

TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 1402, H.D. 1

February 22, 2013

RELATING TO SOCIAL IMPACT BONDS.

House Bill No. 1402, H.D. 1, requires the Executive Office on Early Learning, in consultation with the Department of Budget and Finance, 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.

The Department supports the exploration of new alternative or innovative funding mechanisms to finance the objectives of this bill. There are examples of other municipal jurisdictions employing social impact bonds as a funding mechanism for capital infrastructure. The use of such bonds may not always satisfy a purely financial enterprise, but the availability of these types of bonds as a funding resource, has demonstrated that they could provide some utility to achieving the funding needs of certain types of projects. The Department is available to provide consultation assistance to the Executive Office on Early Learning as it conducts the feasibility study on the potential use of social impact bonds.

Thank you for the opportunity to provide testimony on this measure.

Charlotte A. Carter-Yamauchi
Acting Director

Research (808) 587-0666
Revisor (808) 587-0670
Fax (808) 587-0681



LEGISLATIVE REFERENCE BUREAU
State of Hawaii
State Capitol, Room 446
415 S. Beretania Street
Honolulu, Hawaii 96813

Written Comments

HB1402, HD1 RELATING TO SOCIAL IMPACT BONDS

Comments by the Legislative Reference Bureau
Charlotte A. Carter-Yamauchi, Acting Director

Presented to the House Committee on Finance

Friday, February 22, 2013, 11:00 a.m.
Conference Room 308

Chair Luke and Members of the Committee:

Good morning Chair Luke and members of the Committee, my name is Charlotte Carter-Yamauchi and I am the Acting Director of the Legislative Reference Bureau. Thank you for providing the opportunity to submit written comments on H.B. No. 1402, H.D. 1, Relating to Social Impact Bonds.

The purpose of this bill, among other things, is to:

- (1) Require the Executive Office on Early Learning, working in consultation with the Department of Budget and Finance, to conduct a study on the feasibility of using social impact bonds to fund early learning programs and services in the State; and
- (2) Require the Legislative Reference Bureau to assist the Executive Office on Early Learning with preparing the feasibility study, recommendations, and any proposed legislation.

While the Legislative Reference Bureau takes no position on this measure, we submit the following comments for your consideration.

The measure requires the Bureau to "assist the Executive Office on Early Learning with preparing the feasibility study, recommendations, and any proposed legislation."

As you know, the Executive Office on Early Learning is an Executive Branch agency that is currently administratively attached to the Office of the Governor. While the Bureau is statutorily charged with the responsibility to provide comprehensive and impartial research services to the Legislature, it does not have specific statutory authority to assist the Executive Branch in its research activities. The phrase "assist the Executive Office on Early Learning with preparing the feasibility study, recommendations, and any proposed legislation" is problematic due to its vague nature and could be interpreted to require the Bureau to provide more research and drafting services to an Executive Branch agency than has been customarily provided in the recent past.

We believe that the limited resources of the Bureau would be utilized more effectively on the Legislature's behalf if the measure is amended in the following manner:

- (1) Clarify that the Executive Office of Early Learning, working in consultation with the Department of Budget and Finance, will be responsible for the initial preparation and draft of the study and any initial draft of proposed legislation; and
- (2) Direct the Bureau to produce the final version of the report requested in the measure and finalize any draft of proposed legislation; provided that the Executive Office on Early Learning submits its draft report and proposed legislation to the Bureau no later than November 1, 2013.

These amendments will allow us to manage our workload effectively and minimize interference with our ability to provide research services and draft bills and other legislative documents for legislators during the busy period prior to the start of session. The proposed submission deadline to the Bureau would also provide sufficient time for the Executive Office on Early Learning to review the Bureau's draft of the final report and make any necessary edits prior to the actual submission deadline to the Legislature.

Thank you again for this opportunity to provide written comments.



EXECUTIVE OFFICE ON EARLY LEARNING
HONOLULU

TERRY LOCK
DIRECTOR

Testimony Relating to
H.B. 1402 H.D. 1, Relating to Social Impact Bonds
By Terry Lock, Director

House Committee on Finance
February 22, 2013
11:00 a.m., Room 308

Chair Luke, Vice-Chair Nishimoto, Vice-Chair Johanson, and Members of the Committee:

Aloha, I am Terry Lock, Director of the Executive Office on Early Learning (EOEL).

H.B. 1402 H.D. 1 would require EOEL to conduct a study on the feasibility of using social impact bonds to fund early learning programs and services in the state.

We note that these types of bonds are new and we do not have much information on the pros and cons of their use. However, we support looking at various resources to support early learning.

We note that no resources have been provided in the bill for EOEL to conduct the study.

Thank you for the opportunity to testify.



1806 South King Street, Suite 30 | Honolulu, HI 96826 | Ph: (808) 942-4708 | haeyc@hawaiiieyc.org

Representative Sylvia Luke, Chair
Representative Scott Nishimoto, Vice Chair
Representative Aaron Ling Johanson, Vice Chair
HOUSE COMMITTEE ON FINANCE

From: Katherine Murphy, Executive Director
Hawaii Association for the Education of Young Children (HAEYC)

Date: Friday, February 22, 2013

Subject: HB 1402, HD1, RELATING TO SOCIAL IMPACT BONDS

This bill would require the Executive Office on Early Learning, in consultation with the Department of Budget and Finance, 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.

