

2014 -- S 2196

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STATE OF RHODE ISLAND

IN GENERAL ASSEMBLY

JANUARY SESSION, A.D. 2014

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A N A C T

RELATING TO STATE AFFAIRS AND GOVERNMENT -- THE RHODE ISLAND SOCIAL  
IMPACT BOND ACT

Introduced By: Senators Miller, Pichardo, DiPalma, Sosnowski, and Metts

Date Introduced: January 30, 2014

Referred To: Senate 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 155

4 THE RHODE ISLAND SOCIAL IMPACT BOND ACT

5 **42-155-1. Short title.** -- This act shall be known and may be cited as the "Rhode Island  
6 Social Impact Bond Act."

7 **42-155-2. Legislative findings.** -- The general assembly hereby finds and declares as  
8 follows:

9 (1) Social impact bonds raise funds from non-government investors to pay for the  
10 provision of a service, and if the service improves financial and social outcomes, thereby  
11 alleviating financial support from the state, investors receive investment returns from the state.  
12 According to this model, investors contract with a government agency to purchase social impact  
13 bonds, the proceeds from which are dispersed to a nonprofit organization service provider. The  
14 nonprofit organization is then required to deliver services to the target population. If the results of  
15 the services provided by the nonprofit organization meets pre-determined, defined financial and  
16 social outcomes, the government agency repays the bonds with financial returns to the private  
17 investors.

18 (2) The Rhode Island department of administration is the appropriate state entity to

1 oversee a five (5) year social impact bond pilot program and study commission, which will use  
2 proceeds from the sale of social impact bonds. The department shall study and make  
3 recommendations to the general assembly by January 30, 2015, and annually thereafter until  
4 January 30, 2020, as to a proposed structure for issuing such bonds, for administering the  
5 program, and for any and all matters related thereto that the department deems necessary to  
6 administer the program.

7 (3) The department of administration shall research the best practices on social impact  
8 bonds to determine the best and most appropriate mechanism for issuing and utilizing such bonds  
9 in Rhode Island. In conducting such research and creating a proposal for social impact bonds, the  
10 department shall seek to create a system where private investors fund the services of a nonprofit  
11 organization in the state. The general parameters of the program should be as follows:

12 (i) If the nonprofit organization saves the department a certain pre-determined amount of  
13 money, in addition to other outcomes, such as positive social results, the department would return  
14 the investment;

15 (ii) If the outcomes are not met, the department would not return the investment; and

16 (iii) That it would be in the investors' and nonprofit's best interest to see that the  
17 outcomes would be met to ensure future funding.

18 (4) The study commission shall track and evaluate the progress of the five (5) year pilot  
19 program and present its findings in yearly reports to the governor and general assembly. The first  
20 yearly report shall be made on or before January 1, 2015, then on or before January 1 each year  
21 thereafter until January 1, 2020. The final report will make a recommendation as to whether a  
22 social impact bond program should be implemented statewide.

23 **42-155-3. Definitions. --** For the purpose of this chapter, the following terms, phrases,  
24 words and their derivations have the meaning given in this chapter. When not inconsistent with  
25 the context, words used in the plural number include the singular number and words used in the  
26 singular number include the plural number:

27 (1) "Department" means the Rhode Island department of administration.

28 (2) "Nonprofit organization" means a nonprofit organization that is exempt from federal  
29 taxation pursuant to § 501(c)(3) of the Federal Internal Revenue Code, 26 U.S.C. § 501 (c)(3).

30 (3) "Philanthropic organization" means a nonprofit nongovernmental entity that utilizes  
31 donated assets and income to provide social services.

32 (4) "Social impact bond" or "bond" means a contract between the public and private  
33 sectors in which a commitment is made to pay for improved financial and social outcomes that  
34 result in public sector savings.

1           (5) "Study commission" means the study commission established to aid the department in  
2 the administration of the social impact bond pilot program established by this act.

3           **42-155-4. Pilot program established.** -- There is established a five (5) year social impact  
4 bond pilot program to be administered by the Rhode Island department of administration. The  
5 department shall administer and determine the effectiveness of a social impact bond program  
6 affecting nonprofit organizations for the purpose of encouraging private investment in social  
7 services and to reduce federal, state, and municipal expenditures related to those services, as well  
8 as to assess the feasibility of expanding this program. The department shall seek to solicit grants  
9 from philanthropic organizations or other private sources for the establishment and administration  
10 of the pilot program. Social impact bonds may be issued through the program, but such bonds  
11 must comply with the limitations set forth in this chapter.

