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Human Capital and Economic Opportunity Global Working Group

Transcript for Pay for Success Social Impact Finance: Salt Lake City Pre-K Project December 5, 2013

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Transcript

Michelle: Good afternoon. My name is Michelle and I will be your conference operator today. At this time I would like to welcome everyone to the Pay for Success Social Impact Finance: Salt Lake City Pre-K Project, hosted by ReadyNation and the Human Capital and Economic Opportunity Global Working Group.

All lines have been placed on mute to prevent any background noise. After the speaker's remarks there will be a question and answer session. If you would like to ask a question during this time, simply press star then the number one on your telephone keypad. If you would like to withdrawal your question, press the pound key.

Thank you, Mr. Rob Dugger, you may begin your conference.

Robert Dugger: Thank you very much, Michelle. Good afternoon everyone. I'll be very quick in my remarks. We have four of the countries real leaders in social impact finance on this conference call. We'll hear from each of them bringing very different perspectives and important ones to what is the first American, and maybe the first anywhere in the world, pay for success or results-based financing of an early childhood intervention, in this case, pre-kindergarten.

There is a PowerPoint presentation that goes, so that you can follow the general discussion. It can be found on the Human Capital and Economic Opportunity working group under events, the same thing at the ReadyNation website under events, or the working group web page.

It's a PowerPoint that the speakers may refer to. You may want to have that in front of you. It's quite easy to find on the website, and also accessible…let me take you directly to the correct page. There's a link on the invitation to the conference call sent around today.

We'll hear from four people, Janis Dubno, Andy [Andrea] Phillips, Jeff Schoenberg, and Bill Crim. We'll begin with Janis, who will talk about the background research. Andy [Andrea] Phillips will talk about what it is that Goldman Sachs saw in this transaction and what attracted them from the outset. Andy [Andrea] will describe the structure.

Jeff, Pritzker Foundation, someone who we're all very indebted to. The Pritzker group and Jeff Schoenberg particularly have been strong advocates and supporters of all of us working in this field. They provided the essential subordinate loan which enabled this Salt Lake City project to get underway. We'll hear from Jeff what it is that the Pritzker Foundation saw, what he saw in this project that led them to take this remarkable step.

Last we'll hear from Bill Crim of United Way of Salt Lake who was the…that is the regional visionary leader in this whole project. We want to hear from Bill on what he saw as far as from a regional economic development perspective, what he saw in it and what it means to serve as an intermediary in implementing this project.

Each speaker has about 10 minutes at most. We're going to move very quickly. Janis, we'll begin with you. If you don't mind, each of the speakers, I'll give a [makes hem, hem sound] when we're getting near the limit of time so we can keep things moving and leave time for questions at the end.

Janis, go ahead and talk to us about the basic elements of this idea.

Janis Dubno: Thanks, Rob. I'd also like to acknowledge Rob's role in facilitating this transaction as well. As most of you know, early education research show that high quality preschool can be successful in reducing the special education assignment for economically disadvantaged children.

When we first started looking at the research, we noticed, as many have, that this reduction in special education assignment is a cost avoidance for the state and federal government. We here at Voices partnered with the United Way of Salt Lake, the Granite school district and Goldman Sachs to quantify the cost avoidance associated with reduction in special education assignment at the Granite school district as a result of the Granite school district providing very high quality preschool for very-at-risk kids.

We studied children who attended preschool in the 11 schools most impacted by poverty. The free and reduced lunch eligibility for those schools were 80 percent and more. In 2005, the Granite school district had received an early reading first grant to study what components of high quality preschool got the most beneficial outcomes for children.

As part of the independent evaluation conducted by Dr. Mark Innocente, 737 children over three years were assessed using the Peabody Picture Vocabulary Test. What we did is we followed children who scored 70 or below on the Peabody Picture Vocabulary Test, which is a norm-standardized tests. That's two standard deviations below the mean. Just to give some perspective, in a normal distribution three percent of the population would fall below that level.

