Pay for Success:
Lessons Learned from Salt Lake and NC

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ABSTRACT

To expand social programs and access nontraditional streams of funding in fiscally conservative times, advocates have turned to use the Pay for Success (PFS) mechanism. In Salt Lake County, Utah, Pre-K advocates from different backgrounds decided to use PFS, also known as a Social Impact Bond (SIB), to expand a high quality Pre-K program in the County. In North Carolina, PFS was considered by government officials in early exploratory stages but was not developed further. This study discusses the challenges in development, launch, sustainability, and legacy of PFS by investigating Salt Lake’s Pre-K PFS project and North Carolina’s progress in PFS. In-depth key informant interviews were conducted with 18 stakeholders and scholars. The interviewees from Salt Lake and NC discuss the necessary conditions for PFS, the proper safeguards to take in cases of Pre-K as well as non Pre-K PFS, and the larger conversation around evidence-based policymaking. Overall, the findings from this study suggest that PFS should be considered a means to an end—an incomplete solution in what needs to be a larger context of cross-sector partnerships and long-term sustainable solutions.
INTRODUCTION

The concept of Pay for Success (PFS), also known as Social Impact Bonds (SIBs), began in 2010 in the United Kingdom in an effort to reduce recidivism among prisoners. The United States’ first PFS project launched in 2012 to reduce recidivism for juveniles at the Rikers Island jail in New York City. By early 2016, ten PFS deals had begun in the United States, one had reached completion, and more than 50 were in development (Nonprofit Finance Fund, 2016).

When they were first created, PFS projects garnered a significant amount of attention from several sectors for their potential to transform public policy. Divergent from traditional methods of social service delivery, where contracts or grants relied on the volume of services delivered or program outputs, PFS aimed to contract and pay for outcomes. For example, instead of providing funding for the number of juveniles that would receive the cognitive behavioral therapy treatment at Rikers Island, the PFS contract made payments based on how many detained youths did not return to jail. In addition, PFS provided a way of uniquely leveraging the funds of the private sector for the betterment of the public sector. PFS harnesses private funding to pay upfront for an intervention aimed at improving social outcomes. Repayment to investors is conditional on a program’s success (see Figure 1, Appendix A for an illustration of this process).

Many consider the idea of PFS a possibility for a “win-win-win” situation (Dodge, 2015; Skoll World Forum, 2013). Service providers can access funds to scale their program up, governments can increase social service provision without taking traditionally-defined risks, and investors have the chance to increase their positive contribution to society and make a profit. Most importantly, a fourth party—the beneficiaries—could experience positive outcomes as a result of the intervention.
PFS, with all of its advantages, comes with a host of risks and challenges, exemplified in the first “successful” PFS project in Salt Lake County, Utah. Salt Lake developed and launched the very first PFS deal in early childhood education in August 2013. Goldman Sachs’ Urban Investment Group and J.B. Pritzker invested a total of $7 million, in the Utah High Quality Preschool Program for up to 3,500 low-income 3- and 4-year-olds across five cohorts of around 600 children per year (Gustaffson-Wright, Gardiner & Putcha, 2015). If the program attained a level of pre-defined success, in this case measured by each student in that cohort who avoided special education in a single year, the investors received an annual repayment plus return on their investment.

In fall of 2015, Goldman Sachs and Pritzker announced its success in helping 109 at-risk kindergartners avoid special education out of the 110 determined to be at-risk for special education before entering the program. As a result, the outcome payors—the government, in this case—repaid the investors 95% of the savings from avoiding special education for each child, or approximately $2,470 per child every year, plus a 5% base interest rate (Goldman Sachs, J. B. & M. K. Pritzker Family Foundation, & United Way of Salt Lake, 2013). In just one year of PFS, school districts and government entities saved $281,550 in avoidance of special education (Edmondson, Crim, & Grossman, 2015). Some parties were satisfied with this determination and saw it as proof that PFS worked for all parties involved, especially if long-term savings were considered, which they were not in this contract (Innocenti, 2015a). On the other hand, the unprecedented rate of success in avoiding special education led some to believe that the metrics of success were tilted in the investors’ favor (Popper, 2015).

