



State Fiscal Note for Bill Number: 2021-H-5788

Date of State Budget Office Approval: Monday, April 26, 2021

Date Requested: Friday, March 12, 2021

Date Due: Monday, March 22, 2021

Impact on Expenditures

FY 2021	N/A
FY 2022	(\$276,175)
FY 2023	(\$283,632)

Impact on Revenues

FY 2021	N/A
FY 2022	N/A
FY 2023	N/A

**Explanation by State
Budget Office:**

This act would establish a “pay for success” permanent supportive housing (PSH) pilot program to provide housing and supportive services to 125 Rhode Islanders who are experiencing homelessness and are high utilizers of the healthcare and justice systems. Under the “pay for success” structure, payments from the State to vendors selected to deliver services would be dependent upon the vendors’ ability to meet performance metrics and outcomes defined by a contractual agreement. Initially, the State would sell social impact bonds to investors to provide upfront capital for the agreed-upon intervention; execute an outcomes-based contract detailing expected outcomes, third-party evaluation processes, and associated repayment processes; and disburse proceeds to a nonprofit organization(s) to deliver agreed-upon services and resources to the target population. Over the course of the contract with the vendor, a third-party evaluator would monitor the outcomes of the intervention to determine if financial and social outcomes improve in accordance with agreed-upon metrics. If the third-party evaluation found success, the State would pay back the investors with interest using a portion of the savings accrued from successful outcomes; if not, the investors would lose money.

The pilot program established by the act would run for five years and be administered by the Rhode Island Executive Office of Health and Human Services (EOHHS), in accordance with a proposal for a pay for success initiative submitted to the Department of Housing & Urban Development in 2016 and a related 2017 feasibility study. The initiative would leverage up to \$875,000 of the 2016 HUD/DOJ grant, through which the State received \$1,297,624 to support a pay for success PSH program. Under the terms of the act, EOHHS would be permitted to issue up to \$1.5 million in bonds per fiscal year or \$6 million in the aggregate over the five years of the pilot program; bond issuance would be required to cease on or before June 30, 2026.

**Comments on
Sources of Funds:**

The permanent supportive housing services included in the act will be financed in part with general revenue and in part with federal funds. The federal funds allocated to the initiative will not exceed \$875,000; the entirety of the federal funding will stem from the 2016 HUD/DOJ grant referenced above. In addition to requiring the creation of new housing vouchers and supportive services, the initiative will also leverage existing voucher and support service programs which are funded by a mix of general revenue and federal funds, including Medicaid.

**Summary of Facts
and Assumptions:**

In response to the 2016 HUD/DOJ grant solicitation, the State prepared a detailed pay for success proposal. Development of the proposal was followed by completion

Prepared by:

Lily Fielding / 4015749170 / lily.fielding@omb.ri.gov

Monday, April 26, 2021

Page 1 of 5

of a feasibility study in 2017, with support from numerous State and external entities with expertise in this issue area. Although prior Governor's budget proposals in FY 2020 and FY 2021 requested \$500,000 in funding for the initiative, none was enacted.

The Budget Office's fiscal estimates for this bill are based in large part on the budget proposal developed as a component of the 2017 feasibility study, which used complex models to identify a target population of high utilizers among the homeless, criminal justice, and healthcare systems and included a detailed cost-benefit analysis. The fiscal estimates also draw upon updates to the proposed budget made by the Rhode Island Coalition for the Homeless in January 2020. Because the information available to the Budget Office regarding this initiative was largely limited to summary documents from the 2017 feasibility study and other associated analysis, and did not include the underlying data or crosswalk models, the Budget Office's ability to update cost and savings estimates from 2017 to 2021 levels was somewhat restricted. Utilizing available summary data and updated cost data on permanent supportive housing and correctional per diem costs, as well as the Medicaid growth rate over the last five years, the Budget Office has made several key updates to baseline budget estimates from 2017, on both the cost and savings sides, in order to better align with expected spending levels in FY 2022 and beyond.