In these neighborhoods, however, over three years, 30 percent of the children, of the 737 children, or 238, scored 70 or below. In fact the mean score was 55, which is closer to three standard deviations below the mean. We followed these children into grade school. What we found through fourth grade of the 238, and we did account for mobility, only 11 had been referred to special education services.

I do want to stress that no special education part B kids were included in our sample. We were only looking at children who lacked opportunity and had an opportunity gap and were behind due to poverty and not...in children who were deemed to have a disability did receive services in special education, preschool.

We also checked academic achievement. We found, again, through fourth grade, that the preschoolers, that the achievement gap had been closed for the preschoolers, all economically disadvantaged children in the district in fourth grade were 58 percent proficient in both language arts and mathematics. The preschoolers were 78 percent and 76 percent proficient respectively.

Statewide for all children, the proficiency levels in language arts and math are 78 percent and 78 percent. Clearly the achievement gap has been closed. We quantified what the reduction in special education assignment meant for the state. Just for those three cohorts it was $1.8 million.

Our first thought was to capture the cost avoidance and reinvest it back into the preschool program. We called this sustainable financing model. The more kids you serve, the more money you save. The more money you save, the more kids you serve. It naturally scales up in a sustainable fashion.

However, with that approach, you can only grow the program incrementally. What the social impact bond does is it allows you to capitalize that cost avoidance stream and essentially expand today, and then pay the investor back through that cost avoidance cash flow.

You'll notice on slide 10 of the PowerPoint that Rob has provided is that there are two relationships that are really important in a prospective pay-for-success transaction. One is the cost ratio. That is simply, what is the ratio of the cost of the preschool intervention, or any intervention, really, to the cost of special education services or remediation more broadly, per child?

The other one is the effect ratio, which is how successful is that intervention in reducing the need for remediation? In this example, it's special education. What we found for the Granite school district, for their preschool program, is that both the cost ratio and the effect ratio were very favorable for pay for success or social impact bond transaction.

Once we had completed the research, we began working with Goldman Sachs and the United Way of Salt Lake to structure a potential social impact loan or a source-based financing transaction. Rob, I think that does summarize it. I can hand it back to you.

Robert Dugger: That will be fine. Thank you, Janis, nice and quick. Let's turn now to Andy [Andrea] Phillips. Andy [Andrea] at Goldman Sachs is the executive responsible for this area. I think I'm describing that correctly, Andy [Andrea], and you correct me if I'm wrong.

But the key thing from my perspective is that Goldman Sachs was involved in this whole project from the outset. There's something you saw that was important in it. If you could talk to us about that and describe the structure of the transaction, that would be terrific.

Andrea Phillips: Sure, Rob. I am happy to do that. I also want to echo Janis' words of just a shout out to you for the tremendous amount of time and effort you've put into really shining a light on how this type of financing can really move the needle, particularly in early education. We share your enthusiasm for this space. All of us who are part of this transaction found that part of it incredibly compelling.

To talk a little bit about how Goldman got involved in this, it's helpful to talk about where I sit in Goldman Sachs. I am part of a team here that essentially does what we would call double bottom line, or impact investing, meaning that we invest the firm's capital, as well as our clients' capital, in a way that provides both a financial return and a social impact. We've been doing this work here at Goldman for about a dozen years and originated about $3 billion worth of investments.

The general space of impact investing is not new to us. For us, that investment strategy has really focused a lot on real estate, so financing affordable housing, financing schools, financing community health centers. All those things that neighborhoods need in order to be places that we'd all want to live in.

When we began looking at these sort of, either you want to call them social impact bonds, even though we all know they're not bonds, results-based financing initiatives. When we began looking at this type of financing opportunities, it really was a natural extension of the work we already did, which was to say, how can you use private capital to impact pressing social problems?

We found this opportunity very compelling. We made our initial investment with this type of structure around recidivism issues. But we began having conversations with Bill and Janis on the ground in Utah, we very quickly became convinced that the opportunity to use this structure to finance early education was incredibly compelling.

