



PROFILES: SUCCESSFUL PUBLIC-PRIVATE PARTNERSHIPS

State:	Utah
Partnership name:	Utah High Quality Preschool Program Social Impact Bond
Web site(s):	http://www.utahchildren.org/
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1. Background

Granite School District has successfully operated the High Quality Preschool Program since 2006. Through program evaluation, the program has demonstrated positive results in preparing young children for kindergarten. Results indicate that High Quality Preschool is closing the achievement gap in both language arts and math for at-risk children, with results persisting past fifth grade and evident for several successive cohorts of at-risk children. Despite its success, the program lacked resources to expand further. Consequently, the program was not able to meet the requests for preschool services, resulting in at-risk children being placed on waiting lists. The public-private partnership described in this profile was formed as an innovative financing mechanism to expand and sustain the High Quality Preschool Program.



In August 2013, the Goldman Sachs Urban Investment Group (UIG) together with United Way of Salt Lake, J.B. Pritzker, and Salt Lake County formed a partnership to create a Social Impact Bond designed to expand financing for this program. Investors Goldman Sachs and J.B. Pritzker and facilitator United Way of Salt Lake, as well as Utah's child advocacy and policy organization, Voices for Utah Children,

indicate that two factors made the deal possible: 1) having a high-quality preschool program already in place; and 2) having data showing the program's success. The data were collected and analyzed by an independent evaluator and reported on by Voices for Utah Children. Additional longitudinal data have also been collected by the school district.

2. Mission and Goals

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. This new partnership brings in national and private business partners for expansion financing based on the assumption that as a result of entering kindergarten better prepared, fewer children will use special education and remedial services in kindergarten through 12th grade, which results in cost savings for school districts and cost avoidance for the State of Utah and other government entities.

As part of the new financing partnership to support the Utah High Quality Preschool Program, the school district and the independent evaluator for this effort identify children based on demographics and neighborhood poverty, including participation in the free and reduced price school lunch program. The program's independent evaluator uses a standardized early childhood assessment (the *Peabody Picture Vocabulary Test*) to determine those children who are most likely to need special education in grade school if they do not have access to quality preschool.



3. Governance and Partnership Members

The partnership has several members that cover the ongoing operation of the Preschool Program and the financing partnership:

- **Lenders:** Goldman Sachs Urban Investment Group is the senior lender; J.B. Pritzker is the subordinated lender;
- **Intermediary:** United Way of Salt Lake; and
- **Service Providers:** Granite School District, Park City School District, the Guadalupe School (charter school), YMCA (nonprofit), Children's Express (early learning center), and Lit'l Scholars (early learning center).

Additionally, United Way of Salt Lake and Salt Lake County capitalized a repayment fund to repay the investors based on special education cost avoidance.

4. Funding and Other Resources

Under this initiative, Goldman Sachs and J.B. Pritzker committed to lend \$7 million over five years to United Way of Salt Lake to expand the high-quality public preschool program for at-risk children in Granite School District. Salt Lake County and United Way of Salt Lake will repay the loan (with 5 percent interest) only if the program meets agreed-upon metrics for "success," such as whether students avoid placement in special education.

Private capital from J.B. Pritzker and Goldman Sachs is financing an expansion of the Utah High Quality Preschool Program to provide early education services to as many as 5 cohorts totaling approximately 3,500 children.

In this approach, there is no upfront cost to the taxpayer or other funders. The roles of the key participants are noted as follows:



- Goldman Sachs loans up to \$4.6 million to United Way of Salt Lake to cover the costs of the intervention (the preschool program) to expand the number of children served;
- 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 an intermediary, serving as the lead for the coordination of all partners involved in the lending aspect of the partnership; and
- High-quality preschool services are provided by a coordinated network made up of public schools, charter schools, and private child care programs. The Granite School District supports participating providers to implement the quality model by providing coaches and other quality supports. All of the participating providers report information to United Way in its role as intermediary.

The loans involved are to be repaid 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 United Way or other public funding sources to repay the social impact loan. After initial funding for the first cohort, subsequent investments will be made based on the availability of repayment funds from public entities that are realizing cost savings as a result of the program. The payments take into account per annum payment made to serve children with special educational needs. Pay-for-Success payments will be made equal to 95 percent of the avoided costs or \$2,470 per child for each year of schooling from kindergarten through sixth grade, to repay the senior and subordinate debt, plus a base interest rate of 5 percent. Thereafter, Pay-for-Success payments will equal 40 percent of the savings, or \$1,040 per child per year of special education services avoided, to be paid as Success Fees to Goldman Sachs and Pritzker. Note that if the principal and 5 percent interest is paid before sixth grade, then the investors get Success payments of 40 percent through sixth grade.

5. Activities

The Utah High Quality Preschool Program delivers a high impact and targeted curriculum to increase school readiness and academic performance among low income 3- and 4-year-olds. The program is delivered over the course of a year by a network of providers, including two school districts, private child care providers, and a charter school to a target cohort of approximately 600 children (baseline year). Through this partnership initiative, the program is being expanded to serve as many as 3,500 at-risk children in the mixed network of public school, charter school, and private child care programs to reduce the achievement gap, decrease use of remedial and special education services, and increase kindergarten readiness.



6. Evaluation and Outcomes

The investment's success will be measured by the level of cost savings when children do not use special education services, which are financed by the State. More specifically, an evaluation of this initiative will be conducted to determine if identified program participants (a high-risk subgroup identified based on low scores on the Peabody Picture Vocabulary Test) experienced a reduced use of remedial and special education services as a result of participation. The model assumes that, in the absence of the intervention, the entire payment cohort would likely require special education and remedial services at some point in their education. Every year that identified participants do not use special education or remedial services, a Pay-for-Success payment will be generated.

Initial results for the first cohort are expected to be made available in 2016, upon completion of kindergarten.

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