlay Costs	5,136	2,827
Centrally Appropriated Costs*	5,914	6,757
<b>TOTAL</b>	<b>\$40,078</b>	<b>\$41,483</b>

\* Centrally appropriated costs are not included in the bill's appropriation.

**Centrally appropriated costs.** Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. The centrally appropriated costs subject to this policy are estimated in the fiscal note for informational purposes and summarized in Table 2.

Table 2. Centrally Appropriated Costs Under HB15-1317*		
Cost Components	FY 2015-16	FY 2016-17
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$3,664	\$4,027
Supplemental Employee Retirement Payments	2,250	2,730
<b>TOTAL</b>	<b>\$5,914</b>	<b>\$6,757</b>

\*More information is available at: <http://colorado.gov/fiscalnotes>

### Local Government Impact

Local governments that provide social services may receive assistance from contractors who provide these services and who entered into a pay for success contract with the OSPB or one or more local governments.

### State Appropriations

For FY 2015-16, the Office of State Planning and Budget requires a General Fund appropriation of \$34,164 and an allocation of 0.5 FTE.

### Effective Date

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

### State and Local Government Contacts

Municipalities  
Human Services

Counties  
State Auditor

Education  
Office of State Planning & Budgeting