Building Early Childhood Social Impact Enterprises And A National Network

ReadyNation
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The US used to be first in education. Now we’re just average...
Relative to workers in other economies, US worker capabilities are declining…
Relative to business needs, the value of young adults with competitive capabilities is rising...
The problem the US needs to solve…

Relative capabilities of US workers

Business value of capable US young adults

1900 .......................... Time ........................................ 2020
To produce globally competitive young adults...

...you must first produce school-ready five year olds.
Early child investment improves US long-term global competitiveness...

...and increases near-term parent, work and school productivity..!
Early childhood investments increase employee productivity and strengthen regional economies

Timothy Bartik at the Upjohn Institute, documents why investing in early childhood raises regional per capita income as well as, or better than standard infrastructure and tax-concession strategies.
Early Returns on Early Childhood Investments

We don’t have to wait 15 years to begin to earn returns on early childhood investments:

- Low birth-weight births can cost as much as $50,000. Normal births cost about $5,000. The return on early health prenatal programs is evident within days.

- Special-ed costs about $25,000 per child per year. Regular-ed costs about $12,000. Children are usually assigned to special-ed by the 2nd grade. The return on pre-k programs is evident within 36 months.
Early health “pay for success”
Social Impact Bonds (SIBs)

Quality prenatal programs probably reduce infant health costs enough in 12 months to both pay for the programs and pay a performance-based return to investors who fund the programs.
Early learning “pay for success”
Social Impact Bonds (SIBs)

Quality pre-kindergarten programs probably reduce subsequent costs to public schools enough over 10 years to both pay for the pre-k programs \textit{and} pay back bond holders with interest by reducing public school

✓ special education,
✓ grade-retention and
✓ English language learning costs
Research on Early Learning SIBs

✓ Pennsylvania Pre-K Study: The Heinz Foundation’s 2009 Pre-Kindergarten study involving 10,000 children showed that the reduction in public school special-ed costs alone is probably enough to pay for both the pre-k program and pay investors interest and principal over 10 years.

✓ The Kauffman Foundation-ReadyNation paper on PKSE early-learning SIBs: showed the return on investment may be large enough for the pre-k program to become self-financing in 4 to 5 years.
State Interest in Early Childhood SIB Projects

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How does Social Impact Finance work?

1. Business and philanthropic leaders establish a social impact enterprise

2. Government pays the enterprise only if results, such as cost savings, are actually achieved

3. Enterprise contracts with service providers with history of strong evidence-based results

4. Enterprise raises funds from private investors using “social impact bonds,” or other instruments, and pays providers for specific services

5. When government savings are confirmed, government pays the enterprise a large portion of the savings, which the enterprise then uses to repay investors
Benefits to Society and Government

✓ Under social impact finance, government pays only for results, not for activities

✓ Government shifts risk of failure to private sector instead of taxpayers: Investors assume all financial risk such that if the programs don’t work, the government doesn’t pay.

✓ Allows government to invest in lower cost preventative programs instead of high cost remedial programs
What Is a Good Social Impact Finance project?

✓ Intervention has potential for high net benefits
✓ Intervention is based on evidence of past success
✓ Results can be clearly measured by using a reliable comparison group to quantify baseline savings
✓ Future benefits accrue to one area of government and are financially large enough to justify the investment
✓ The benefits are a top priority of government
Basic Social Impact Finance Structure

3. Cost savings generated

4. Part of Government savings paid SIB Issuer

5. SIB Issuer repays investors

1. Investors provide Working Capital

2. Operating funds paid to Service Providers

3. Cost savings generated

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Finance structure showing flow of funds (arrows) and needed contract agreements (ovals)
Early Child Social Impact Enterprise Program: Establishment and Funding Time Line

Establishment and Fundraising Phase: 18 Months

- Stakeholders agree to organize an Early Childhood Social Impact Enterprise: 2 months
- Third Party Feasibility Study Done: 6 months
- Early Child Social Impact Enterprise Established: 2 months
- Contracts with Service Providers, Government Agencies & 3rd Party Certifier Completed: 6 months
- Social Impact Assets Issued and Funds Received by ECSIE: 2 months

Total: 18 months
Intervention service provision and preliminary investment success time-line

**Intervention Service & Preliminary Confirmation:**
- 12 months for prenatal
- 60 months for pre-k

Operating funds paid to Service Providers

Early Health or Education Service Provided

Cost savings generated and confirmed by initial evidence

3rd Party Evaluator Certifies Savings to Government Agency, ECSIE & Service Providers

Government Health or Education Agency pays large portion of savings to ECSIE

9 months for prenatal health
2 years for early ed

In 3 months for prenatal health
In 3 years for early ed

1 month

1 month

14 to 62 months total
For a detailed description of social impact finance, early childhood applications, and a PKSE bond early learning SIB example see...
PKSE program viability

Cumulative PKSE Cost Savings, Bond Repayment, and Funds Available for Future Rounds of PKSE Financing with PRI Investment

Savings Gain Funds available for reinvestment in successive cohorts of children

PKSE Program Year

- Cumulative PKSE special savings gains
- PKSE bond repayment
- Funds available for future financing rounds with PRI investment
- Philanthropic PRIs
And a PKSE program would become self-financing in four cycles

Comparison of PKSE Spec-ed Savings Gains, Bond Interest and Principle Payments, Savings Gains Available to Future Financing Rounds, and Regional Philanthropic Contributions With PRI Contributions
To learn more about early learning “pay for success” social impact finance...

