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# **Applying “Pay for Success” Social Impact Finance to Early Childhood Education in Salt Lake City**

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**INET Human Capital & Economic Opportunity  
Working Group  
and  
ReadyNation**

**Global Conference Discussion  
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Pay for Success  
“Results-based Financing”

## The Utah Preschool Project –

- Expands high quality pre-k to 600 children in the first year
- Is America's First "Results-based Financing" for Early Childhood Education

## Utah Project Leaders

- Regional Vision Leader – United Way of Salt Lake
- Feasibility Study –Voices for Utah Children and financed by Goldman Sachs and United Way of Salt Lake based on research by Human Capital & Economics Global Working Group members
- Financial Engineering – co-developed by Voices for Utah Children, Goldman Sachs, Imprint Capital, Pritzker Foundation, and United Way of Salt Lake
- Implementation – United Way of Salt Lake

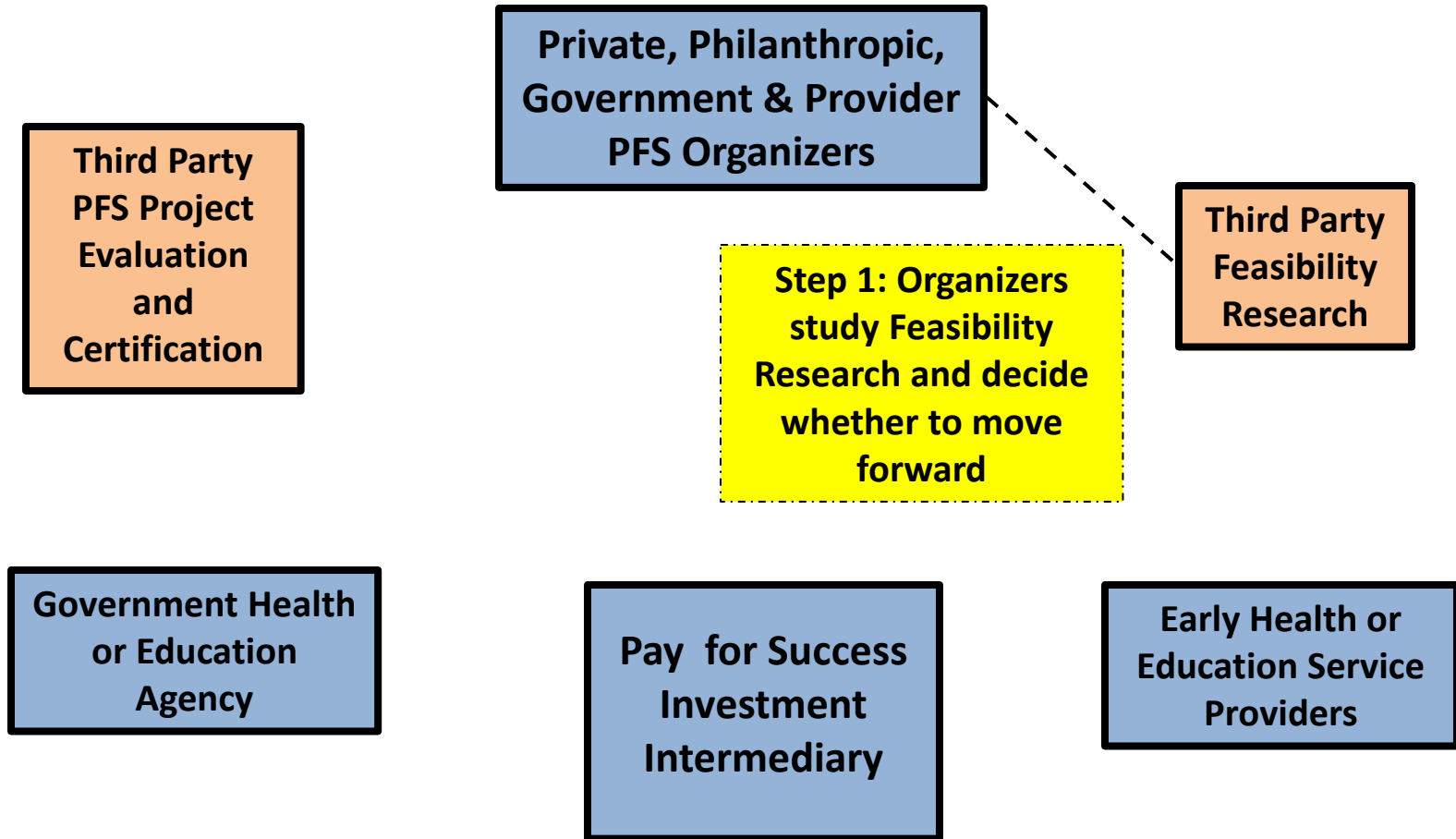
## “Pay for Success” Social Impact Finance

