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## 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 percent in  
14 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 require the executive office on early learning to conduct  
8 a study on the feasibility of using social impact bonds as a  
9 means of funding early learning programs and services within the  
10 State.

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

20 (b) In conducting the study, the executive office on early  
21 learning shall consider:



- 1           (1) The potential pool of investors likely to invest in  
2           social impact bonds both within and without the State;
- 3           (2) The State's capacity to effectively administer a  
4           social impact bond program;
- 5           (3) Nonprofit organizations with the capacity to make  
6           effective use of funding supplied through social  
7           impact bonds and with the likelihood to meet  
8           predefined and measurable outcomes based on the  
9           following factors:
- 10           (A) The economic feasibility of programs and services  
11           provided;
- 12           (B) The degree to which the programs and services  
13           will advance statewide and local strategies and  
14           objectives;
- 15           (C) The degree to which the programs and services  
16           will maximize the leverage of other state funds;  
17           and
- 18           (D) The degree to which the programs and services  
19           align with the goals and objectives of the  
20           executive office on early learning, the  
21           improvement of social outcomes, and the



1 stimulation of private sector investment and  
2 expansion;

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

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

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

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

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

19 (c) The executive office on early learning, as part of the  
20 study, shall also consider the feasibility of establishing a  
21 social impact bond pilot project. In determining the details of



1 a pilot project, the executive office shall consider the  
2 following elements:

3 (1) The solicitation of donations from philanthropic  
4 organizations and other private sources;

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

7 (3) Metrics to project and measure financial and social  
8 outcomes.

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

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

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INTRODUCED BY: \_\_\_\_\_

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H.B. NO. 1402

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*[Signature]*

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# H.B. NO.1402

**Report Title:**

Social Impact Bonds; Early Education

**Description:**

Requires the Executive Office on Early Learning 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.

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