

Initial Results Released for First Social Impact Bond for Early Childhood Education Show Success

(Revised on November 17, 2015)

109 of 110 At-Risk Utah Students Avoid Special Education Services Following Preschool

In August 2013, America's first "Social Impact Bond" (SIB) or "Pay for Success" (PFS) transaction for early childhood education was established in Utah. Two years later, the results from the first cohort of children to receive high-quality preschool financed through the PFS transaction show that both the preschool intervention, and the PFS financing mechanism itself, have been successful, based on a review by an independent evaluator. A lower number of children used special education services and remedial services after attending the SIB-financed Preschool Program, saving money for school districts and government entities. These results trigger an investor payment, the first investor payment for any SIB in the U.S. market.

Total savings calculated in Year 1 for Cohort 1 are \$281,550, based on a State "resource" special education add-on of \$2,607 per child. Investors will receive a payment equal to 95 percent of these savings.

Through the financing, in the 2013-14 school year, 595 low-income three- and four-year-olds attended high-quality preschool:

- Based on a test administered when entering preschool and other evidence based risk factors, 110 of the four-year-olds were identified at highest risk for school failure. Without high-quality preschool, these students would likely enter school at a delayed level, increasing the probability of them being delayed academically and potentially assigned to special education during their academic years. These children in the highest risk group are not predicted to be assigned to special education in kindergarten or at any other grade, but are deemed to be at a high risk of special education assignment
- Of those 110 students identified as at risk, only 1 used special education services in kindergarten
- The 110 students will continue to be monitored through 6th grade, generating further success payments based on the number who avoid use of special education in each year

Background

Through a partnership led by United Way of Salt Lake, the *Utah High Quality Preschool Program* delivers a high impact and targeted curriculum to increase school readiness and academic performance among three and four year olds. United Way of Salt Lake, Salt Lake County, and the State of Utah decided to support the expansion of the program by paying success payments based on reduced special education usage. The motivation is that, as a result of increased kindergarten readiness and improved academic performance, fewer children are expected to use special education and remedial services in kindergarten through 12th grade, resulting in cost savings for school districts, the State of Utah and other government entities. Private capital from J.B. Pritzker and Goldman Sachs will finance an expansion of the *Utah High Quality Preschool Program* to provide early education services to up to five cohorts totaling over 4,000 children. In this approach, there is no upfront cost to the taxpayer or other funders, instead:

- Goldman Sachs loans up to \$4.6 million to United Way of Salt Lake
- J.B. Pritzker provides a subordinate loan up to \$2.4 million to United Way of Salt Lake, reducing risk to the senior lender if the preschool program proves to be ineffective
- United Way of Salt Lake is the project intermediary, overseeing the implementation of the initiative as a whole and is responsible for managing repayments to the private investors
- Voices for Utah Children provides financial structuring, research and analytic support
- The preschool program is provided by Granite School District, Park City School District, YMCA of Northern Utah, Guadalupe School, and two private child care providers
- To repay the loans, based on the cost-savings associated with the reduced use of special education, United Way of Salt Lake and Salt Lake County provide funding (\$1mm and \$350k, respectively) for the 1st cohort of students) and the Park City Community Foundation holds the funds and handles the repayment
- Through passage of HB 96 (Hughes) in 2014 (see to the right), the State of Utah provides repayment funding for cohorts two-five and the Governor's Office of Management and Budget (GOMB), the Utah State Office of Education, and the Utah Department of Workforce Services implement the Utah School Readiness Initiative with the oversight of the Utah School Readiness Board
- If performance continues as expected, the estimated expected savings to the State for the first group of students are over one million dollars through 12th grade and investors will earn a return on their capital



Looking Forward

In March of 2014, the Utah State Legislature passed HB96, the *Utah School Readiness Initiative* sponsored by Rep. Greg Hughes. This legislation allocated funds to support quality grants to local education agencies and private providers to increase the quality of early childhood programming throughout Utah. HB96 also allows the School Readiness Board to enter into *Pay for Success* financing contracts with private investors, on behalf of the State. Through HB96, 750 additional children gained access to high quality preschool in 2014-15 using Pay-for-Success financing. The four year olds from this second cohort of children will complete kindergarten in the spring of 2016, and an independent evaluator will assess their special education usage to determine success payments. Cohorts three (beginning September 2015), four (2016) and five (2017) will bring an additional 2,300 children the opportunity of high quality preschool through this pay-for-success partnership.

The full background and structure of Utah's initiative are available on a separate background document.