When we looked at the opportunity, we looked at it the way we look at any investment opportunity. Typically for our team, unlike maybe other folks at Goldman, we focused first on impact because if the investment is not going to result in a social impact, we're not going to spend time thinking about the economics.

Very quickly, based on, you heard Janis talk about this, there's just an incredibly rich body of literature out there about the profound impact that early childhood education has, on immediate outcomes around use of Special Ed, but also around really long-term outcomes in terms of high-school graduation, lifetime earnings.

I recently heard J.B. Pritzker speak and he talked about health outcomes being better. It's really astonishing when you think about the long-term impact that something that happens when kids are three and four can have on them. That really was compelling to us.

We then began to look more closely at the track record of the unbelievable program that's on the ground in Granite School District. As you heard from Janis, again, the statistics are incredibly compelling about the impact that program is having in an unbelievably cost-effective way on the high-risk kids living in that community.

That really led us to really begin thinking about how can we work with the folks on the ground to figure out a structure based on this general results-based financing structure that would work from an investment and an impact perspective. Now what I can do is just really try and walk through that structure. I think that it is, I'm losing...slide 14 is probably the best place for folks to look to really walk through it. What I'll do is take a pretty simple approach, to say follow the money.

When you think about the financing, it begins with Goldman Sachs and J.B. Pritzker providing loans. Goldman is providing the senior loan. J.B. Pritzker is providing the subordinate loan. We make that loan to the United Way of Salt Lake. When you think about these overall financing structures, there's typically what we think of as an intermediary.

The United Way is really playing that role. That's important from the perspective of how the money flows, but also from the perspective of really managing the project on the ground and making sure that the project that is being delivered to the end recipient is really of the quality and with adherence, fidelity to the model that we all expect when we looked at this as an investment opportunity.

We make the loan to the United Way. The United Way uses the proceeds of that loan to pay the day-to-day expenses of providing early education to three- and four-year-olds. Those programs are provided through the Granite School District, the Park City School District, and as listed in this slide, a few private providers. But all of them utilize the Granite School District curriculum. That's really part of the strength of this investment, both from a financial and an impact perspective.

As Janis pointed out, what the financing enables us to do is expand more quickly than it if you waited to consistently recycle the funds. With the first year's worth of financing, 600 kids have now started preschool in Salt Lake. I can let Bill talk more about that. The proceeds from the loan fund the teachers' salaries, the professional development activities, the classroom supplies, et cetera.

At the same time as there is that loan agreement with the United Way, there's also an agreement with the Park City Community Foundation, which is really the consolidator of the pay for success funds. Those are result-based financing funds. Folks use different terminologies here, sorry about that.

Basically, what that says is that based on the kids who go through the early education program and the positive impact on them, as evidenced by them not using special education or remedial services while they're in kindergarten through sixth grade, generates payments which are used to repay Goldman Sachs and J.B. Pritzker.

The way that works is it's really tied to the cost avoidance. What happens is every kid that goes through the preschool program is tested on day one using the Peabody Picture Vocabulary Test that Janis described. Those kids that score below the threshold that she describe of 70 then become part of what we think of as, in a sense, the payment cohort.

Those are the kids that we're going to track. Because the expectation is that without this preschool program, they would end up using the special education services. Everybody takes the test, we expect about 25 percent of them to score below 70 percent. Right now with this cohort it's roughly 28 percent, so a little bit more high risk kids than we initially expected. But now all the kids go to school for a year.

They then finish preschool and go on to kindergarten. At the end of their kindergarten year, the third party evaluator, Dr. Innocenti, will take those kids that scored below the threshold on the Peabody Picture Vocabulary Test and track whether or not they actually use the special education services.

For each of those kids that didn't use the special education services that generates a payment that's used to repay the investors. That payment is equal to 95 percent of what it would cost to deliver the services, so, 95 percent of $2,600, which is around $2,400.