As to projected initiative costs, the Budget Office's analysis assumes that, as recommended in the 2017 feasibility study, this project would leverage existing housing voucher programs and supportive services to supplement new, pay for success-funded vouchers and services. While the 2017 feasibility study assumed a cost of \$19,000 per year for one (1) unit of permanent supportive housing, including \$9,000 in housing voucher costs and \$10,000 in supportive services costs, the Budget Office's analysis updates the figure to \$18,000 per year in order to better align with the most updated estimates for the cost of delivering PSH from the Office of Housing & Community Development. This estimate assumes that an individual receiving PSH support would pay 30% of their income (which is typically fixed SSI/SSDI and, therefore, \$300 per month) toward rent and the subsidy would pay the difference, at \$10,000 per year. As to wraparound services, it assumes that individuals receiving support through this initiative would be among the highest-acuity individuals in the State and would, therefore, require services at the high-end of the range utilized by OHCD, costing approximately \$600-\$660 per month and \$8,000 per year.

Although the Budget Office has updated the expected cost of a permanent supportive housing unit, the Budget Office's analysis retains the same division of costs between existing and new funding streams that was assumed in the original feasibility study. As to the housing component of PSH, the Budget Office assumes that 60% of vouchers offered to the target population (75 vouchers) would come from existing housing voucher resources, including the OHCD HRC State Rental Subsidy Program, CoC Vouchers and Move-Up Vouchers, Section 811 Program, and PHA Section 8 Vouchers. The remaining 40% of vouchers offered to the target population (50 vouchers) would be funded with pay for success dollars, at a total cost of \$500,000 per year. As to the associated wraparound services, the Budget Office assumes that 40% of supportive services offered to participants would leverage existing resources (chiefly Medicaid-funded services such as routine medical care, psychiatric services,

and substance use case management) and 60% of services would be funded with pay for success dollars, at a total cost of \$600,000 per year.

Based upon the updated budget for this project developed by the Rhode Island Coalition for the Homeless in 2020, the Budget Office assumes that execution of this project would require an additional \$315,000 in funding per year beyond the \$1.1 million in direct service costs. This additional \$315,000 includes a \$15,000 contingency fund, \$90,000 in project management support, \$125,000 in legal support, \$50,000 in evaluation and validation costs, and \$35,000 in audit and third-party administration costs. As such, the Budget Office's analysis assumes that successful implementation of the initiative would require the issuance of \$1,415,000 in social impact bonds in FY 2022 and the same amount, inflated in accordance with the consensus projection for annual CPI agreed upon at the November 2020 Revenue Estimating Conference. Annual bond issuance amounts required to finance the project in full would be as follows:

FY 2022: \$1,415,000
FY 2023: \$1,453,205
FY 2024: \$1,482,269
FY 2025: \$1,508,950
FY 2026: \$1,539,129

This analysis suggests that full financing of policy objectives outlined in this act would require \$7.4 million in total bond issuance over five years and slightly more than the \$1.5 million annual bond issuance cap in both FY 2025 and FY 2026. Given that the act includes a five-year cap on bond issuance of \$6.0 million, the Budget Office assumes that the program would reach the cap and thus serve a smaller population of individuals in year five.

As noted in the bill and detailed above, the State received a \$1.3 million HUD/DOJ grant to supplement state funding for this pay for success program in 2016. An amended budget for allocation of the federal grant was developed in November 2019 to reflect the fact that \$64,355 of the grant had been spent on the feasibility study and an additional \$358,269 had been spent on transaction structuring, leaving \$875,000 to allocate to outcome payments. As such, the Budget Office's analysis assumes that \$875,000 of the social impact bond issuance in year one of this pilot would be derived from federal funding, while the remaining \$540,000 would be derived from State sources. In the following years, the initiative would be 100% State funded. It is important to note that, in order to leverage the grant funding in year one, no less than 50% of the total project budget must be financed by PFS financing rather than existing funding streams. According to the Budget Office's analysis, the total project cost for this initiative, including components funded by existing funding streams, would be \$2,565,000; the PFS-funded portion, at \$1,415,000, would comprise approximately 55% of the total project. The project costs would only be paid out if contracted vendors successfully achieve agreed-upon initiative outcomes. If outcomes were achieved in full and the State were responsible for the payout of interest to social impact bond holders, the total five-year cost of the pilot program would increase by \$199,350; annual interest accrual at the end of each fiscal year of the pilot, based on five-year Treasury bond yield rates and the timing of each annual

bond issuance, would be as follows (assuming that the full bond amounts required to fund the project were issued each year, in accordance with estimates detailed above):

FY 2022: \$7,538
FY 2023: \$20,741
FY 2024: \$35,149
FY 2025: \$53,629
FY 2026: \$82,292

As to projected initiative savings, the Budget Office's analysis assumes annual per-person savings of \$13,529, reflecting several updates to the 2017 feasibility study, which assumed an annual per-person savings range of \$15,000 - \$20,000. The revised number assumed in the Budget Office's analysis was determined using a calculation methodology that averages expected savings between the two target populations identified in the feasibility study, and includes updates to Medicaid and DOC savings estimates based on the 2017-2021 growth in Medicaid costs according to a Kaiser Family Foundation study (<https://tinyurl.com/fjes7j89>) and the most recently-available DOC per diem rate.