✓ Go to www.ReadyNation.org

✓ Tab to Working Groups, then click on “Social Impact Finance”


✓ Read the PKSE bond paper
Virginia Early-Learning SIB Project

Strategy: Use SIB strategies to pay for pre-k and reduce public school special-ed, grade-retention, and ELL costs in Northern Virginia’s seven counties

Goal: To establish an operating SIB program - the Northern Virginia Smart Beginnings Partnership - in 36 months
Virginia Early-Learning SIB Project: Implementation Steps

1. Initial exploratory feasibility study
2. Initial study focuses on performance of Child & Family Network Centers (CFNC) graduates in the Alexandria school system
3. Use results of initial Alexandria feasibility study to guide studies in all seven Northern VA counties
4. Establish a Northern VA Smart Beginnings partnership, including contracts with investors, pre-k providers, public schools, and third party evaluators
5. Use feasibility study results to calibrate the contracts
Status of Virginia SIB Project

- Initial investor group identified
- SIB program mechanics explained
- Initial focus is on the performance of Alexandria Child & Family Network Centers (CFNC) graduates in the Alexandria School System
- Initial feasibility study researchers identified
- Agreement reached on public school and pre-k student-data access
- Feasibility study of CFNC pre-k effects on spec-ed, grade-retention, and ELL is underway
Initial VA Feasibility Study Results

1. Completed by end-January
2. Document the quality of data needed to conduct a sound early-learning SIB feasibility study (Heckman et al)
3. Detail needed terms in student-data access agreements
4. Explain how to analyze data and interpret results
VA Feasibility Study: Preliminary Results

1. CFNC graduates experienced much lower spec-ed assignments, grade-retention and ELL costs
2. CFNC graduates had higher 3rd grade reading and math performance
3. Sample sizes reduced so fast due to data limits and outward student migration to other Northern VA counties such that statistical significance not possible except for 3rd grade math performance
4. Data quality has to be improved, and high outward migration of students confirms that feasibility study needs to cover all seven Northern VA counties
ReadyNation’s work in early childhood “pay for success” finance

✓ 2010-2012: Kauffman Foundation-ReadyNation Working Group on Early Childhood Finance Innovation
  ✓ Report on PKSE bond SIBs

✓ Current: ReadyNation supported initiatives
  ✓ Early Health Social Impact Bonds (SC)
  ✓ Early Learning Socal Impact Bonds (VA, UT)

✓ 2013: ReadyNation Working Group on EC SIB Contract Development
ReadyNation and America’s Promise Alliance

America’s Promise:
- Founded in 1997 at Presidents’ Summit for America’s Future
- 425+ national partners and 30,000 community leaders focused on improving outcomes for children/youth

ReadyNation:
Amplifies the voice of business in supports of effective early childhood policies and programs

GROUNDED IN THE FIVE PROMISES
1. Caring Adults
2. Safe Places
3. A Healthy Start
4. Effective Education
5. Opportunities to Help Others
The ReadyNation Mission

Our mission is simple...

• Mobilize business leaders in support of early childhood policies and programs that strengthen our economy and workforce.

Our goals are bold but achievable...

• Establish effective business coalitions for early childhood in every state

• Create a national network of 1,000+ active business leaders
Home-grown Business Coalitions for Early Childhood

- Diverse models:
  - Multi-purpose biz organizations
  - Stand-alone
  - Affiliated with children’s groups
  - Quasi-government

- Keys to success:
  - Action plan based on local context
  - Build on local credibility
  - Dedicated staff
  - Strictly business image
  - Cooperate with advocates behind scenes
Research to Make the Economic Case

More than 20 research briefs:

✓ Economic benefits of nutrition, housing, health, etc.
✓ Economic development benefits of EC
✓ Communicating the brain science
✓ Size of youth human capital sector
✓ EC Social impact bonds

New ideas:

✓ ECE’s impact on real estate values
✓ ROI of kindergarten readiness
National Events that Inform, Mobilize, Inspire

Eight national business leader summits

National and state webinars
• Innovative financing
• Brain science
• Collaborating with Workforce Boards
• Training advocates to work with business

National speakers bureau

CEO Summit on Early Childhood
September, 2013 - Atlanta, GA
Best Practice on Business Mobilization

One-stop shop website

Briefs with industry leaders – U.S. Chamber, NAM

E-newsletter to 4,000 members with successes, research, media

Profiles of champions

Advice and tools for advocates

ReadyNation pledge – more than 500 names including Nobel Laureate James Heckman
Case Study: Ohio

- Ohio Business Roundtable CEO attends ReadyNation National Summit
- ReadyNation works with OBRT to understand field, identify issues, hold state business leader summit
- OBRT launches Early Childhood Initiative in 2009
- ReadyNation provides assistance, information and materials

Ohio results so far:
- New top policy position to coordinate early childhood
- Successfully restored $1 million+ for home visiting while most programs were cut
- Developed new kindergarten readiness assessment for 2013
- Helped secure successful Race to the Top Early Learning Challenge grant
Building an Early Childhood Social Impact Finance Network

1. ReadyNation proposes to create a national network of state and local groups with an interest in EC SIBs to learn from experts and share best practices.

2. RN is seeking funding from national and local foundations and organizations to support the development of this network.

3. Funds will be used to develop the national network or sponsor the participation of an EC group seeking to implement a SIB in their community.
ReadyNation Impact Finance Activity

✓ Convene a Training Institute for EC SIB Programs (target date: Summer 2013).

✓ Inventory, identify, and develop all the potential contractual arrangements needed with all the relevant entities.

✓ Build an online database of basic working documents necessary to establish SIBs at the state and local level.

✓ Establish an ongoing learning community.
ReadyNation

Near-term

Long-term