

FACT SHEET: The Utah High Quality Preschool Program

America's First "Results-based Financing" for Early Childhood Education

- **"Results-based Financing"** (also sometimes referred as **"pay for success"**) 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 12th 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 will enable 450-600 children to attend pre-school this Fall
- 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 3,500 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 \$2.4mm 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** oversees the implementation of the project and is also responsible for managing repayments to the private investors. **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'l Scholars** provide the preschool program to low-income 3 and 4 year olds
 - **The Park City Community Foundation** acts as the Performance Account Manager, providing independent "performance account" in which to hold repayment funds, calculating and processing success payments
 - **Private capital and other public funding sources, including Salt Lake County**, provide Pay-for-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 United Way or other public funding sources to repay the loan
 - **After initial funding**, 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

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

- Children participating in the high impact preschool program are given the Peabody Picture Vocabulary Test which is a predictive evaluation that will serve as an indicator of their likely usage of special education and remedial services. Students that test below average and are therefore likely to use special education services will be tracked as they progress through 6th grade
 - Every year that they do not use special education or remedial services will generate a Pay-for-Success payment
 - School districts receive a fixed per annum payment of approximately \$2,600 per student to provide special education and remedial services for students in general education classrooms from the State of Utah. The amount of the Pay-for-Success payment is based on the actual avoided costs realized by the State of Utah
 - Pay-for-Success payments will be made equal to 95% of the avoided costs or \$2,470 per child for every year, Kindergarten through Sixth Grade, to repay the senior and subordinate debt plus a base interest rate of 5.0%
 - Thereafter, Success Payments will equal 40% 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
 - The State of Utah will retain 5% of the avoided costs or \$137 per child for each year, kindergarten through sixth grade, until the senior and subordinate lenders are paid back the loan plus a base interest rate of 5.0%
 - Thereafter, the State of Utah will retain 60% of the avoided costs, or \$1,567 per child per year through grade 6
 - From the seventh grade through twelfth grade the State of Utah retains 100% of the avoided costs or \$2,607 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
 - Pay-for-Success payments are only made through 6th 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