
SENATE COMMITTEE ON PUBLIC SAFETY

Senator Nancy Skinner, Chair

2017 - 2018 Regular

Bill No: AB 862 **Hearing Date:** May 15, 2018
Author: Maienschein
Version: March 21, 2018
Urgency: No **Fiscal:** Yes
Consultant: SJ

Subject: *Social Innovation Financing*

HISTORY

Source: Sacramento Regional Builders Exchange

Prior Legislation: AB 1837 (Atkins), Ch. 802, Stats. of 2014

Support: Anti-Recidivism Coalition; Bay Area Builders Exchange; Central California Builders Exchange; Federation of California Builders Exchanges; North Coast Builders Exchange; Riverside County Board of Supervisors; Valley Contractors Exchange

Opposition: None known

Assembly Floor Vote: 77 - 0

PURPOSE

The purpose of this bill is to establish the Social Innovation Financing Program of 2018.

Existing law establishes the Board of State and Community Corrections (BSCC). (Pen. Code, § 6024, subd. (a).)

Existing law provides that it shall be the duty of the Board of State and Community Corrections to collect and maintain available information and data about state and community correctional policies, practices, capacities, and needs, including, but not limited to, prevention, intervention, suppression, supervision, and incapacitation, as they relate to both adult corrections, juvenile justice, and gang problems. The board shall seek to collect and make publicly available up-to-date data and information reflecting the impact of state and community correctional, juvenile justice, and gang-related policies and practices enacted in the state, as well as information and data concerning promising and evidence-based practices from other jurisdictions. (Pen. Code, § 6027, subd. (a).)

Existing law requires the BSCC to do the following, among other things:

- Develop recommendations for the improvement of criminal justice and delinquency and gang prevention activity throughout the state;

- Identify, promote, and provide technical assistance relating to evidence-based programs, practices, and promising and innovative projects consistent with the mission of the board;
- Receive and disburse federal funds, and perform all necessary and appropriate services in the performance of its duties as established by federal acts;
- Develop procedures to ensure that applications for grants are processed fairly, efficiently, and in a manner consistent with the mission of the board;
- Identify delinquency and gang intervention and prevention grants that have the same or similar program purpose, are allocated to the same entities, serve the same target populations, and have the same desired outcomes for the purpose of consolidating grant funds and programs and moving toward a unified single delinquency intervention and prevention grant application process in adherence with all applicable federal guidelines and mandates;
- Cooperate with and render technical assistance to the Legislature, state agencies, local governments, or other public or private agencies, organizations, or institutions in matters relating to criminal justice and delinquency prevention;
- Develop incentives for units of local government to develop comprehensive regional partnerships whereby adjacent jurisdictions pool grant funds in order to deliver services, to a broader target population and maximize the impact of state funds at the local level;
- Conduct evaluation studies of the programs and activities assisted by the federal acts.
- Identify and evaluate state, local, and federal gang and youth violence suppression, intervention, and prevention programs and strategies, along with funding for those efforts. (Pen. Code, § 6027, subd. (b).)

Existing law defines “social innovation financing contract” as a contractual agreement between government, private investors, and service providers pursuant to which private investors agree to provide financing to service providers to achieve social outcomes agreed upon in advance and the government agency agrees to pay a return on the investment to the investors if successful programmatic outcomes are achieved by the service provider. Provides that a social innovation financing contract may also be known and referred to as a “pay for success contract.” (Gov. Code, § 97008, subd. (b).)

Existing law establishes the Social Innovation Financing Program, and requires the BSCC to administer the program. The BSCC shall select three counties to receive grant funding under the program. (Gov. Code, § 97010.)

Existing law authorizes the BSCC, upon appropriation of funds by the Legislature, to award a grant in an amount of not less than \$500,000 and not more than \$2,000,000 to each county selected for the purposes of entering into a pay for success or social innovation financing contract. The total amount of the grants awarded pursuant to this section shall not exceed \$5,000,000. Any unused state moneys shall revert to the General Fund. (Gov. Code, § 97011, subd. (a).)