- **“Pay for Success”** refers to results or performance-based contracting between government and providers of social services arranged by an intermediary or lead contractor. Under this construct, government pays when results are achieved as opposed to providing up-front and on-going payments for services.
- **“Performance”** has come to have two meanings -- “cost avoidance” and “outcome improvement”. Cost avoidance refers to actual reductions in governments operating costs that are the result of an intervention. Outcome improvement refers to measured changes in outcomes in desired directions that are the result of an intervention.

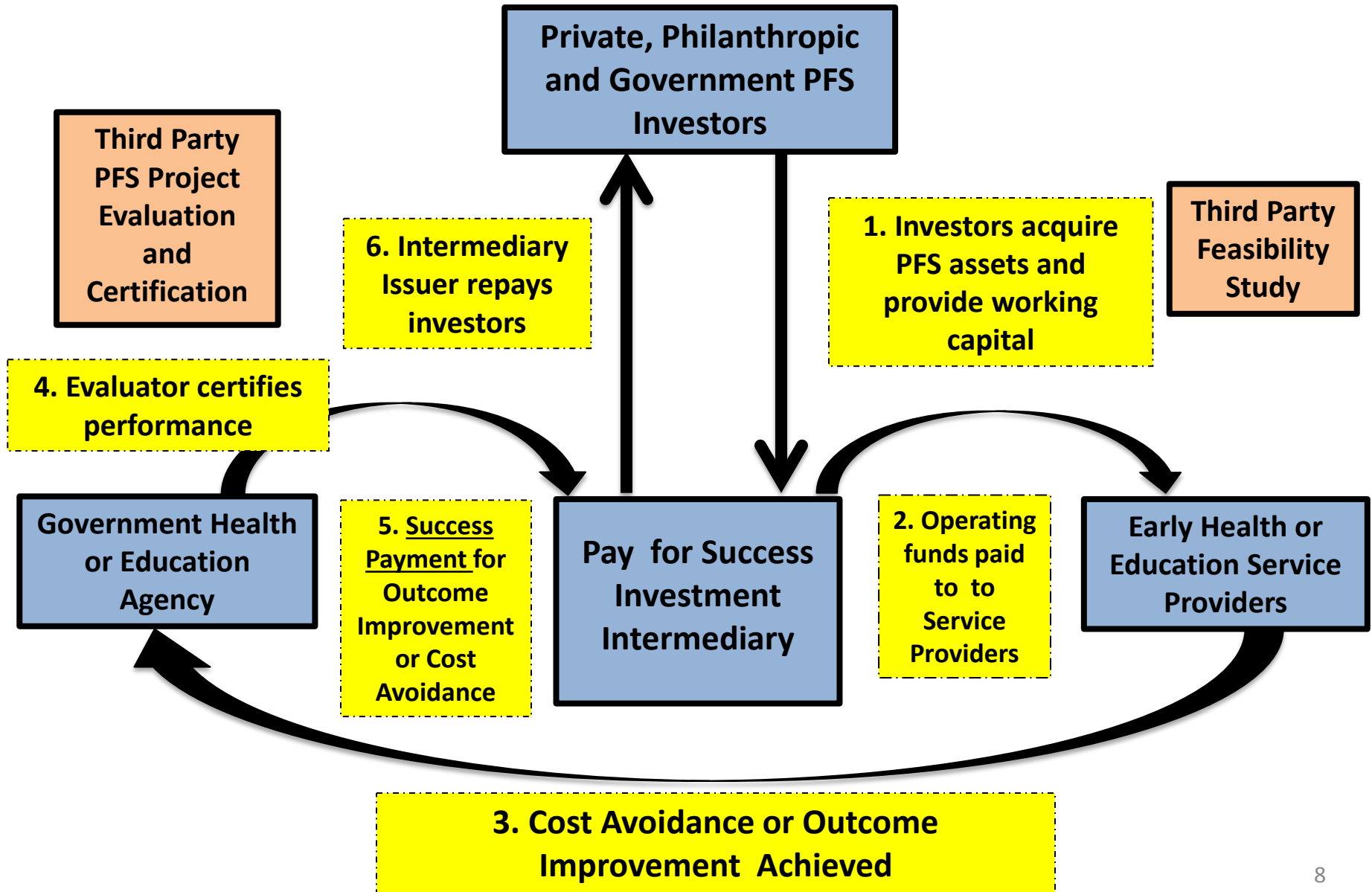
## PFS Fundamental Relationships

- **The Cost Ratio** - The ratio of intervention cost to remediation cost. The higher the cost of remediation is relative to the cost of intervention, the higher the possible cost avoidance will be, other things equal. For example, the more special-ed costs relative to pre-k, the less pre-k needs to reduce special-ed assignment rates in order to achieve threshold feasibility.
- **The Effect Ratio** - The ratio of intervention effect to non-intervention effect. The more the intervention achieves the desired outcome, the more cost avoidance is achievable. For example, the more pre-k reduces special-ed assignment rates, the less difference there needs to be between the cost of pre-k and the cost of special-ed.

# Main Participants in a Pay for Success Project



# Flow of Funds in a PFS Project (arrows)





## Early Learning and Granite School District

- ✓ **Early education research** shows that public school elementary school special education assignment rates for three and four year-old socially and economically disadvantaged children can be significantly reduced by providing the children quality prekindergarten (pre-k) educations.