Despite this controversy, scholars and stakeholders continue to investigate and invest in PFS. Before immediately discounting this nascent innovation tool, research should examine the
benefits and drawbacks of PFS and provide a constructive critique. The intention of this paper is
to contribute to that debate with lessons learned from Utah, the first contractually successful PFS
project in the U.S., and North Carolina, one of the nation’s several incomplete attempts at PFS.

Research Question

To investigate these two cases, I asked a series of questions for this comparative case
study:

How do the experiences of PFS in Salt Lake and NC inform future PFS efforts?

What were the issues surrounding the use of the metric in the Salt Lake PFS project? What
lessons were learned from using this metric and what other lessons can be learned from this
project?

What progress was made in NC in PFS? What were the lessons learned in NC from this
experience?

I used an inductive analysis approach in this comparative case study to look for general
patterns instead of seeking to confirm specific research hypotheses. By studying Utah’s
successful development and launch of PFS in Pre-K and arguably unsuccessful legacy along with
North Carolina’s partial exploration of PFS, I sought to illuminate the challenges and necessary
conditions for implementing PFS projects.

In order to conduct this analysis, I conducted 18 interviews with key informants directly
involved in Utah and North Carolina’s experiences in PFS, along with informants with other
experience or expertise in PFS, seeking to understand the anticipated and unanticipated costs,
benefits, and challenges of the PFS deal thus far in Utah. Utah’s experience in successfully
launching a PFS deal and NC’s limited experience in PFS can inform others’ attempts to iterate
PFS in Pre-K.

My findings shed light on the necessary conditions for PFS, the proper safeguards to take
in cases of Pre-K as well as non Pre-K PFS, and the larger conversation around evidence-based
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policymaking. PFS is deemed to be a means to an end—an incomplete solution in what needs to be a larger context of cross-sector partnerships and long-term sustainable solutions.
BACKGROUND

The U.S. government’s spending on public investments has significantly fallen relative to the national Gross Domestic Product since the 1980s (Economic Policy Institute, 2015). These investments in education, research, and infrastructure are necessary for improving outcomes for the country’s residents and citizens in education, poverty, and other social problems. But the continuous decline in public investment could have a deleterious impact on economic growth and equality in the U.S. In a time when policymakers seem reluctant to spend government funding on tackling tough social problems, innovative solutions must be promoted to curb and eventually reverse a potential decline in economic growth and equality.

With millions of people to serve, many of whom face complex societal problems in their lives, policymakers seem to be overwhelmed with the decisions they have to make, such as how to allocate spending across different program areas, whether or not to implement a new program, what level of service to provide, and to which group in society (Sefton, 2000). Instead of getting paralyzed on the issues, however, policymakers sometimes use economic evaluation tools to help inform these decisions.

Economic evaluation can take a few forms. It can be conducted prospectively, before a policy is introduced, or it can be conducted retroactively with the data collected from the program (Sefton, 2000). Cost-effectiveness analysis and benefit-cost analysis are two of these economic evaluation tools that policymakers use (Sefton, 2000). Conducting economic evaluation of public policy has several advantages. It enables policymakers to make difficult decisions with limited budgets, predict what would happen if no action was undertaken, consider multiple societal perspectives, look at benefits and costs, and observe if the program was
implemented as intended, also known as program fidelity. Finally, and most importantly, it enables policymakers to assess whether their policy objectives were achieved (Sefton, 2000.)

But in practice, relatively few social programs are evaluated to see whether policy objectives were achieved or not. If evaluation of performance does occur, it is typically centered on program outputs, such as teacher-student ratios or number of program participants (Gustaffson-Wright et al., 2015). When social programs are evaluated and shown to work, they are often not undertaken and funded by the government because of a complex policy issue called the ‘wrong pockets problem,’ explored further below.

**The Wrong Pockets Problem and Pay For Success**

By preventing government entities from capturing savings from programs they pay for, the wrong pockets problem often impedes evidence-based programs from obtaining funding from government entities (Roman, 2015). There are several different forms of the wrong pockets problem:

- **Intraagency:** Across divisions of the same government agency, one division pays for the program, but another collects some or all benefits.

