



## BACKGROUND

# First Social Impact Bond for Early Childhood Education

*(Revised on November 17, 2015)*

### *The Utah High-Quality Preschool Initiative – Pilot and Longitudinal Research Project*

In 2010, United Way of Salt Lake (UWSL), Voices for Utah Children (Voices), and Granite School District (GSD) began researching the impact of high-quality preschool on at-risk children in Utah by conducting a longitudinal study of outcomes for low-income children who attended the GSD high-quality preschool program. This study, built on an original evaluation conducted by Utah State University (USU), became the foundation for the PFS feasibility analysis and transaction.

Children participating in GSD's high-quality preschool program are assessed using the Peabody Picture Vocabulary Test ("PPVT"), which, along with other identified risk factors, is being used to measure the risk for future school failure for children when they enter preschool, including their potential of being delayed academically and potentially needing special education services. Students who score two or more standard deviations below the mean are at the highest risk for future school failure. All students' academic achievement levels are tracked as they progress through 6<sup>th</sup> grade.

The study demonstrated that between 25 percent and 33 percent of the low-income 3- and 4-year-olds in the 11 most impoverished schools in GSD would be at the highest risk for school failure, which increased the probability of them being delayed academically during their academic years. However, when those students received high-quality preschool through GSD, they entered kindergarten at the top of their class and have significantly reduced the achievement gap in language arts and math.

- 737 low-income children who attended GSD high-quality preschool during a three-year period (i.e. 3 cohorts of children) were included in the longitudinal study
- Of these children, 238 were determined to be at highest risk for school failure, and would, without high-quality preschool, enter school at the same delayed level. This increased the probability of them being delayed academically and potentially assigned to special education during their academic years. This does not directly imply that the children in this highest risk group would be assigned to special education, only that they are at a very high risk of special education assignment
- At the end of the study period, only 11 students had used special education services through 3rd grade
- Low-income children in the study entered kindergarten at the top of their class, stayed at the top of their class, and have closed or significantly reduced the achievement gap in language arts and math.

*Results have now held for more than five years*

**The significant cost avoidance demonstrated in the study created the conditions for a *Pay for Success* transaction.**

Because the State of Utah did not initially join the transaction as a repayment partner, the project is comprised of two parts:

- 1) **Proof of Concept or Year 1 (2013-14), and**
- 2) **HB96 and State Investments or Years 2-5 (2014-18)**

## ***The Utah High Quality Preschool Program: Proof of Concept Year 1***

**United Way of Salt Lake earmarked \$1 million** to serve as the repayment fund for the transaction's first cohort of children (Utah had not yet passed legislation that would allow the state to join as the repayment agency). **Salt Lake County joined UWSL as the first public entity in the state of Utah to engage in Pay for Success transactions and contributed \$350,000.** In addition to providing repayment funds, UWSL, in partnership with Voices, convened partners and investors to execute the first year proof of concept, designed to demonstrate the benefits of Pay for Success financing and high-quality early childhood education to the State of Utah. Each partner is essential and shares in the success of the project.

- As the intermediary, United Way of Salt Lake oversees the implementation of the project, convenes partners, contracts with and manages both payments to providers and reports from providers as well as develops reports for the investors
- Private capital from Goldman Sachs and J.B. Pritzker, financed the expansion of the Utah High-Quality Preschool Program to provide the early education services. The first \$1 million investment in this program enabled 595 children to attend high-quality preschool in 2013-14. Years 2-5 of the transaction were contingent on the State allocating repayment funds
- United Way of Salt Lake provides \$1 million in Pay for Success payments to repay the loans, based on the cost-avoidance associated with the reduced use of special education and ancillary services. Salt Lake County provides \$350,000
- Voices for Utah Children provides financial structuring, research and analytic support, and Granite School District supports the training and professional development to ensure quality implementation and model fidelity across providers
- Granite School District, Park City School District, Guadalupe School, YMCA of Northern Utah, Children's Express, and Lit'l Scholars provide the high-quality preschool program to low-income 3- and 4-year-olds and report on outcomes
- Utah State University coordinates with service providers to administer the pre- and post-assessment, (PPVT), to all children in the cohort and tracks special education usage for the children from kindergarten through 6th grade. USU develops an evaluation report and determines cost avoidance
- The Park City Community Foundation provides an independent "performance account" to hold repayment funds.

## ***The Utah High-Quality Preschool Program: HB96 and State of Utah Investments Years 2-5***

In March of 2014, the **Utah State Legislature passed HB96, the Utah School Readiness Initiative sponsored by Representative Greg Hughes.** Implementation of HB96 is lead by the Governor's Office of Management and Budget, with support from the Utah Department of Workforce Services and the Utah State Office of Education. This legislation established the School Readiness Board (Board), which is comprised of appointees from the State Department of Workforce Services, Utah State Office of Education, Utah State Charter School Board, business leaders, and other individuals committed to advancing early childhood education in Utah. The Board is responsible for utilizing funds allocated from the State budget 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 Board to enter into Pay for Success financing contracts with private investors, on behalf of the State.

- The State of Utah and the School Readiness Board entered into a contract with United Way of Salt Lake as an intermediary in the transaction and commit to repay investors through the intermediary if the program is successful in meeting impact metrics
- Goldman Sachs and J.B. Pritzker financed early education for 750 children in the 2014-15 school year, and will finance up to 2,300 additional children during the subsequent three years
- The repayment for Cohorts 2-5 is based on the same PPVT assessment and tracking the children from kindergarten through 6th grade who score at or below two standard deviations of the mean when they enter preschool
- The obligation of the State of Utah to repay the loan is dependent on the usage of special education services by students attending the preschool program
- HB96 implements a cap on investors' return of 5% above the Municipal Market Data General Obligation Bond rate.

