

Early Childhood Education Pay for Success Financing Strategies in New York State

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for the Early Childhood Advisory Council
December 13, 2012

What is Pay for Success Financing?

- Leverages private capital
- Monetizes social impact/outcomes of social services
- Realizes costs savings for government
- Connects performance outcomes to financial return

How Does Pay for Success Financing Work?

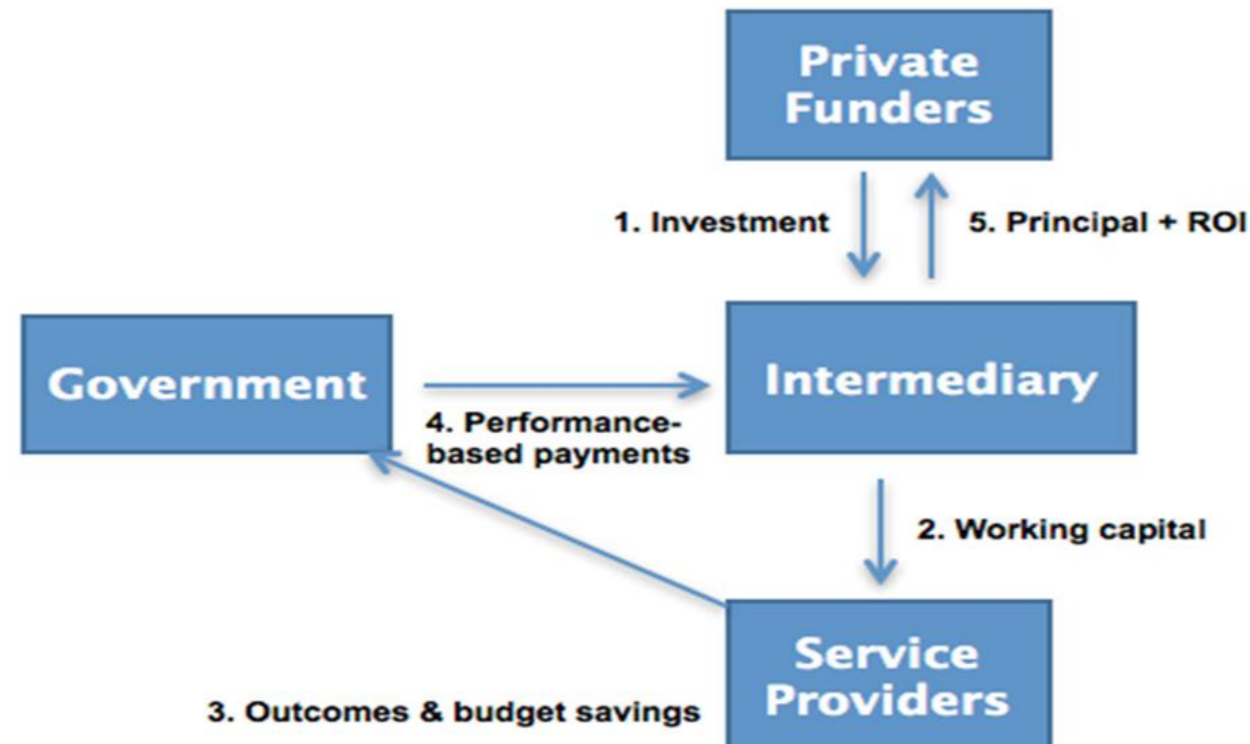
- Private investors pay to fund proven preventive programs that drive substantial social benefits and cost savings to government
- Uses a contract between a government entity and investors to achieve improved social outcomes and cost savings
- Pay back and any Return on Investment to the investors is predicated on the attainment of pre-determined social outcomes and evaluation conducted by an independent entity

Pay for Success Partners

- Private funders/investors
- Government agencies
- Intermediary organization
- Service providers
- Independent evaluator

Pay for Success Structure

One Possible Structure



Two key points:

1. From the government's perspective, this is simply a performance-based contract. The "bonds" are how the private service providers finance their operations.
2. If the project succeeds, the government pays the full cost of services, though in some cases achievement of performance goals may produce budgetary savings that partly or fully offset the cost of the services.

Courtesy of Jeffrey Liebman, Harvard Kennedy School

What Type of Program is Appropriate for Pay for Success Financing?