12           **42-155-5. Study commission established.** -- (a) The department shall oversee a study  
13 commission, entitled the "Rhode Island social impact bond study commission," established for  
14 the duration of the pilot program, whose membership and size shall be determined by the  
15 department. The department may consider a variety of professionals for membership in the study  
16 commission, including health care, bond financing, and social impact bond experts. The study  
17 commission shall organize as soon as practicable after the appointment of its members, and shall  
18 select a chairperson from among its membership. At least one member of the study commission  
19 shall be a member of the department of human services. Any vacancy in the membership of the  
20 study commission shall be filled in the same manner in which the original appointment was made.

21           (b) The study commission may request the assistance and services of employees of any  
22 other state department, board, bureau, commission, task force, or agency as it may require and as  
23 may be available. Members of the study commission shall serve without compensation, but shall  
24 be entitled to employ stenographic and clerical assistance and incur traveling and other  
25 miscellaneous expenses as it may deem necessary in order to perform its duties, within the limits  
26 of the funds made available to it for its purposes.

27           (c) The study commission shall meet at the call of its chairperson at the times and in the  
28 places it may deem appropriate and necessary to fulfill its duties, and may conduct public  
29 hearings at such place or places as it shall designate. The study commission shall conduct its  
30 meetings in accordance with the open meetings act, chapter 46 of this title.

31           (d) It shall be the duty of the study commission to aid the department in the  
32 administration of the social impact bond pilot program and to issue annual reports detailing the  
33 progress of the program. Specifically, the study commission, in cooperation with the department,  
34 shall determine the nonprofit organization or organizations that will receive investment funds

1 from bonds issued to private investors. The study commission shall make this determination  
2 taking several factors into consideration which include, but are not limited to, the size and  
3 identity of the target population that benefits from the nonprofit organization service provider, the  
4 projected financial value of the improvements as a result of the social impact bond investments,  
5 including projected public sector savings, the projected return to investors, the ease of the  
6 measurability of the outcomes, and an analysis of impacts beyond financial savings and returns,  
7 such as social outcomes. The study commission and department shall work together on additional  
8 aspects of the pilot program including, but not limited to, soliciting donations from philanthropic  
9 organizations and other private sources, determining bond contract terms and conditions,  
10 including the pre-defined public sector savings threshold, and developing metrics to project and  
11 measure both financial and social outcomes.

12 (e) The study commission shall expire on the thirtieth (30<sup>th</sup>) day after the date of the  
13 issuance of its final report.

14 **42-155-6. Limited liability of state. --** (a) The debt obligation of the state shall be  
15 limited to the amount of public sector savings realized from the social impact bond program. If  
16 additional funds are required to secure the bonds, the department shall identify additional funding  
17 sources, such as those that can be provided by philanthropic organizations.

18 (b) The provisions of any other law, rule, regulation or order to the contrary  
19 notwithstanding, the bonds, refunding bonds or other obligations of the department issued for the  
20 purposes set forth in this chapter shall be special and limited obligations of the department,  
21 payable from and secured by such funds and moneys as determined by the department and shall  
22 not be in any way a debt of liability of the state or of any political subdivision thereof, except as  
23 otherwise provided in this section, and shall not create or constitute any indebtedness, liability or  
24 obligation of the state or of any political subdivision thereof, either legal, moral or otherwise, and  
25 nothing contained in the provisions of this chapter shall be construed to authorize the department  
26 to incur any indebtedness on behalf of or in any way to obligate the state or any political  
27 subdivision thereof, and all bonds and refunding bonds issued by the department in connection  
28 therewith shall contain on the face thereof a statement to that effect.

29 **42-155-7. Financial limitations. --** Regardless of the mechanism established by the  
30 department of administration, the amount of bonds issued by the department pursuant to this  
31 chapter shall not exceed five million dollars (\$5,000,000) per fiscal year or twenty-five million  
32 dollars (\$25,000,000) in the aggregate over the five (5) years of the pilot program, as determined  
33 by the department. Provided, no bonds shall be issued by the department after July 1, 2019,  
34 without further authorization by the general assembly.

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

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EXPLANATION  
BY THE LEGISLATIVE COUNCIL  
OF

A N A C T

RELATING TO STATE AFFAIRS AND GOVERNMENT -- THE RHODE ISLAND SOCIAL  
IMPACT BOND ACT

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1           This act would establish the Rhode Island Social Impact Bond pilot program and study  
2           commission within the department of administration. The act would also authorize the department  
3           of administration to develop a mechanism for the use and issuance of such bonds, and would  
4           allow the issuance of up to twenty-five million dollars (\$25,000,000) in social impact bonds over  
5           a five (5) year period.

6           This act would take effect upon passage.

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