The evaluator, Dr. Innocenti, tracks those kids in the same way from kindergarten through sixth grade. And whatever payments are generated are used to repay the loans. Once the principal of both of the loans are repaid and a base level interest of 5 percent is repaid, that payment then goes down to being equal to 40 percent, around $1,000 of the cost savings.

When you step back and think about it, what happens here is there is no point when somebody would be better off paying for the special education services than they would be repaying the investors for the financing to do the program.

The other powerful thing about it, and this is the power of results based financing, is that the funders in this case, which is in the initial year, Salt Lake County and private philanthropists, those funders are not taking the risk of impact. Their money only goes to pay if the project has been effective. Goldman Sachs and Pritzker take on the risk of the impact of the initiative.

As investors, we spent a lot of time underwriting this loan and feel confident that we are both going reach our impact goals as well as our financial metrics. That should hopefully give people a sense of how the funding flows and the overall structure of the transaction.

Rob Dugger: Thanks, Andy [Andrea]. That's just exactly what we needed. And if people have questions, we can drill in on more specific detail. Jeff you are, and J.B. Pritzker, together working on a team aiding the resource of the Pritzker Family Foundation, provided an essential subordinate financing position as a philanthropy, whereas the Goldman Sachs loan was essentially a commercial loan, yours is a philanthropic commitment.

Can you talk about that and what you saw in this project and what led you guys to take the step you did?

Jeff Schoenberg: Thank you, Rob. In actuality, by the time we completed this transaction, our participation was with private capital as well, which changes the equation even more so because what we saw in this transaction was that it represented an innovative way to aggregate working capital for the social intervention, which is the best rate of return and the superior ROI.

Parenthetically, we all know how oftentimes the public sector is either unresponsive, inadequately responsive, or some combination of the two. And the private philanthropy does indeed have its limitations as the [inaudible 22:30] expands dramatically, especially when it comes to child poverty.

We became directly engaged in this transaction. Initially, the anticipation was that the state of Utah might be assuming a leadership position in this transaction. That would have required a change in the law. When that did not occur, the transaction needed to be restructured.

In order to make that happen, we stepped forward. I can't say that we had recognized as early on as Voices for Utah Children, Goldman Sachs, or United Way of Salt Lake, for that matter, that this was something worth investing a great deal of time and effort in putting together.

When in mid-March, the legislature adjourned without stepping forward and assuming a place in the transaction, we then took a hard look at this and jumped in. And we did so principally because this is an evidence-based intervention where you have a rigorous quantitative analysis that provides investors with the degree of being able to ascertain the likelihood of seeing a return on investment and seeing that it will indeed be successful.

While the foundation looked at this as a way of executing a double bottom line transaction, in the end, my principal, J.B. Pritzker, who is a private investor and venture capitalist, he put private capital into the deal. One of our consequences of doing so meant that this is now, for us and for Goldman, a straight up business deal.

That really tightened the focus on the lens, as it were, on the need for the terms of the agreement to be met from a financial transaction standpoint. And also, parenthetically, one of the things that we hoped to do besides see this nascent form of financing for interventions mature and flourish is that we hope that this will change the metrics for defining success in how public resources are allocated for social interventions.

In fact, that could be one of the most dangerous byproducts, and I say dangerous tongue in cheek, of this transaction, which is, all too often, the public sector, in trying to identify the level of resources that they wish to commit in order to address a social problem, will measure that based on the number of people who were served from one year to the next in their annual appropriations process.

That's a very subjective way of determining whether or not an intervention is indeed successful. This is a way where we not only hope to help influence the growth and development of an alternative financing instrument, but also to recalibrate how the public sector evaluates what defines success for a social intervention.

I want to add another point to this as well, and that is we have been very fastidious about referring to this as cost avoidance, as others have on this call too. Some may characterize it as savings. We view it as cost avoidance. It's not just a question of semantics.