- Have clear, identifiable and measurable social and financial outcomes
- Result in savings to government that substantially exceed the cost of the preventive program
- Have a short period of time (8 years or less) between the attainment of social outcome and cost savings and return on capital
- Use evidence-based practice with a depth of impact
- Is scalable

NYC Social Impact Bond Project

- Uses private capital to fund proven Cognitive Behavioral Therapy services
- Goal is to reduce the rate at which 16-18 year-olds re-enter the City's jail system by at least 10%
- Reduction in reentry generates cost savings to the City's Department of Corrections
- These savings will be used to pay back \$9.6 million loan from Goldman Sachs within 4 years
- Loan is guaranteed by a \$7.2 million grant from Bloomberg Philanthropies
- Partners: MDRC, Osborne Association, Friends of the Island Academy, Vera Institute of Justice

Pay for Success in NYS

- New York State Division of the Budget recently released a Request for Information to identify potential opportunities for NY to benefit from Pay for Success models
- Educating children and efforts to improve kindergarten readiness are cited as priority areas

Why an Early Childhood Education Pay for Success Initiative in NY Makes Sense

- Research shows that participation in high quality early childhood education reduces future government spending and increases revenue
- Documented impact on need for special education, remedial and Dual Language learner services is of most promise in the PFS context
- NYS spends approximately \$11 billion on special education a year for K-12 students
- These costs could be significantly reduced if more of NY's children had access to **high quality** early childhood education programs before they enter kindergarten

Why an Early Childhood Education Pay for Success Initiative in NY Makes Sense

- NY's annual per pupil special education expenditures were \$26,550, as compared to \$11,000 for general education in 08-09
- In October 2010, about 13% of K-12 students in NY were classified as special education
- Approximately 74% of these students were diagnosed with disabilities that research has shown can be improved by engagement in quality early childhood education
- Ensuring children have access to quality early childhood education in high need districts could lead to reductions in the number of elementary school students in special education
- Estimate that these savings total approximately \$15,550 for each fewer special education student per year

Developing a NY Early Childhood Education Pay For Success Effort

- Use private capital to finance quality early childhood education programs
- Identify benefit-to-cost ratios large enough to pay back investment with government funds generated through savings in special education and other remedial services in the K-12 system
- Goal is to shift resources from remediation to prevention by using savings generated from decreases in special education, remedial and Dual Language Learner services to finance early childhood services

Potential Early Childhood Education Applications in NY

- Create A School Readiness Capital Partnership to garner investments and develop and manage projects, using a public/private partnership structure
- Build on the State's investment in quality services by expanding QUALITYstarsNY, NY's Quality Rating and Improvement System launched in 2008
- QUALITYstarsNY offers:
 - ✓ A clear, organized mechanism to assess, improve and communicate the quality of early childhood education programs
 - ✓ An accountable and cost-effective system for ensuring school readiness for investors and taxpayers

Supporting Early Childhood Education Quality Using Pay for Success

- There are 400 programs across the State currently participating in QUALITYstarsNY with the capacity to serve approximately 23,000 children birth through age five
- 230 of these are center-based and over half of these programs are located in school districts with Persistently Low Achieving schools
- By engaging in QUALITYstarsNY these programs have demonstrated their commitment to providing quality services focused on child outcomes
- Infrastructure is already in place to measure progress towards quality improvement, making this initiative highly scalable

Supporting Early Childhood Education Quality Using Pay for Success

- Investment of \$37M would enable 500 programs with capacity to serve 50,000 children annually to participate in QUALITYstars NY
- The rate at which children who participate in these programs are placed in special education during elementary school could potentially be reduced by 15%
- This would result in a total of 2,206 fewer special education students by Year 4
- Cost savings of about \$7M would accumulate by Year 2, increasing to more than \$34M in Year 4 for cumulative savings of \$57.7M in special education costs

Supporting Early Childhood Education Quality Using Pay for Success

- The 230 current center-based QUALITYstarsNY sites would participate
- An additional 270 programs would be enrolled for a total of 500
- Preference for new sites would be given to programs that serve at least 25% low-income children
 - ✓ Defined as those children who receive subsidies to attend child care in the form of vouchers or TANF or who are in contracted subsidized child care

Supporting Early Childhood Education Quality Using Pay for Success

- For each participating program, investment capital would fund:
 - ✓ Assessment using the Environment Rating Scale
 - ✓ Financial incentives
 - ✓ TA on the standards completion process
 - ✓ Development of Quality Improvement Plans
 - ✓ Links to professional development
 - ✓ Support for program leadership to complete improvement steps
 - ✓ Mechanisms to ensure that parents know about the availability of programs and why they are critical to their children's development

Other Ways Pay For Success Could Support Early Childhood Education

- PFS could also be used to:
 - ✓ Provide financial assistance to families to enroll their children in QUALITYstarsNY sites to ensure access to these high quality programs
 - ✓ Expand Universal Prekindergarten
 - ✓ Expand the Healthy Families New York program

Next Steps

- Conduct a benchmark study to create a sound projection model in which all PFS stakeholders can have confidence
- This study would:
 - ✓ Detail program costs and savings to illustrate the effects of the investment in program quality on school readiness
 - ✓ More accurately project cost savings and show that the investment in quality led to the cost reduction
 - ✓ Be used to inform the Return on Investment analysis and detail at what point the initiative would break even
 - ✓ Be used to negotiate and calibrate contract terms
 - ✓ Serve as basis for independent evaluation used to confirm social and cost savings outcomes and generate re-payment

- Questions and comments?