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## **Goldman Sachs to Test "Social Impact Bonds" with United Way.**

Goldman Sachs is making its second foray into an experimental method of financing social services, lending up to \$4.6 million for a childhood education program in Salt Lake City.

This "social impact bond," in which Goldman stands to make money if the program is successful but will lose its investment if it fails, will support a preschool program intended to reduce the need for special education and remedial services. The upshot, in theory, is that taxpayers will not have to bear the upfront cost of the program.

Goldman is being joined in this effort by the Chicago investor J.B. Pritzker, who is providing a subordinate loan of up to \$2.4 million, bringing the total financing to \$7 million. The loans will be announced at an event in Chicago on Thursday.

"Social impact bonds are an entirely new way of financing things that have traditionally been paid for either through philanthropy or by taxpayer dollars," said Alicia Glen, head of Goldman's urban investment group.

Though the effectiveness of this type of financing remains unproved, it has gained a prominent adherent in New York City, which allowed Goldman to invest nearly \$10 million in a jail program last year. The city was the first in the United States to test social impact bonds.

For Goldman, which could gain a public-relations benefit from the investment, Salt Lake City has become an important business center. The city is home to Goldman's second-largest office in the United States, and the Wall Street firm held its annual meeting there in May.

The loans are going to the United Way of Salt Lake, which oversees the Utah High Quality Preschool Program. The investment's success will be measured by the level of cost savings when children do not need to use special education services, which are financed by the state.

The loans carry an interest rate of 5 percent, which is paid along with the principal if the program is successful. In the best case, Goldman and Mr. Pritzker would make additional "success fees."

"We're creating something sustainable that has a focus on returns," Mr. Pritzker said. "This titillates my interest in business and engages me."

This type of financing, which was first used in Britain in 2010, has raised eyebrows. Data on the New York investment, focused on men incarcerated at Rikers Island, is not yet available.

"I think it's distressing the degree to which a new industry has been built around social impact bonds before it's ever been proven viable," said Mark Rosenman, a professor emeritus at Union Institute and University in Cincinnati. "We ought to work it to fruition in a couple places before we start promoting it."

Still, governments around the country are beginning to embrace social impact bonds. Six state and local governments were chosen this week by the Rockefeller Foundation and the Harvard Kennedy School's social impact bond technical assistance lab to receive help in developing such programs after 28 governments applied.

Janis Dubno, a senior policy analyst at the nonprofit Voices for Utah Children, who came up with the idea for the Salt Lake City transaction, said the intention was to shift "resources from remediation to prevention."

The deal is "a proof-of-concept transaction," Ms. Dubno, a former investment banker, said. "What we would like to do is demonstrate that this kind of structure can be put into place."

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