We define it as cost avoidance because we don't want to create a level of expectation among, whether it's state lawmakers, county officials, municipal officials, we don't want to create expectation in the public sector that what is defined as savings is something that can be spent somewhere else or used to reduce a budget deficit. But really, what we want to hone in on is the extent to which there's genuine avoidance of additional expenditures in order to spend proactively and address a pressing social problem.

What I'd like to conclude my remarks with is to point out that in our philanthropy as well as with this particular private investment, the evidence based interventions are really the gold standard that we're looking for.

If you were to ask...If J.B. were to be on the call, what he would tell you is that he would like to see these alternative financing structures develop and mature to the point where eventually they are rated and traded like GE bonds. And in order to do that, we need to be very precise and very exacting on what the deliverables are to the investors.

Thank you again, Rob, for all that you've done, not just for pulling today's call together, but for advancing this innovative area of financing in the field. I'm looking forward to the questions to follow.

Robert Dugger: Thanks Jeff. I think that last point you made, how results based financing has the potential to actually reshape how we invest in people, how philanthropy looks at things, I think that's very important, and I share the goal. A lot of us do. We would actually have a marketable instrument.

That was certainly one of the goals that Janis and I had in the paper we wrote last summer that you were very helpful in, in thinking through this idea of ultimately having an asset backed instrument, pass-through instrument, that could be traded nationally and even globally.

Bill, you were one of the earliest backers of this idea. You saw in it potentials for economic development in the region and I guess workforce development in the rest. Tell the listeners your perspective, your experience with it, and what it's like now to be the first results-based financing intermediary in the country.

Bill Crim: That second question I'll have to think about a little bit.

What brought us to this, and I would echo the other presenters on the call who've just been tremendous partners, in thanking you for your work that leads to this transaction and the potential for many more. Our United Way came at this not from a more traditional United Way, since we didn't come at this from a funder or thinking about this as a project.

Our United Way had changed its focus from one of being a fundraiser, fund distributor, to one of being a facilitator of really large scale community partnerships that are focused on cradle-to-career social change.

The idea of finding communities where poverty, and poor health, and poor academic achievement are severe, and aligning resources and institutions within those communities, to help every child be ready for school, achieve on grade level, graduate from high school, complete post-secondary education and ultimately transform the economics of a community.

That's what brought us to this. In our early thinking about how do you take the community where 80 percent of kindergartners in some schools are not ready for kindergarten, and give them this fabulous opportunity that Granite School District has created?

When Janis started talking to us about the potential of a sustainable financing mechanism, and when we saw the link between that and social impact finance and pay-for-success finance, for us, this was a question of "What does it take to make this succeed? Let's do whatever it takes to do that."

The upshot of that is that while we're still mid-process, I would say we have a community in the Salt Lake Valley where that challenge for kids is true, of between 60 and 80 percent of kids not being ready for kindergarten. Because of this deal we have virtually universal preschool in that community. We have more capacity than enrollment in that community. We enrolled every kid we could find in that community.

That foundation of early learning will transform that community. Those kids, as we know from Janis's research, those kids will be on grade level throughout their career. We'll stick with them. The work that they do, it is cradle-to-career. We have a presence and facilitate partnerships in those communities to stick with kids through college.

Those kids have the same opportunity to succeed now that anybody else does. The fascinating nature of this financing and its newness, the potential for the future is all extremely exciting. It's important to remember that there now are communities where every kid has the same chance to succeed as if they had grown up in a community where poverty was not a problem. That's a huge deal.

Two, to talk about what it's like to be an intermediary, I would just say, briefly, that it's a learning experience every day, from last spring throughout the summer, and now in the implementation phase of this. We're problem-solving every day. We're engaged in conversations with providers, and with the evaluator, and the other key folks who are on the phone today, about how to make sure that this gets done well.

We feel, I probably shouldn't say this, but I speak for everybody, I hope, when I say we all feel a sense of responsibility to make this very successful. There is a piece of this transaction in Utah that requires our public sector leaders, our legislator, to complete the transaction as it were, by passing legislation this winter. That's a very high focus of this.