- **Interagency:** Across the same level of government, one agency pays for the program, but another collects some or all benefits.

- **Time:** One administration at any level of government pays for the program, but a future administration collects some or all benefits.

- **Intergovernment:** One level of government pays for the program, but another higher or lower level of government collects some or all benefits of said program.\(^1\)

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\(^1\) An example of this can be seen in Figure 2, Appendix A. For example, a Medicaid program paid for by the state could see savings to both the state and federal Medicaid programs.
The various forms of the wrong pockets problem, often coupled with a lack of political will, prevent government bodies from paying for scaling up an old program or starting a new program, ultimately leading to underinvestment in social programs. Government funders want to reap the benefits of the programs they pay for, especially in fiscally conservative or strained environments. Therefore, governments need to somehow circumvent the wrong pockets problem and the relative inaction around these social programs that are promising or proven to work.

Many suggest the Pay for Success mechanism as a solution to the underinvestment in and inaction around promising or proven programs (Rohacek, Greenberg, & Massey, 2016; Roman, 2015). In PFS, the actors all look to solve a social issue. Investors provide upfront capital to a social service provider that delivers services to a target population. Once the target population receives the intervention, their outcomes are measured and evaluated by an independent evaluator. If the program reaches certain targets as laid out in the contract, the outcome payor, typically a government body, will repay the investors with interest.

Out of the few PFS deals developed and the many under construction, no two PFS deals are identical. The chronology of the process and the number and roles of stakeholders vary with each new contract that is drawn up (Gustaffson-Wright et al., 2015). For simplification, this discussion will operate under the assumption that the process typically begins with the identification of a social issue in the community by someone in the government. Capital from private investor(s) is raised, an intermediary drafts and issues the bond, and funds are transferred to service providers in order to implement the intervention. If effective, the programs will improve selected social outcomes for beneficiaries—these outcomes are based on the terms of the original contract, assessed by an independent evaluator—and the outcome funder, typically the government, pays the intermediary the agreed-upon amount based on the level of success.
achieved. If the outcomes are not achieved, the outcome funder, or government, owes nothing. For an illustration of this process, see Figure 1, Appendix A.

**Arguments For and Against Pay For Success**

Pay for Success deals have garnered a lot of attention in the few years they have existed; with that attention has come close examination of their mechanics and effects, intended or unintended. This examination has produced several arguments for and against PFS contracts, explored in detail below.

**Advantages of PFS**

Shifted risk is one of the best-known arguments for PFS. Normally, governments do not take risks in the provision of public services because of resource constraints or fear of political consequences. PFS shifts financial and political from the government to the investor, in theory encouraging innovation and results in service provision.

PFS deals often use preventive services, supplanting remedial or curative interventions. These services might prevent homelessness, low educational attainment, unemployment, substance abuse, recidivism, and more. These preventive services often result in long-term savings, which government entities should gear their policies and programs towards increasing cost-effectiveness.

Those in support of PFS also point to its contributions to the major push for evidence-based programs and better data (Gustaffson-Wright et al. 2015). With PFS, philanthropies get more attention and support for their evidence-based programs. In the process of aspiring to develop a PFS contract in their jurisdiction, government officials could ready an infrastructure prepared to tackle complex evaluation research to assess potential effectiveness of an intervention and understand government-budget formulas to assess the costs and savings of the
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intervention. This infrastructure would not only benefit officials in preparing for PFS but could prove essential in ensuring that the educational, social, and health services that they already provide are effective and evidence-based (Berlin, 2016). Moreover, including business-savvy investors in provision of public services increases the likelihood of constant monitoring and evaluation of their investment. PFS contracts can thus be designed to be modified upon determinations by relevant stakeholders that such modifications are necessary.

A lesser-known argument that is not typically broadcast to the public but could very well be one made to potential investors is that PFS is an opportunity to make positive contributions to the community by showing their willingness to help tackle tough societal problems and thus improve public relations. The investors’ decision to collect a return on their investment or recycle their success payments back to the service providers or a new PFS project could further impact their reputation in the eyes of the public. However, the amount of publicity given to these PFS projects is dependent on how truly innovative the project is. Balancing this motive for increased publicity with the increased risk of undertaking more innovative social programs that have not been tried before could be a potential source of conflict for interested investors.

