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Utah Applies Social Impact Bonds to Early Childhood Education.

The investment tool is catching on as a better, safer way to invest scarce public resources.

In 2009, President Obama announced the first social innovation fund (SIF), an initiative of the Corporation for National and Community Service, which I chaired at the time. SIFs provide a new way of thinking about how to fund government services: Instead of prescriptively asking nonprofits to respond to a bid, we would ask them to nominate an important social problem and describe how they would go about solving it. Over the years, the fund has invested more than a half-billion dollars to address social challenges.

Building on those successes, governments across the country have begun to utilize social impact bonds (SIBs) to solve complex problems with the help of private investors — and to put those resources only into approaches that work. I recently spoke with Ben McAdams, mayor of Utah's Salt Lake County and champion of a pioneering SIB in the field of early childhood education. The Utah High Quality Preschool Program provides assistance to increase school readiness and academic performance among 3- and 4-year-olds to reduce the number of children who require costly special education and remedial services.

As part of the SIB, Goldman Sachs and J.B. Pritzker are providing funding for early education services for more than 3,500 children. Goldman Sachs, the senior lender, will provide up to \$4.6 million to the United Way of Salt Lake, which is overseeing implementation of the program. J.B. Pritzker will loan another \$2.4 million to the United Way as a means of reducing the senior lender's risk should the preschool program prove to be ineffective. There is no upfront cost to the taxpayer. With the first \$1 million investment, more than 450 children were able to attend the preschool program in the fall of 2013.

The amount of the SIB repayments to the lenders is based on the actual savings realized by the state from reducing the number of students who may require special education programs. If the intended results are achieved, the lenders will receive payments equal to 95 percent of the savings, or \$2,470 per child each year from kindergarten through sixth grade, plus interest of 0.5 percent. Pay-for-success payments thereafter will be 40 percent of the savings, or \$1,040 per child per year of special education services avoided. If the preschool program does not result in increased school readiness and a decrease in the use of special education services, there is no obligation by the United Way or Salt Lake County to repay the loans.

In practice, SIBs are not really bonds at all, but creative procurement solutions that allow public and private stakeholders to work together toward positive outcomes. Part of Mayor McAdams' excitement, which we have also seen in other jurisdictions, results from the fact that these types of innovative investments are collaborative efforts that can be replicated and create positive social impacts across policy areas.

For now, though, the focus is on this particular pioneering program addressing the needs of young

children. “We’re following data and evidence to ensure that children — no matter what their economic status — get a chance for a great educational start in life,” McAdams said. “We know the county’s budget will benefit due to avoiding costs of juvenile crime, drugs and gangs. But the most important bottom line is the measurably better lives for these children.”

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