We've come to believe that this kind of transaction has many components to it. One of its components is it's about the ability to form partnerships and to collaborate with multiple goals in mind. That kind of collaboration and partnership requires trust building, and it requires facilitation.

The intermediary role is really, in the language of collective impact, if people are familiar with that. There's a backbone role to be played in bringing the various players and stakeholders together in a way that allows us to succeed.

Robert Dugger: That's enormously helpful. Let me ask you, could you talk a little bit about the evolution of the Board of Directors of the United Way of Salt Lake? Were they, in the beginning, somewhat unsure or unclear? How did their understanding evolve and their commitment change?

Bill Crim: Our Board of Directors had already evolved from one of having a charitable mindset, which was about how do we distribute charitable resources, to one of a social change mindset, and the question being, "How do we catalyze social change"?

Evolution had occurred really prior to this. When this became a potential strategy, the conversation at our Board level, which is primarily business folks, was really about, "How do we make this work, and how do we succeed"?

Robert Dugger: Do you think that there was, in the legislature itself, a kind of learning process and an improvement of appreciation of what the implications are for kids with quality pre-kindergarten, was there a learning process there?

Bill Crim: Utah is one of a minority of states that don't invest in preschool in some form already. This has provided this tremendous opportunity to change the conversation within our legislature. That conversation is incredibly different this year than it was last year, or the year before, or ever before.

There seems to be a growing and pretty widespread acknowledgement that in order for schools to succeed, in order for our state to have a strong economy, we need high quality preschool. We need high quality early learning. There is really no question about that. There's widespread agreement in, pretty much, every corner, not just of our Capitol, but in the community more broadly.

Andrea Phillips: Rob, if I might add to that.

Rob Dugger: Yeah, go ahead.

Andrea Phillips: One thing that's been essential in that process is that by Goldman Sachs and J.B. Pritzker putting their resources behind this intervention, that has also lent creditability to the veracity of the intervention, in addition to all the research. The transaction that we've implemented has been very successful in facilitating that change of conversation that Bill is talking about.

Robert Dugger: It's amazing how the transaction itself is the argument. It's very effective. Thanks to all of you. Before turning to questions, I want to mention imprint capital. It's the new category of social investment bankers that have emerged across the country.

There are about three, four, five of them now all doing great work. Imprint capital was an important structure in the structural role. They weren't able to be part of the call today, but I want to mention them as part of the overall elements of the project.

Michelle, if you would, let's open it up to questions. We'll see if we can broaden people's understanding.

Michelle: You do have a question from the line of Jacqueline Sly.

Jacqueline Sly: That's correct. I'm in the State Legislature in South Dakota. What would South Dakota need to do as far as state policy? Is there anything that would need to be done in order to do social impact bonds? Would we look at ways to implement it, and the need legislation later for pre-K?

Robert Dugger: Jeff, as a former state legislator yourself, would you like to start that off?

Jeff Schoenberg: Yes, thank you for bringing me back to the part of my career, Rob, that I've been trying to work past.

Robert Dugger: [laughs] Apologies, but you'll never get past it.

Jeff Schoenberg: I'm in a perpetual process of atoning for 22 years of those.

Robert Dugger: Yes, but you've learned a lot, and you've had a lot to teach all of us.

Jeff Schoenberg: What I would say from a legislative standpoint is that there are a couple of variables to take into account. One is a policy change. That would likely be a statutory change that would formalize the state taking a financial role in a transaction.

That transaction doesn't have to be early learning. It doesn't have to be limited to one involving pre-K. We are eagerly scouring the F&N space policy intervention landscape, looking for other interventions that would provide governments with cost avoidance by means of incenting them to participate in a transaction.

You would first be required, depending on how the transaction was structured, be required to have some statutory authorization for either assuming a financial role in this. And/or for whatever interface the relevant state agency would be having with the other partners. Every state is different in how it defines those relationships statutorily.