Risks and challenges of PFS.

The main reason evidence-based programs are often not implemented is simply that governments do not have the time or money for developing such deals, especially in the nascent stages of the field of PFS, when time and money expended are at a premium (Gustaffson-Wright et al., 2015). In these emerging stages of the PFS world, the lack of precedent for PFS makes its complexity even more overwhelming for potential PFS actors.

Another argument for not instituting a PFS deal concerns some forms of the wrong pocket problem, which, as discussed earlier, occurs when the government entity accruing savings
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from PFS is not the government entity paying for the outcomes (Gustaffson-Wright et al., 2015; Roman, 2015). Government entities are unlikely to initiate complex and resource-heavy PFS projects if they do not see the benefits accrue to them.

Choosing a monetizable success metric is also a challenge for interested PFS actors. This metric should be a short-term, meaningful proxy for longer-term outcomes that are outside the scope of the PFS contract. Moreover, all parties must agree on a dollar-value for that metric, which should ideally be based in historical data rigorously collected by the service provider (Gustaffson-Wright et al., 2015).

“Cherry picking” or “cream skimming” could be another danger of PFS projects. To combat adverse selection in the insurance industry prior to the Patient Protection and Affordable Care Act of 2010, insurers tried to deny coverage to riskier individuals (those with preexisting conditions). In this manner, insurers could increase their profits since less-risky individuals were less likely to file claims. Likewise, in PFS, if service providers are allowed to choose which portions of the population will receive the intervention, they may choose easy cases versus helping those in most need of the intervention in order to achieve ‘success’ and mitigate reputational risk. Evidence of this in existing PFS projects has not yet been documented, but that does not preclude the need to carefully monitor the selection of target populations in future PFS projects.

Closely linked to “cherry picking” is the danger of stranding of needy populations. If a contract is designed to terminate midway if the intervention does not meet the predetermined success metric(s), beneficiaries could suffer unintended short- and long-term consequences from becoming dependent on the intervention but only receiving a portion of it. This issue can occur especially when success metrics have not been properly considered; for example, when
government savings is the only benefit assumed, disregarding other positive, but hard-to-measure, benefits to society and participants (Berlin, 2016; Gustaffson-Wright et al., 2015). A potential remedy to this issue faced by early contracts is being tested in newer contracts, where the contract is designed to measure a broad range of outcomes, rather than a simplistic, single metric (Gustaffson-Wright et al., 2015).

Finally, critics warn that PFS, as it grows in the U.S. and around the world, should not rely on a “simplistic, mechanical model of cause and effect, resting on the notion that an intervention is a singular ‘thing’ or event which results in a clearly discernible outcome” (McHugh, Sinclair, Roy, Huckfield, & Donaldson, 2013, p. 249). Doing so would oversimplify the complex conditions and contexts of social problems.

**Introduction to the case study: Salt Lake County’s experience.**

Salt Lake County launched the second PFS project in the United States and the first in early childhood education. Its experience in project development, implementation, and reception exemplifies many advantages, risks, and challenges of PFS.

Over the course of five school years, beginning in August 2013 until school year 2017-18, up to 3,500 disadvantaged 3- and 4-year-olds residing in the greater Salt Lake area will have access to the Utah High Quality Preschool Program, described in detail in the following section. The two private investors funding the program are Goldman Sachs’ Urban Investment Group and J.B. Pritzker, providing $4.6 million and $2.4 million respectively for the entire project duration. United Way of Salt Lake oversees the implementation of the programs and manages payments to the six service providers around the greater Salt Lake area.

The proxy used for measuring this outcome was the annual cost per student that the government avoided paying for special education, measured each year from kindergarten through
sixth grade. This cost of avoiding special education was estimated at approximately $2,700 per
child, per year in the state of Utah (Government Accountability Office, 2015). To determine
which students would have required special education or remedial services had they not
participated in the Utah High Quality Preschool Program, the terms of the contract required the
participating children to take the Peabody Picture Vocabulary Test (PPVT) before entering the
program; those children that scored at 70 or below (two standard deviations below the mean)
were deemed at-risk for special education and subsequently would be tracked for their entry into
or avoidance of special education until sixth grade.

