



**Pay for Success:**  
*Investing in the Value of High Quality  
Early Childhood Programs using Social  
Impact Financing*

Oklahoma Early Childhood Coalition Business Summit

July 12, 2017

# Oklahoma – Profile of the State's children

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- 24% (214K) live in poverty; 11% in extreme poverty
- 63% of poor children live in household with one parent
- More than 1/2 of poor 4<sup>th</sup> graders will be reading below grade level
- More than 1/3 of poor children enter kindergarten behind their peers

## **Great News!**

- ✓ 98% of school districts offer pre-K
- ✓ 74% of 4-year olds are in state-funded pre-K

# Oklahoma – Perspective on public education

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- 1.6% increase in FY18 budget for public education
- Largest decrease in funding (-27%) over 10 years in the nation
- Public education comprises smaller portion of budget than in 2008
- Teacher salaries are 48<sup>th</sup> in nation; teachers are leaving OK
- Over 25 years:
  - # of students entitled to free lunch has doubled
  - # of students in special education has risen 50%
- Student enrollment continues to grow

Traditional tax and budget system is under extreme stress!  
Could another approach begin to relieve the stress?

## Pay for Success (PFS)

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- What is it?

*Social impact contractual arrangement that enables local, state and federal governments to scale up an early childhood program that has a proven record for improving desired outcomes and reducing government costs, at no financial risk to payers*



## Why PFS? – The problem

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- At-risk children unable to access high quality early childhood services
- Government has limited capacity
- High quality service providers have limited resources in ability to scale

## Why PFS? - The solution

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- Find additional non-governmental financial resources to help more at-risk kids
- Ensure that high quality service providers have working capital to scale evidence-based services
- Create proof of sustainable success in demonstrating that at-risk kids can succeed, resulting in lower societal costs
- Construct public-private partnership where government takes little or no risk if successful outcomes are not realized

## Why PFS? – Challenges

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- Foundations and trusts cannot fill the financial resources gap
- To attract other non-governmental investment, investors must have high likelihood that they will be repaid
- Construct and implement accountability measures for success that are mutually agreeable, contractually binding, and independently certified



# Why PFS? – Potential

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PFS encourages investments in cost-saving preventive services to:

- Reduce need for more costly remediation
- Establish framework for sustained multi-year collaboration between public, private and non-profit actors to help solve complex social problems
- Encourage performance-based investment mindset in government
- Bring market discipline to government decisions about which programs to expand

## PFS outcomes – Salt Lake County

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- Granite School District (GSD) with high quality pre-school
- Only 4% of children who attended the GSD program needed special education by 3<sup>rd</sup> grade
- 95% of at-risk children who tested poorly before pre-school entry expected to need special education
- Less than 1% of that group of children actually needed special education – 1 of 110 children

Success payment made reflecting special education monies saved

# PFS outcomes – City of Chicago/Chicago Public Schools

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- Chicago Parent-Child Center program extended to 2,600+ at-risk 4-year olds over four years
- Three primary success outcomes being tracked:
  - Reductions in special education
  - Kindergarten readiness
  - 3<sup>rd</sup> grade literacy
- 2/3 of first cohort students scored above 50th percentile on four of six domains (baseline success threshold for CPC) for K-readiness

Success payment made reflecting achievement of K-readiness outcome

## PFS – Success payments are based on outcomes

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- Outcomes come in two flavors:
  - *Cost avoidance* – monetizable, assignable savings that governments enjoy as a result of PFS outcome achievement
  - *Condition improvements* – less tangible/assignable benefits to individual, government and society of successful behaviors and achievements by PFS target participants;
- *Condition improvements* are more impactful than *cost avoidance*

## PFS – Examples of outcomes

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- Cost avoidance
  - Less need for special education
  - Lower health costs to public health system
  - Reduced grade retention
- Condition improvement
  - Measurably healthier children
  - Kindergarten-ready
  - Less abuse/neglect
  - Less maternal depression
  - Reading at grade level

# What can PFS do for Oklahoma communities?

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- Engages public and private sectors in partnership
- Creates additional program and working capital
- Leverages existing community leadership resources to solve social problems in a more integrated way
- Makes use of research-based methods to redirect money only to programs that are proven effective
- Puts government paying for positive cost-savings outcomes in a low- or no-risk financial position if contractually-codified outcomes are not forthcoming
- Creates cost-savings sharing with government when positive outcomes are realized, thus saving taxpayer money
- Establishes ability for more providers of early childhood and youth services to build their capacity as businesses

# Oklahoma – Policy/action proposal #1

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## ***Pass Early Childhood Pay for Success Enabling Legislation***

- Allows appropriated funds to be paid to investors in state-approved transactions
- Establishes criteria for government involvement in PFS
- Can by-pass state agency procurement process
- Authorizes state to participate as investor or grantor
- Minimizes participation and appropriations risk of PFS
- Puts full faith and credit of state government behind approved projects
- Can be modeled after existing SB1278 on criminal justice
  - Currently being used to enable Women In Recovery PFS project

# Oklahoma – Policy/action proposal #2

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## ***Develop Home Visiting PFS Project***

- Would serve as catalyst for building child's readiness for OK's universal pre-K system
- Deliver in conjunction with where MIECHV and state/local funds are currently being used to expand evidence-based programs to more families
- Reasons for home visiting in PFS project
  - Capitalize on resources dedicated to universal pre-K for 4-year olds
  - Programs use "2 Gen" approach to improving lives
  - Smart Start, OPSR and the EC Advisory Council have already proposed Home Visiting Outcomes Measurement Plan



# Oklahoma – Policy/action proposal #2

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## **Develop *Home Visiting PFS Project***

- Potential payers:
  - OK Health Care Authority
  - OK Department of Human Services
  - OK Department of Mental Health and Substance Abuse Services
  - OK Department of Education
- Potential investors:
  - Foundations
  - Energy companies
  - Managed Care Organizations (MCO)
  - Other?

# Oklahoma – Policy/action proposal #2

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## **Develop *Home Visiting PFS Project***

- Not-So-Wild ideas:
  - Use portion of new/ongoing oil/gas subsidies and gross production taxes to provide seed funding
  - Use performance contracts that Medicaid MCO organizations may have with OK HCA.....or create such performance contracts

# Questions?

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- For more information on Pay for Success, email Phil Peterson at [phil.peterson100@gmail.com](mailto:phil.peterson100@gmail.com)