The second area in which thumb set legislative change would likely be necessary, is for an appropriation to further cement a true public-private partnership. As I said before, the public sector, often times, is either not sufficiently responsive or because of competing financial interests, incapable of adequately addressing a glaring social need. Therefore, being able to handle formal public-private partnership, where you're aggregating capital from a broader reach of perspective investors, is something that ought to be encouraged.

The last thing I'll say on this is our philosophy behind participating in this transaction, and what we will hope to be in other evidence-based early childhood interventions, social impact on transactions is, we think, it's crucial that the cost avoidance can be determined by an independent third-party.

We're wary and skeptical, to say the least, of assigning that responsibility to someone within a particular public agency, to come up with the actual number for investors on what costs were being avoided.

We, philosophically, feel very strongly that with an evidence-based intervention, an independent third-party evaluator, who referees the transaction, should be able to determine what that cost avoidance is.

The last thing, in my prior life, I was an Appropriations Chairman in both the House and the Senate, before becoming an Assistant Majority Leader, and know all too well how those numbers can be massaged in order to reach a budget agreement. We want to take that responsibility off the hands of our public sector partners, to provide the private investors with the peace of mind that the terms of the business deal are actually being met.

Robert Dugger: That's terrifically helpful. Let me ask Andy [Andrea] Phillips, at Goldman Sachs. Andy [Andrea], what would you be looking for, for state government to have in place in order to be confident about a transaction?

Andrea Phillips: Sure, as we approach these, there are three components that have to be there for results-based financing to work. First, you need an intervention in an organization that can provide it, that has demonstrated a track record of impact. In this case, it's some provider of early education or investment in early childhood.

You also need an investor who can provide the upfront financing. I can always bring that to the table. The third piece of it is really someone to sit on the other side of that results-based financing contract, be, from our perspective, the source of repayment for the loan.

That could be local government. It could be city government. But also, obviously, a strong player in this space, as we've seen already, is state government. The particulars of what we need from state government are going to vary depending on the jurisdiction and the local procurement and legal environment.

For example, in Massachusetts, where they're pursuing results-based financing, though not in the early education space, the legislature there passed legislation authorizing the Secretary for Administration and Finance, to enter into results-based financing projects for up to $50 million. That authorized them to enter into these pay-for-success, or results-based contacts.

What they also did was address the issue of appropriation. As an investor, one of the things I'm going to also be looking at is, "What is my appropriation risk"? I need to know that if a state has entered into a results-based contract, that four years from now, or two years from now when they start making payments, and maybe it's a different governor a different legislature, that they actually are going to make good on those payments.

We think of that as appropriation risk. In the case of Massachusetts, the way they filed for that, and again, what I want to highlight is this will get filed for differently in different places, depending on the local legal and political context.

They basically said that they put the full faith and credit of Massachusetts behind the structure of the contract. We were able to get comfortable with that. That it was a forward commitment to pay based on the impact of the initiative.

Robert Dugger: Michelle, I think that is sufficient on this point of the question. If the questioner has other questions, they can certainly contact any of us involved in the call if it leads to help. Michelle, do we have another question?

Michelle: You do have a question from the line of Steve Leahy.

Steve Leahy: Hi, Steve Leahy, from the state of Washington, the Seattle area. Washington State had a 25-year-old early learning program for income eligible kids. By 2018, the legislature will have met its full entitlement for all kids. This year it was only about half of those eligible right now.

My curiosity is will the local community in our states be able to approach a Goldman Sachs' office up in our region and initiate a conversation, or is there a national entry point for those kinds of conversations?

Andrea Phillips: It would be through our team that's based in New York. If you have folks who are interested, you can have them reach out to me.

Steve Leahy: OK, great.

Robert Dugger: We're right near the end of the hour. Let's quickly ask any of the participants, Janis, or Andy [Andrea], or Jeff, or Bill, final comments or final guidance?