Social impact bonds (SIB) are a recent funding mechanism to fund public services that are intended for the common good. Since the method of funding is new, there have not been long-term studies to assess the effectiveness of the SIB and, in particular, whether it is more effective for certain kinds of public services than others.

HAEYC supports HB 1402, HD1, for the Executive Office on Early Learning to study the feasibility of introducing the social impact bond as a way of funding early learning programs and services. To aid in the Committee's consideration of this bill, attached is one of the best short papers available on the social impact bond for your review.

We acknowledge the vision and courage it takes for legislators to enact laws that will come to fruition after they leave office. Investing in early childhood development and education will be your lasting legacy.

HAEYC is a professional membership organization of early childhood development and educational professionals, with nearly a 1,000 members across the state of Hawaii. We would like to continue to be a positive contributor to ongoing policy conversations about Hawaii's children. Our volunteers and staff would be happy to provide you with more information to facilitate your decision-making. Please contact us at (808) 942-4708 or haeyc@hawaiiieyc.org.

HAEYC's mission is to promote, support, and expand quality and professionalism in early childhood programs and services for Hawai'i's children (0-8) and their families.

Mahalo for the opportunity to testify on this measure.

Katherine E. Murphy
Executive Director
HAEYC



Testimony to the House Committee on Finance

Friday, February 22, 2013

11:00 a.m.

Conference Room 308

RE: RELATING TO SOCIAL IMPACT BONDS – HOUSE BILL 1402 HD1

Chair Luke, Vice Chairs Nishimoto and Johanson and Members of the Committee:

My name is Gary Kai and I am the Executive Director of the Hawaii Business Roundtable. We support House Bill 1402 HD1 that requires the Executive Office on Early Learning, in consultation with the Department of Budget and Finance, 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.

We fully support conducting a study to determine the feasibility of using social impact bonds to fund early learning programs in the State. The members of the Hawaii Business Roundtable employ thousands of graduates of Hawaii's public school system, and helping children, beginning at an early age is the key to making them successful citizens in our businesses and in our community. Our ability to compete in a global economy starts with employees who have been provided the tools to do so and it all begins at a very early age.

As business people our members understand the high return on investing in children under the age of five which has been well documented nationally and locally. In 2008, the Hawaii Economic Benefits Study of early education for Hawai'i showed that for every \$1 Hawai'i invests in a quality four-year early learning program, the state will receive a return of \$4.20. This return is calculated from less spending on special education, grade retention, and future social services –such as incarceration - plus a more productive, higher paid workforce contributing positively to the state economy.

Social Impact bonds are a new approach for expanding successful social programs, in this case, the proven success of early childhood education. It is a partnership in which private investors and not the state would provide capital for early education providers to scale up their programs. The State would pay only if the program succeeds, which based on the Hawaii Economic Benefits Study, are highly likely.

We strongly support the public/private delivery system and this study will help to determine alternative methods to fund early learning. As previous People's Pulse polls have shown,

over 80% of Hawaii's residents believe in the importance of funding of early learning for children.

Thank you very much for the opportunity to testify and we look forward to joining your efforts to improve the lives of our children.

Gary K. Kai, Executive Director
Hawaii Business Roundtable



February 21, 2013

TO: Chair Sylvia Luke
Vice-Chair Scott Nishimoto
House Committee on Finance

FROM: Deborah Zysman
Good Beginnings Alliance

RE: **Support for HB 1402 HD1:** Relating to Social Impact Bonds.

The Good Beginnings Alliance **supports HB 1402 HD1**, which requests the Executive Office on Early Learning to oversee a study on the feasibility of using social impact bonds as a means to assist with funding early childhood learning in Hawaii. The Good Beginnings Alliance (GBA) is a policy and advocacy organization focused on ensuring that Hawaii's young children are healthy, safe, and ready for school. We strive to support our stakeholder community to this end, as well as provide relevant information to our families and fellow advocate community.

Social impact bond (SIB) financing is an alternative system of funding particular social services that normally are the exclusive responsibility of the state. The advantage being that the state is not contributing the upfront funding for investment and is instead benefiting from structured and regulated investment from private and philanthropic investors. The return on investment, in the case of education, comes in part from a state's savings from decreases in special education rates between Kindergarten and 12th grade.

Case studies exist that have employed SIBs effectively to address youth recidivism (New York), homelessness (Massachusetts), workforce development (Minnesota) and school performance (Pennsylvania). Two of the key advantages of this financing mechanism include: 1) it mobilizes private capital to scale up programs states cannot afford to expand themselves, reducing taxpayers' financial risk, and 2) it also requires rigorous measurement of results (Considerable research has been undertaken by ReadyNation, a partnership of business and education leaders, to develop SIBs financing specifically for early childhood programs).

We encourage the Committee to consider including funding to assist the Executive Office on Early Learning in carrying out this study with the stipulation that the EOEL secure matching funds (in-kind or otherwise) from stakeholders in the business, philanthropic, and/or non-profit community (including GBA).

We see this measure as a creative and useful step in the broader context of funding an early childhood health and education system for Hawaii. Thank you for the opportunity to submit testimony in support of HB 1402 HD1.