

**FACT SHEET: The Utah High Quality Preschool Program**

***America's First "Results-based Financing" for Early Childhood Education  
2014 – 2015 School Year Expansion***

- **"Results-based Financing" (also sometimes referred to as "pay for success" or a "social impact bond or loan")** is an innovative and emerging financing approach that leverages private investment to support high impact social programs. In 2010, the UK government, along with philanthropic partners, piloted this approach. In 2012, Goldman Sachs was the first financial institution to invest in this product to finance preventative services for youth on Rikers Island
- **The Utah High Quality Preschool Program** delivers a high impact and targeted curriculum to increase school readiness and academic performance among 3 and 4 year olds. As a result of entering kindergarten better prepared, it is expected that fewer children will use special education and remedial services in kindergarten through 12<sup>th</sup> grade, which results in cost savings for school districts, the State of Utah and other government entities. The first \$1 million investment in this program enabled 600 children to attend pre-school during the 2013 - 2014 School Year. The \$1.063 million investment for year 2 will allow a total of 750 children access to this program during the 2014 - 2015 School Year.
- In March of 2014, the Utah State Legislature passed HB96, the Utah School Readiness Initiative. This legislation established the School Readiness Board (the "Board"), which is composed of appointees from the State Department of Workforce Services and Utah State Office of Education, 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 at these sites. HB96 also allows the Board to enter into results-based financing contracts with private investors, on behalf of the State
- For the 2014 - 2015 school year, private capital from J.B. Pritzker and Goldman Sachs will finance an expansion of the Utah High Quality Preschool Initiative to provide early education services to a second cohort of 750 children. In this approach, there is no upfront cost to the taxpayer or other funders, instead:
  - **The State of Utah and the School Readiness Board** enter 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.
  - **Goldman Sachs** provides a senior loan and **J.B. Pritzker** provides a subordinate loan to United Way of Salt Lake to finance early education for 750 children in the 2014 – 2015 school year, and up to 2,250 additional children over the next three years. The subordinate loan reduces the risk to the senior lender if the preschool program proves to be less effective than expected.
  - As the intermediary, **United Way of Salt Lake** oversees the implementation of the project, contracts with and manages payments to and reports from the providers. **Voices for Utah Children** provides 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'I Scholars** provide the preschool program to low-income 3 and 4 year olds

- **Through allocations defined in HB96, the State of Utah will** provide “Success Payments” to repay the loans, based on the cost-savings associated with the reduced use of special education and ancillary services
- If the preschool program does not result in increased school readiness and decreased use of special education services, then there is no obligation on the part of the State of Utah to repay the loan
- **After the funding the 2014 – 2015 school year**, subsequent investments will be made based on the availability of repayment funds from the State of Utah

■ **Determining Pay-for-Success Payments:**

- Children participating in the high quality preschool program are given the Peabody Picture Vocabulary Test (PPVT), a predictive evaluation that serves as an indicator of their likely usage of resource special education and remedial services. Students that test two standard deviations below the mean and are therefore likely to use special education services will be tracked as they progress through 6<sup>th</sup> grade. These students will form the payment cohort.
  - Every year a student in the payment cohort does not use resource special education services will generate a “Success Payment”
  - During the 2014 - 2015 School Year, school districts in Utah will receive an annual payment from the State of Utah of approximately \$2,700 per student to provide resource special education services for students in general education classrooms. The amount of the Success Payment is based on the actual avoided costs realized by the State of Utah
  - “Success Payments” to the senior and subordinate lenders will be made equal to 95% of the avoided costs or approximately \$2,565 per child for every year, Kindergarten through Sixth Grade, up to a base interest rate not to exceed 5.0% more than the Municipal Market Data General Obligation Bond AAA scale for a 10 year maturity.
  - The State of Utah will retain 5.0% of the avoided costs or approximately \$135 per child for each year, kindergarten through sixth grade or until the investors receive the maximum payment amount. From the seventh grade through twelfth grade the State of Utah retains 100% of the avoided costs or approximately \$2,700 per student
- The Utah High Quality Preschool Program has the potential to generate long-term savings for taxpayers and the results-based financing structure can become a replicable model for financing early childhood services nationally
- The potential savings associated with the reduction in special education and remedial service usage are significant, and in each scenario exceed the potential payments to the lenders
  - “Success Payments” are only made through 6<sup>th</sup> grade for each student; but all savings that are generated after that point will be captured by the school district, state and other government entities