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Chicago Will Use \$17 Million in Social-Impact Bonds for Pre-K.

The third-most-populous U.S. city will use about \$17 million in social-impact financing to provide pre-K programs to 2,620 children over the next four years, according to a [statement](#) on the city's website. The model, also known as pay for success, is structured so that lenders, including Goldman Sachs Group Inc. (GS), are repaid only if students show "positive academic results," the city said.

"Innovative models like social impact bonds and Pay for Success programs allow the private sector to provide the capital needed to expand successful initiatives in our cities and communities, shifting the risk of achieving targeted outcomes away from the taxpayer and enabling governments to pay only for what works," Andrea Phillips, vice president of the urban investment group at New York-based Goldman Sachs, said in the city's statement.

With more than a dozen U.S. states and municipalities assembling social-impact bonds, including Republican-led Ohio and Democratic-controlled Colorado, the market will grow to \$500 million by the end of next year, from about \$80 million in May, according to the Rockefeller Foundation, a New York-based philanthropy. In addition, President Barack Obama requested \$300 million in his 2015 budget to enable more social-impact bond arrangements.

Facing Backlash

Mayor Rahm Emanuel, who is running for re-election, faced a backlash after closing 49 under-performing public elementary schools last year, many on the South Side. Emanuel, whose budget recommendation is scheduled to be submitted to the city council this month, has asked his administration to explore options for improving education access for low-income students.

The program, which Chicago officials said is the fifth social-bond program in the U.S., is meant to increase students' readiness for kindergarten, improve literacy and lower the need for special-education programs.

Lenders will benefit from the savings that Chicago Public Schools will reap as less intervention is needed in later years, city officials said. Goldman Sachs Social Impact Fund and Chicago-based Northern Trust Corp. are the senior lenders, and the J.B. and M.K. Pritzker Family Foundation is the subordinate lender.

"There is nothing that's more important than our kids," Emanuel said in the statement. "Giving them a quality education from day one and helping provide their parents with the tools to be consistent and active partners in their children's education is the best investment any of us can make."

BLOOMBERG

By Elizabeth Campbell Oct 8, 2014 9:06 AM PT

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