- ✓ **Voices for Utah Children (VUC) study** shows that Granite City public school special-ed cost avoidance resulting from the lower assignment rates will likely be large enough to pay for the pre-k sustainably using “pay for success” (PFS) social impact finance principles. See VUC (2011) [http://www.readynation.org/uploads/20111025\\_GraniteSchoolDistrictReport.pdf](http://www.readynation.org/uploads/20111025_GraniteSchoolDistrictReport.pdf)

## Granite School District PFS Fundamental Relationships

- **The Cost Ratio** - The VUC feasibility study indicates that the Granite School District ratio of per-year pre-k cost (average of the 3 year-old and 4 year-old pre-k) to special-ed cost might be as high as 47%.
- **The Effect Ratio** - The VUC feasibility research indicated that Granite School District's pre-k effect ratio may be as high as 10. That is, quality pre-k might reduce potential special-ed assignment rates of very at-risk children from around 30% percent to less than 3%. See Dubno, Dugger, Smith (2013) p 22.  
[http://www.readynation.org/uploads/db\\_files/RN%20PFS%20Finance%20Dubno%20Dugger%20Smith%20Paper%20130610.pdf](http://www.readynation.org/uploads/db_files/RN%20PFS%20Finance%20Dubno%20Dugger%20Smith%20Paper%20130610.pdf)

# Scaling Pre-K for Low-Income Kids in Salt Lake City -- 1

- ❑ **Goldman Sachs** makes a \$4.6 million, 5% loan to United Way of Salt Lake
- ❑ **J.B. Pritzker** makes a \$2.4mm 5% subordinated loan to United Way of Salt Lake, reducing risk to the senior lender if the preschool program proves to be ineffective
- ❑ **United Way of Salt Lake** is the “intermediary” and oversees the implementation of the project and is also responsible for managing repayments to the private investors.