The 2017 feasibility study, which included a crosswalk of EOHHS, DOC, and HMIS data, essentially identified two target populations—DOC/HMIS high utilizers and Medicaid high utilizers—and developed annual cost and savings estimates for each of these populations. While overlaps exist between the two populations, the savings numbers put forth in the feasibility study for each group cannot simply be added as the highest utilizers in each group are not necessarily the same people. The feasibility study assumed that, based on average PSH impacts in other jurisdictions, the intervention would reduce shelter days by 70%, DOC days by 40%, and Medicaid costs by 27%, corresponding to annual savings of \$1,536 on shelter costs, \$4,418 on DOC costs, and \$10,724 on Medicaid costs for the 150 highest utilizers in each group. Because Medicaid savings are generally expected to be greater than DOC and HMIS savings, the Budget Office's savings estimate assumes that the project will prioritize working with Medicaid high utilizers and target the highest utilizers of Medicaid services for 75 of the slots, reserving the remaining 50 for the highest utilizers of DOC/HMIS services. Using the 2017 feasibility study savings numbers, this would correspond to \$17,069 per person in annual savings for the Medicaid portion of the population and \$7,016 per person in annual savings for the DOC/HMIS portion of the population. This estimate assumes that these are two distinct populations in order to best project expected savings using available data; however, there will likely be some overlap between these two populations and, therefore actual proposal implementation may require the extension of services to additional individuals in one of the high-utilizer groups.

In order to better reflect expected costs in 2021, the Budget Office revised the savings estimates to incorporate recent Medicaid spending growth and changes to DOC per diem costs. In estimating expected Medicaid savings, the Budget Office applied annual inflators of 3.8%, 3.8%, and 6.3% (the Medicaid growth rates in FYs 2018, 2019, and 2020, respectively) to the expected annual savings number put forth in the feasibility study, \$17,069, to arrive at an expected annual savings number of \$19,549 for the 75 Medicaid high utilizers receiving services through the pay for


success project. In estimating expected DOC savings, the Budget Office adjusted the assumed per diem rate from the \$38.15 used in the feasibility study, which included a module closure that is unlikely to be feasible, to the current rate of \$15.77. The 2017 feasibility study assumed that, for the DOC/HMIS population, approximately 26% of savings would be derived from a reduction in the number of shelter days and 74% would be derived from a reduction in the number of DOC days, translating to \$1,810 in HMIS savings and \$5,206 in DOC savings. The latter number translates to the elimination of 136.5 DOC days, which would generate \$2,152 in savings using today's per diem rate. Because the high utilizers targeted by this intervention would likely incur higher healthcare and supportive service costs at the DOC, and that fact is not incorporated into the standard per diem rate, the Budget Office's analysis inflates expected savings by 25%, for a total annual per-person savings number for this population of \$4,500. Assuming \$19,549 in annual savings for 75 of the individuals served by the PSH project (\$1,466,175 total) and \$4,500 in annual savings for the remaining 50 individuals (\$225,00), the Budget Office's analysis assumes that this initiative could generate total annual savings of \$1,691,175, or \$13,529 per person, in FY 2022. The Budget Office assumes that savings, like bond issuance amounts, would be inflated annually in accordance with annual forecasted CPI rates detailed above, leading to total annual savings in each year of the pilot program as follows:

FY 2022: \$1,691,175
 FY 2023: \$1,736,837
 FY 2024: \$1,771,574
 FY 2025: \$1,803,426
 FY 2026: \$1,839,531

Summary of Fiscal Impact:

FY 2021: N/A
 FY 2022: \$540,000 general revenue/\$875,000 federal funds; (\$1,691,175) savings; (\$276,175) net impact
 FY 2023: \$1,415,000 general revenue; (\$1,736,837) savings; (\$283,632) net impact

Budget Office Signature:



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Fiscal Advisor Signature:

