

SENATE BILL 1125

By Yarbro

AN ACT to amend Tennessee Code Annotated, Title 4 and Title 9, relative to the financing of services to improve outcomes in the public sector.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF TENNESSEE:

SECTION 1. Tennessee Code Annotated, Title 9, Chapter 9, Part 1, is amended by adding the following as a new, appropriately designated section:

(a) This section shall be known and may be cited as the “Tennessee Pay-for-Success Act of 2015.”

(b) The comptroller of the treasury may implement a pilot program to demonstrate the feasibility and desirability of using appropriation bonds to pay for certain services based on performance and outcomes for the people served. The purpose of the program is to authorize the comptroller of the treasury to enter into contracts with the public and private sectors for the provision of services and to use the proceeds of bond and other debt obligations to finance improved financial and social outcomes that result in savings to the public sector.

(c) As used in this section:

(1) “Appropriation bond” means a bond, note, or other debt obligation of the state payable during a fiscal year from one (1) or more of the following sources:

(A) Money appropriated by law in any fiscal year for debt service due with respect to bonds, notes, or debt obligations;

(B) Proceeds of the sale of bonds, notes, or debt obligations;

(C) Payments received for the purpose of this chapter under contracts and agreements authorized under this title; and

(D) Investment earnings on amounts in subdivisions (c)(1)(A)–(C); and

(2) “Debt service” means the amount payable in any fiscal year of principal, interest, and premium, if any, on appropriation bonds.

(d)

(1) Subject to the limitations of this subsection (d), the state funding board may sell and issue appropriation bonds of the state under this section for the purposes of the pay-for-performance program established in subsection (b). Proceeds of the bonds shall be credited to a special appropriation bond proceeds account in the state treasury. Net income from investment of the proceeds, as estimated by the state funding board, shall be credited to the special appropriation bond proceeds account.

(2) The comptroller of the treasury shall appoint an oversight committee to:

(A) Identify criteria to select one (1) or more services to be included in the pilot program;

(B) Identify the conditions of performance and desired outcomes for the people served by each service selected;

(C) Identify criteria to evaluate whether a service has met the performance conditions; and

(D) Provide any other advice or assistance requested by the comptroller of the treasury.

(e)

(1) The oversight committee shall include the commissioners of human services, economic and community development, and finance and

administration, or their designees; a representative of a nonprofit organization with experience in performance contracting; and any other person or organization that the comptroller determines would be of assistance in developing and implementing the pilot program.

(2) The comptroller and the commissioner of the agency with a service to be provided through the pilot program may enter into a pay-for-performance contract with a service provider that meets the criteria identified by the oversight committee. The contract shall specify the service to be provided, the time frame in which it is to be provided, the outcome required for payment, and any other terms deemed necessary or convenient for implementation of the pilot program. The comptroller shall pay a provider that has met the terms and conditions of a contract with money appropriated to the state funding board from the special appropriation bond proceeds account established in subsection (d). At a minimum, before the comptroller pays a provider, the comptroller shall determine that the provider has met the return on investment criteria in subdivision (e)(3).

(3) The comptroller of the treasury, in consultation with the oversight committee, shall establish the method and data required for calculating the state's return on investment. The data at a minimum shall include:

(A) State taxes and any other revenues collected in the year after the service was provided that would not have been collected without the service; and

(B) Costs avoided by the state by providing the service.

(f) Prior to entering into a contract under subdivision (e)(2), the comptroller in consultation with the oversight committee shall determine that the services provided under the contract will yield a positive return on investment for the state that will cover

the estimated state costs in financing and administering the pilot program through documented increased state tax revenue or cost avoidance.

(g) The comptroller of the treasury shall report to the governor; the chairs of the finance, ways, and means committees of the senate and house of representatives; and the directors of the office of legislative budget analysis for the senate and the house of representatives regarding the services included in the pilot program by January 15 of each year following a year in which the pilot program is operating. The report shall describe and discuss the criteria for selection and evaluation of services to be provided through the program, the net benefits to the state of the program, the state's return on investment, the cost of the services provided by other means in the most recent past, the time frame for payment for the services, and the timing and costs for sale and issuance of the bonds authorized in subsection (d).

SECTION 2. This act shall take effect July 1, 2015, the public welfare requiring it.