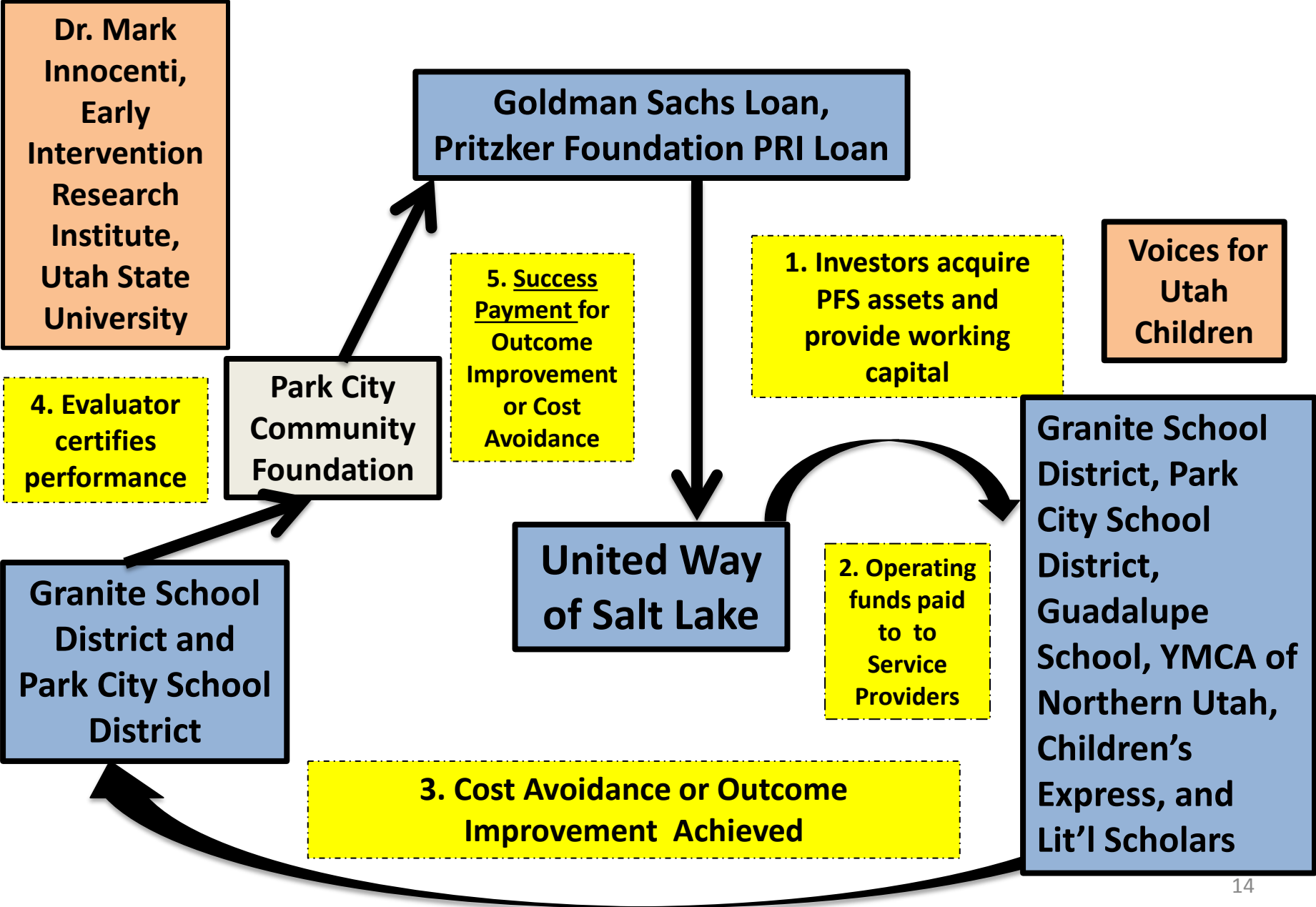
## Scaling Pre-K for Low-Income Kids in Salt Lake City -- 2

- ❑ **Voices for Utah Children** provides research and analytic support
- ❑ **Granite School District and others** provides the preschool program to low-income 3 and 4 year olds
- ❑ **Early Intervention Research Institute**, Utah State University, is the “third-party evaluator”
- ❑ **Park City Community Foundation** acts as the Performance Account Manager, providing an independent “performance account” to hold repayment funds

## Scaling Pre-K for Low-Income Kids in Salt Lake City -- 3

- ❑ **After initial funding**, subsequent investments will be made based on the availability of repayment funds from public entities that are realizing cost savings as a result of the program.
- ❑ **Through 6<sup>th</sup> grade**
  - ✓ **Success payments**, equal to 95% of special-ed cost avoidance, will be used to pay 5% annual interest and repay senior and subordinate debt principle.
  - ✓ **Success fees**, equal to 40% of special-ed cost avoidance, will be paid to investors after debt principle has been repaid.
- ❑ **After 6<sup>th</sup> grade**, 100% of all special-ed cost avoidance will be retained by Utah

# Scaling Pre-K for Low-Income Kids in Salt Lake City –4



## Conclusions and Future Research

Implementing operational PFS results-based projects will be helped significantly if future research focuses on five areas of PFS finance:

- 1. Standard error estimates** of the distribution of returns on PFS assets.
- 2. Project capital structures**, risk, subordination and loss absorption.
- 3. Sensitivity analysis** of returns to variations in parameter values and financial structures.
- 4. Pre, concurrent and post intervention data** needed to evaluate near-term financial returns and longer-term all-in outcome improvements.
- 5. Research methodologies** to use when needed data are limited.

**To learn more about early care and learning near-term productivity increases and “pay for success” finance...**

- ✓ **Go to [ReadyNation.org](https://www.ReadyNation.org)**
- ✓ **Tab to Working Groups, then Social Impact Finance**
- ✓ **Click on “Early Childhood ‘Pay-For-Success Social Impact Finance’**