Project Overview
Results-based Financing Proof of Concept
(*July 9, 2013*)

Background

In 2010, United Way of Salt Lake, Voices for Utah Children (Voices) and Granite School District (GSD) began laying the groundwork for a sustainable, large-scale financing mechanism for high quality preschool. Voices, in partnership with UWSL and GSD, conducted a longitudinal study of the GSD high-quality preschool program and demonstrated that approximately 33% of low-income 3 year olds would likely end up in special education without significant intervention. However, of those that received preschool through GSD, 95% were able to avoid special education, allowing the State of Utah to avoid costs of $2,607/year for 12 years for each child. These results have now held for five years.

This significant cost avoidance creates the conditions for results-based financing (also referred to as a “pay for success investment”). Results-based financing or pay for success investments are innovative and emerging financial instruments that leverage private financing to support high impact social programs. The goal of pay for success investments is to use private capital to achieve positive social and economic outcomes while at the same time generating cost savings to the government and providing modest financial returns to investors. The first such investment was piloted in 2010 in the United Kingdom, where early results are promising. Goldman Sachs invested in a pay for success loan in NYC in 2012, the first of its kind in the U.S.

In 2013 UWSL, Voices and others supported legislation (SB71, Osmond) based on the Granite study and partnership that would have established this financing mechanism within the State of Utah. When SB71 didn’t pass, UWSL’s Board of Directors voted to “prime the pump” by identifying investors and structuring a one year “proof of concept” with a repayment fund established by UWSL and possibly other public entities that see cost avoidance as a result of high quality early learning opportunities.

Rationale for Preschool and Results-based Financing / Pay for Success

In many low-income communities, 60-70% percent of children are not ready for school when they enter kindergarten – lacking basic skills like color, shape, and letter recognition, the ability to count, etc. In some neighborhoods, as many as eight in ten children are behind when they start kindergarten – and too many never catch up.
Without high quality early education opportunities, these children will likely never catch up and significant numbers will end up in special education and other remedial programs costing the State, cities, counties and school districts millions of dollars. In UWSL’s view, it will not be possible to achieve our state’s goals of 90% proficiency in core subjects, 90% high school graduation rate, and 66% of Utahns with a post-secondary education.

According to Nobel Laureate in Economics, Dr. James Heckman, “Our economic future depends on providing the tools for upward mobility and building a highly educated, skilled workforce. Early childhood education is the most efficient way to accomplish these goals, [providing] a 7% to 10% per year return on investment based on increased school and career achievement as well as reduced costs in remedial education, health and criminal justice system expenditures.” (Invest in early childhood development; Reduce deficits, strengthen the economy; www.heckmanequation.org)

In 2013, Senator Aaron Osmond introduced legislation (SB71), cosponsored by Rep. Greg Hughes, that aimed to address this crisis through an innovative, results-based financing approach that uses private investment to target high quality preschool to those children who need it most. The preschool intervention being used is based on a model developed and used by Granite School District that has been rigorously evaluated and shown to be successful. Park City School District and several private and non-profit early childhood education programs are also implementing this model.

In this model, repayment of the initial investment is based on achievement of measurable results and documentation of actual costs avoided by the State and/or other entities.

Because the need for high quality preschool is so significant, it is not possible for private philanthropy to address this challenge alone. That is why other government entities may participate in the proof of concept, and why the passage of SB71 by the Utah State Legislature is so critical.

Results-based financing is a conservative and financially responsible solution that has strong bipartisan support, builds on private sector innovation and partnerships, and focuses on real and lasting results.