Janis Dubno: I might have two comments. One, social impact loans or results-based financing, really solves a problem that we've been grappling with in social services and public finance for quite some time, which is how to shift funds from remediation to prevention when you still have the children in grade school that need to be remediated.

What private financing does is create that bridge, where we can finance the intervention and then pay back the investment once there's no longer the need for remediation for those children who receive the intervention.

The other point that's really important is about systems change. One of the things that both Bill and I...I hope I can speak for you here, Bill...that we love about this is we really think this drives quality. We think the rigor with which Goldman and J.B. Pritzker have analyzed the data and looked at the investment means, and the impact as well as the financial return on the investment. It's not a small thing that impact and financial return are closely linked here.

That high quality programs will draw capital and we think this improves outcomes for kids, which is really the bottom line in all this work. We think there's tremendous potential for this kind of financing mechanism to solve some problems in social services and education. And also drive quality in early education.

Robert Dugger: I agree completely, Janis, obviously it's just if we care about kids and if the kids are our first priority, then this result-based financing approach answers some enormously important questions. It brings resources to a state or a county, to a region, that otherwise might not have been able to have a proof of concept with respect to some intervention whether it's Pre-K or home visiting or nutrition or anything else.

Of course, as we have all talked on this, all the participants on this panel, know that once we do the proof of concept, this may be a self-extinguishing activity in the sense that a county that does this, once it understands how the cost avoidance can be achieved and the resources used to scale up an intervention, it does have enormous positive effect, that may choose to finance it themselves. We would expect more and more of them to do that.

In terms of the market for social impact assets that Jeff talked about earlier, one of those markets may well be or an important component of those markets are markets for state-issued or county-issued or institution-issued assets that are used to finance the development of Utah human capital. That's an important aspect of it.

Now I gave a talk earlier this morning to a group of state fiscal analysts. One of the questions that they asked was might the standard for selecting kids for special education, the assignment methods or assignment standards change, be changed by the presence of the financing.

This is a sensitive subject. All of us on this call have talked about or thought about that. It is something we're watching extremely carefully. It's one of the dimensions of the Salt Lake City project that is of great interest to us.

We don't think that'll happen, so there is, we don't think that there is a moral hazard in this kind of financing. But if there is, it is something that will need to be addressed in time. Let me just, in saying that, let people know that, Janis, you were about to say something?

Janis Dubno: Yeah. To that point, and Andy [Andrea] actually did ask that question in the reverse in the process. It's very important that the special education assignment in K through 12 is blind to the financing mechanism, the people who do the assignment, and not even conventional, all the regulations and oversight about that. But that the people who are doing the special education assignment may not even know if the kids had participated in preschool, let alone how they were funded.

This is not the only way that Granite funds its preschool program. The only people who know how a child is funded is the United Way and the investors. There's really no risk of that. Because the child is not flagged as such and the people doing the assignment in grade school don't know how the child was financed. They could have been financed by Title 1 money.

Robert Dugger: That'll be an aspect of programs that we're going need to make sure are applying in all these kinds of results-based approaches. That works fine. We are at the end of the hour. Panel, this has been a terrific discussion. Though the number of questions wasn't very great, the participation was quite large.

Let me just mention that in January, we'll have a similar conference call focused on the South Carolina project that is developing a methodology for results-based financing of home visiting, prenatal and infant counseling and support that is characterized with the Nurse-Family Partnership, Healthy Families, and other home visiting programs.

We'll take a look at what South Carolina is doing. We'll have a panel of speakers. We'll look at that project very, very closely. Janis, Andy [Andrea], Jeff, Bill, thank you very much. This has been enormously helpful. I've learned something myself. I appreciate you taking the time to do this for all of us.

Jeff Schoenberg: Thank you.

Bill Crim: Our pleasure. Thanks, Rob.

Andrea Phillips: Thank you, Rob.

Janis Dubno: Thank you.

Andrea Phillips: Thanks, everybody. Bye-bye.

Robert Dugger: You too. Thank you. Bye-bye.