Existing law specifies what each county social innovation financing contract must include. (Gov. Code, § 97011, subd. (b).)

Existing law requires each county receiving an award to report annually to the board on the status of its ongoing social innovation financing program. The report must contain an accounting of the moneys awarded. (Gov. Code, § 97013, subd. (a).)

Existing law requires the board to compile the county reports and submit a summary report to the Governor and Legislature annually. (Gov. Code, § 97013, subd. (b).)

Existing law provides that this section remain in effect only until January 1, 2022, and as of that date is repealed, unless a later enacted statute, that is enacted before January 1, 2022, deletes or extends that date. (Gov. Code, § 97013, subd. (d).)

This bill establishes the Social Innovation Financing Program of 2018, requires the BSCC to administer the program, and requires the BSCC to select three counties to receive grant funding under the program.

This bill authorizes the BSCC, upon appropriation of funds by the Legislature, to award a grant in an amount of not less than \$300,000 and not more than \$2,000,000 to each county selected for the purposes of entering into a pay for success or social innovation financing contract. Provides that the total amount of the grants awarded pursuant to this section shall not exceed \$5,000,000. Provides that any unused state moneys shall revert to the General Fund.

This bill requires each county receiving an award to report annually to the board on the status of its ongoing social innovation financing program, including an accounting of the moneys awarded.

This bill requires the board to compile the county reports and submit a summary report to the Governor and Legislature annually.

This bill provides that the Social Innovation Financing Program of 2018 will be in effect until January 1, 2025, and as of that date is repealed.

COMMENTS

1. Need for This Bill

According to the author:

In 2014, Assembly Bill 1837 (Atkins) was signed into law and...authorize[d] the Board of State and Community Corrections (BSCC) to create a “Social Innovation Financing Program,” in order to solicit proposals for social innovation financing from county boards and award grants (between \$500,000 and \$2 million not to exceed a total of \$5 million) to three counties. AB 1837 was a pilot program limited to merely three (3) counties with a sunset of 2020.

This program is operating at 100% capacity leaving other counties unable to participate and apply for grant funding.

AB 862 will establish the Social Innovation Financing Program of 2018 allowing for an additional 3 counties to receive grant funding, with a sunset date of 2025.

Social Innovation Financing Programs are innovative funding models that help government better serve underserved and vulnerable populations. Under a “Pay for Success” model, governments, service providers, and funders agree on targeted outcomes for underserved populations. Private investors, activists and philanthropy provide flexible multi-year operating costs to fund effective social service providers. If and when targeted outcomes are achieved (determined by an independent evaluator), government makes “success payments” to investors, who may recycle their returns to further impact social change.

2. BSCC

The BSCC is responsible for administering various criminal justice grant programs and ensuring compliance with state and federal standards in the operation of local correctional facilities. It is also responsible for providing technical assistance to local authorities and collecting data related to the outcomes of criminal justice policies and practices.

3. Background on Social Innovation Funding

Social impact partnerships, also known as social impact bonds, social innovation funds, and pay for success contracts are a financing mechanism for social programs operated and administered by non-governmental organizations (NGOs). The NGO enters into a contract with a local, state or federal government agency to administer a specific program, including goals and quantifiable target results with a set timeframe by which they must be achieved. The NGO pays for the entire up-front costs of providing the service and if the service meets the agreed upon quantifiable results in the specified timeframe, the NGO is, in turn, reimbursed by the government for the cost of the service plus an agreed upon rate of financial return. If the goals are not met, the government does not reimburse the NGO and no public monies are expended. In essence, nonprofit organizations deliver a program and the government only pays if a program succeeds.

