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Can Results-Based Preschool Funding Work?

Six hundred 3- and 4-year-olds are attending preschool in Salt Lake County and Park City, Utah, this year thanks to an innovative financing model that is catching the attention of government officials and lawmakers across the country.

Under “results-based financing,” also known as “pay-for-success” or “social impact bonds,” private investors or philanthropists provide the initial funding for social programs that are expected to save taxpayer dollars down the road. If the policy goals are met and the savings materialize (according to third-party evaluators), the investors receive their money back with interest. However, the government doesn’t have to pay out more than it saves.

In Utah, the investors are Goldman Sachs and Chicago philanthropist J.B. Pritzker. They are putting up a combined \$7 million for at-risk children to attend high-quality preschool. Researchers expect that attending preschool will make the children far less likely to require expensive special education services, which in Utah cost about \$2,600 per year. The students will be tracked through the sixth grade. For the first group of students in the program, the United Way of Salt Lake and Salt Lake County have agreed to pay the investors if the goals are met.

Last week, Utah lawmakers allocated \$3 million to help repay the investors in results-based financing programs such as the one in Salt Lake County and Park City, and to provide grants to early childhood providers to improve the quality of their programs.

“The taxpayers are the ultimate beneficiary,” said Janis Dubno, early childhood and education senior policy analyst at Voices for Utah Children, which co-developed the financing model and provided the research and analytic support to the program. “It’s a great way to shift funds from remediation to prevention.”

Among the critics of the Utah legislation were those who believe young children should learn at home, rather than at preschool.

Britain Was Pioneer

Britain pioneered the idea of social impact bonds in September 2010, with a program that aims to reduce recidivism at Her Majesty’s Prison Peterborough by providing prisoners and their families with intensive support to integrate back into their communities. Initial results have been promising.

Since then, some U.S. cities and states outside of Utah have begun using the model:

- In 2012, New York City announced the first social impact bond in the United States. Goldman Sachs invested about \$10 million to finance a program that provides education, job training and counseling for teenage inmates to help them avoid a return to prison.
- Last December, New York state kicked off the nation’s first state-led pay-for-success project, raising \$13.5 million for a program to provide employment training and job placement services to 2,000 former inmates. Under that program, institutional and wealthy individual investors will be

repaid only if the number of people sent back to prison is reduced by at least 8 percent or the percentage of former inmates employed grows by at least 5 percentage points.

- In January, Massachusetts launched a seven-year, \$27 million pay-for-success initiative to reduce recidivism among at-risk youth. Under the program, a nonprofit will provide more than 900 young men who are either in the probation system or leaving the juvenile justice system with outreach, life skills and employment training to try to reduce recidivism.
- Fresno, Calif. is leading a two-year demonstration project for the nation's first social impact bond in the area of health care. The effort aims to cut the number of emergency room visits by lower-income children with asthma.

To help pay for their programs, the Obama administration is giving grants of about \$12 million each to Massachusetts and New York state, through the U.S. Department of Labor's Pay for Success competition.

The Rockefeller Foundation, which has spent about \$9 million in grants and program-related investments since 2009 to support pay-for-success financing, was among the earliest promoters of the idea in the U.S.

"Fiscal austerity in state and local governments has led to cutbacks to vital social services, and prevention-oriented services are usually the first to go," said Rehana Nathoo, a program associate at the foundation. "Pay-for-success models allow states to protect tax dollars by paying for programs based primarily on successful outcomes. They also provide an opportunity to develop solutions for emerging social issues earlier, instead of incurring higher costs down the road."

Dubno, of Voices for Utah Children, said the model appeals to philanthropies who typically give money without expecting any financial return because "you can really magnify your impact by recycling those dollars."

But the pay-for-success model also appeals to private investors such as Goldman Sachs, which has invested about \$23 million of firm and client capital in the New York City, Massachusetts and Utah projects and is considering others. Andrea Phillips, vice president for the firm's urban investment group, said there has been strong interest from clients to make investments that not only offer a financial return but also help to improve communities.

"It's hard to size the market because it's a relatively new instrument, but we do see it growing," Phillips said. "We're optimistic we'll be able to move to both larger investment sizes and more standardization of deals, which will help us get this market to scale."

According to the Center for American Progress, a liberal-leaning think tank in Washington, pay-for-success financing is in use or being considered in more than a dozen states. A number have introduced legislation to allow pay-for-performance financing and some are working with partners such as the Harvard Kennedy School Social Impact Bond Technical Assistance Lab, which provides pro bono help to governments considering social impact bonds.

Focus on Preschool

While many of the first pay-for-success projects have focused on reducing recidivism rates, early childhood education is quickly drawing interest as well.

ReadyNation/America's Edge, an organization of business leaders who want to strengthen the economy by investing in children, is hosting a technical assistance meeting later this month in North Carolina to help those interested in implementing results-based financing for early childhood

education. Representatives from 26 states and the District of Columbia have signed up. [ReadyNation was created by The Pew Charitable Trusts in 2006. It no longer receives funding from Pew.]

“People are hungry for new ways to finance a service that is now widely acknowledged as being effective at helping children grow to be productive adults,” said Sara Watson, director of ReadyNation/America’s Edge. “There is still a great deal of advocacy around traditional financing mechanisms but in any environment in which budgets are tight, there’s always going to be a hunger for new ideas. The idea of shifting funds to prevention services appeals to a broad array of decision makers on both sides of the aisle.”

In Utah, Voices for Utah Children, the Granite School District and the United Way of Salt Lake began working together in 2010 to engineer the results-based financing model, from setting up a study to show the impact of preschool to finding investors to fund the project.

A study of the Granite School District preschool program between 2006 and 2009 found that 32 percent of low-income preschool students scored so low on assessments taken when they entered preschool that without intervention, they likely would have needed special education services in kindergarten and beyond. But among the children who participated in the preschool program who remained in the district, almost all of those 32 percent wound up not needing special education.

The impact of attending preschool appears to stay with students for many years. In 2013, only 57 percent of economically-disadvantaged fifth grade students in the Granite School District were rated proficient in language arts, compared to 78 percent of the fifth graders in the study who had attended preschool, all of whom were from low-income families. In math, 59 percent of economically disadvantaged students districtwide scored proficient compared to 73 percent of those who had attended the district’s preschool.

Brenda Van Gorder, director of preschool services for the Granite School District, said those numbers are a result of the school district constantly working to improve its program, taking steps such as aligning standards with the kindergarten curriculum, providing ongoing professional development for staff, limiting class sizes to 20 children per class and involving families.

The district has cut preschool costs to \$1,500 per child per year by limiting the program to three hours a day, four days a week for 4-year-olds, and by relying on child development associates for two-thirds of the preschool staff. The associates, who receive training but do not have college degrees, work 29 hours a week and receive no benefits.

Van Gorder said she tells people that anyone can replicate their success, as long as they focus on what improves the quality of a preschool and stop doing the things that don’t work.

“Families say this has been a life changer,” Van Gorder said.

[By Adrienne Lu](#)

editor@stateline.org | [@pewstates](#)