

COUNTY OF SALT LAKE

PROGRAM

Voluntary Full-Day Preschool
for Low-Income 3- & 4-Year-Olds

FUNDING MECHANISM

Social Impact Bonds

OPPORTUNITY

There are nearly 90,000 children under five in Salt Lake County, and close to 18 percent or 15,500 live in poverty. More than 1,000 children were on the waiting list for preschool in the Granite School District. In 2010, Voices for Utah Children and United Way of Salt Lake reviewed longitudinal data conducted between 2006 and 2009, which demonstrated that 33 percent of students from low-income families who would likely have needed special education services in elementary school were not placed in those programs after participating in the Granite School District's preschool program.

SUMMARY

Granite School District in Utah is expanding its preschool program for three and four-year-old children through a Social Impact Bond (Pay for Success model) financed by Goldman Sachs (\$4.6 million) and the J.B. Pritzker Foundation (\$2.4 million). Research in the school district was showing trends that children who attended Utah's high quality preschool were less likely to need special education in elementary school. The investors will be repaid based on cost savings realized through fewer children being placed in special education.

The United Way of Salt Lake oversees the Preschool Project in the Granite and Park City School Districts and is responsible for managing repayments to the investors. Students who attend the preschool program will be followed through the sixth grade.

CHALLENGES

Engaging Local & State Policymakers in Complicated Financing Structure //

With Wall Street involvement, gaining agreement from a legislature to enable private investors to partner with the state and local school districts was complicated.

GETTING TO ACTION

Voices for Utah Children began paving the way for a social impact financing project. Investors would be paid over a period of time, as children who otherwise might have been placed in special education were not. Janis Dubno, a Policy Analyst at Voices for Utah Children at the time, reviewed the longitudinal data. Her background as a financial analyst enabled her to understand the promise of preschool and the potential return on investment. The data led to a feasibility study, and she began talking to investors at Goldman Sachs about a potential social impact financing project. The data and feasibility study were critical to attract private investors for a “pay for success” project.

2010	Voices for Utah Children, the Granite School District and United Way of Salt Lake identified a potential social impact financing project.
June 2013	Goldman Sachs and J.B. Pritzker announced loans to be distributed through the United Way of Salt Lake.
July 16, 2013	The Salt Lake County Council approved \$350,000 to assist with “success payments.”
Fall 2013	Preschool slots offered to an additional 600 children.
April 2014	State legislature approved HB96, enabling private investors to partner with the state in preschool initiatives.
Spring 2016	State legislature passed SB101, an expansion of HB96, which allocated funds to increase access to existing high-quality preschool programs and create a preschool scholarship fund for children experiencing intergenerational poverty.

RESULT

In September of 2013, the Utah High Quality Preschool Program began delivering an evidence-based curriculum to increase school readiness among three and four-year old children. As a result of entering kindergarten better prepared, it is expected that fewer children will use special education and remedial services in kindergarten through 12th grade, which will result in cost savings for school districts, the State of Utah and other government entities. Private capital from Goldman Sachs and J.B.Pritzker is financing an expansion of the Utah High Quality Preschool Program to provide early education services to up to five cohorts totaling over 3,500 children. The initiative will follow four cohorts of children for 12 years.

RESULT

In 2015, investors received their first payout. Of the 595 new students, researchers estimated that without preschool, 110 students would have been likely to use special education in grade school. Students were identified through a predictive standardized test. Of those 110 students, only one used special education services in kindergarten. All 110 students will be monitored through sixth grade. (Note: This prediction has been called into question with some experts saying it was too high.)

KEYS TO SUCCESS

- ▶ *Evidence-based model*
- ▶ *Strong feasibility study*
- ▶ *Local interest led by financial analyst as a champion*
- ▶ *Private sector investment interest*
- ▶ *Initiative was time-limited (not in perpetuity)—eight to nine years for each cohort; 12 years for all four cohorts—children receive one to two years of preschool depending upon age of entrance*
- ▶ *Contract with equity investors—100 percent of the risk is based on pay for performance (i.e., no payments are made unless children achieve a specified outcome—no placement in special education)*
- ▶ *Agreement that the structure of the deal would ensure repayments on a per-child basis and not affect whether a child who needs special education will be placed appropriately for such services*
- ▶ *Independent evaluation and outcome metrics*



HOW WOULD SOCIAL IMPACT FINANCING WORK IN NORTH CAROLINA?

No social impact bond (SIB) initiatives are currently underway at the state or local level in North Carolina. To get started, an evidence-based model would need to be identified and a feasibility study would need to be undertaken. Sufficient private funders with patient capital would need to be identified.

There are opportunities for potential federal funding for feasibility studies. The development of SIB projects requires an understanding about how the financing works, staff time to develop the concept and work with private investors to structure a deal (which are separate costs from the operation of the intervention itself). Enabling state legislation would be required in North Carolina for local governments to create SIBs, primarily because the payments based on defined outcomes are not currently authorized for local governments.

SIB projects are evolving as local communities, state government, the federal government and private investors look to better understand how to structure projects. It's a learning process for stakeholders with mixed results to date.