Social innovation financing is seen as having a number of benefits, including:

- Transferring risk away from government and taxpayers because public entities are not subject to repay for services if the outside organization is unable to achieve the desired outcome.
- Funding preventive services that may provide future cost savings to the government.
- Overcoming the “silo” problem in government where agencies may find it difficult to pool resources or direct money toward effective programs.

4. Pay for Success Grant Program

AB 1837 (Atkins), Chapter 820, Statutes of 2014, established the Social Innovation Financing Program, now known as the Pay for Success Grant Program, which is administered by the BSCC. The purpose of the Pay for Success Grant Program is “to reduce recidivism using

evidence-based approaches that may address such issues as homelessness, substance abuse, and unemployment.” (*Pay For Success Grant Program Legislative Report 2017*, p. 2, <<http://www.bscc.ca.gov/downloads/PFS%20Final%20Leg%20Report%2010-3-17.pdf>>.) In April 2016, the BSCC awarded three grants totaling \$4.75 million to Los Angeles County, Alameda County, and Ventura County. (<<http://www.bscc.ca.gov/news.php?id=87>> [as of May 1, 2018].)

The first annual report on the Pay for Success Grant Program was released in October 2017. It summarizes the implementation of the program and provides a description of the funded projects and their progress. Summaries of the projects are included below.

“The Los Angeles County’s Pay for Success Project is aimed at reducing recidivism and ending homelessness for frequently incarcerated inmates with histories of homelessness. The project will focus on the end-to-end provision of holistic, supportive jail in-reach services and post-release permanent housing interventions for 300 homeless Los Angeles County male inmates who have frequent contact with the criminal justice system and complex physical and behavioral health conditions that contribute to negative housing and criminal justice outcomes.” (*Pay For Success Grant Program Legislative Report 2017*, p. 7.)

“Ventura County’s Pay for Success Project will focus on reducing the number of rearrests among 400 Ventura County medium-to-high risk adult probationers. The program model offers an integrated community-based set of evidence-based practices targeting the specific criminogenic factors most related to recidivism.... A customized suite of reentry evidence-based practices are to be used for each individual participant that could include re-entry case management, Moral Reconciliation Therapy, parenting and reunification services, trauma treatment and job readiness skills.” (*Pay For Success Grant Program Legislative Report 2017*, p. 8.)

“Alameda County’s Pay for Success Project is designed to engage first-time felons sentenced to local jails (i.e., persons sentenced pursuant to Penal Code section 1170, subdivision (h)) through peer-based interventions that address: 1) chronic unemployment and poverty; 2) substance abuse; 3) limited access to a variety of supports such as subsidized housing, mental and physical health care and education; 4) lack of positive peer relationships and role models; and 5) criminogenic thinking. Services will include pre-and post-release outreach engagement efforts to ensure participant “buy-in.” Once engaged in the program, 945 participants will receive services from a cross-trained peer-based service team that will deliver 24/7 wraparound services, and counselors who provide access to substance use disorder treatment, employment training, adult education, mental health services, intensive case management and housing assistance.” (*Pay For Success Grant Program Legislative Report 2017*, p. 8.)

The BSCC’s report to the Legislature notes that none of the three projects were fully implemented during the first year of the program. The first year of the program was largely consumed by finalizing the program design, completing a contracting process with an intermediary, identifying the service providers needed to launch their programs and drafting the associated contracts, and finalizing contracts with independent evaluators. The focus of the projects in the second year of the program will be on securing investor funding. All three programs anticipate being fully operational during their second year. The second annual report to the Legislature and Governor is due on October 1, 2018. (*Pay For Success Grant Program Legislative Report 2017*, pp. 9-12.)

This bill would create a new social innovation financing program so that more counties can participate in this type of program. It would authorize the BSCC to select three counties to receive grants, and would establish a minimum grant amount of \$300,000 and a maximum grant amount of \$2,000,000. Grant proposals would be required to meet the same criteria as those under the existing program, and participating counties would be subject to the same contract and reporting requirements. The newly created program would sunset on January 1, 2025.

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