The stakeholders announced the PFS project’s success in the fall of 2015 in helping 109
out of 110 at-risk kindergartners avoid special education. But the methodology project
developers used to measure success was heavily questioned—specifically, the lack of a control
group or clearly established counterfactual in the project and the use of the PPVT to indicate
which children were likely to need special education. In Popper’s oft-quoted *New York Times*
article from November 2015, one early childhood expert argued that one must “be sure [one has]
very rigorous ways of measuring the impact to make sure that it’s legitimate in terms of the
outcome [one gets],” noting the absence of these rigorous methods in Utah’s PFS deal. Other
education experts in the article argued that the PPVT is not usually a test used to screen for
special education, especially on its own. Further, use of the English version of the PPVT could
misleadingly and disproportionately sort English Language Learners (ELLs) into the at-risk
category.

The announcement also fell under suspicion for another reason: the amount that investors
paid for the program was quite low, per experts quoted in the article. Previous research had
found that programs that avoided future special education costs required funding four to five
times what service providers in Utah received from Goldman Sachs, and “none of them [found] a large positive impact” (Popper, 2015).

The Evidence Behind Pre-K

Early life experiences crucially influence a child’s brain development, setting the child on life trajectories (Dodge, Bai, Ladd, & Muschkin, 2016). Decades of studies on early childhood education have shown several positive outcomes (Yoshikawa et al., 2013). Evidence of these positive outcomes is consistent from the older, intensive programs such as the Perry Preschool and Carolina Abecedarian Projects, to the contemporary, large-scale public preschool programs in cities like Chicago, Tulsa, and Boston. Robust evidence shows that one to two years of early childhood education will increase proficiency in language, literacy, and mathematics measured at the program’s close or soon after, across multiple studies of early childhood education interventions (Yoshikawa et al., 2013).

But access to early childhood education is not universal among all American children. Mandatory public education begins in most states at age 5, though some states only require school attendance by age 8 (National Center for Education Statistics, 2015). The minimum age limit a state must provide free education for also varies from state to state.

The lack of universal early childhood education particularly impacts children in the lowest socioeconomic group because they grow up in homes where they may experience less cognitive stimulation during these critical early years (Hart & Risley, 1995). These children score, on average, 60 percent lower on cognitive tests than children belonging to the highest socioeconomic group (Lee & Burkam, 2002). Indeed, that is why President Lyndon B. Johnson’s War on Poverty encompassed Head Start, a comprehensive child development program that provided an Early Learning service. The federally funded Head Start program was targeted at
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preschool children of low-income families to help break the cycle of poverty (Office of Head Start, 2015). Today, early childhood interventions are offered in several forms; this paper will deliberate on Pre-Kindergarten specifically.

Researchers and experts have documented the need for the expansion of funding and accessibility for several decades. Nevertheless, funding for these programs is actually decreasing in many states. For example, in North Carolina, government spending has not returned to pre-recession levels. The Fiscal Year (FY) 08/09 budget allocated $86 million to NC Pre-K, while the FY 14/15 budget allocated only $50.2 million (NC Early Childhood Foundation, 2015).

In order to ensure that programs retain funding, the evidence must show that the program’s effects last beyond the first years of school. High quality programs are best positioned to provide longer lasting impact, but it remains to be seen what exactly they look like.

Existing research does show that there are some program characteristics that may be more important to include in a high quality program, although several questions arise around the conclusiveness and causality of the evidence (Rohacek, Greenberg, & Massey, 2016). Examples of these potentially important characteristics include (1) “rich teacher-child interactions and programming that rely on intensive, developmentally focused curricula” (Duncan & Magnuson, 2013; Karoly & Auger, 2016; Mashburn et al. 2008; Yoshikawa et al. 2013, as cited in Rohacek et al. 2016, p. 13); (2) “ongoing professional development for teachers, including coaching and mentoring” (Duncan & Magnuson, 2013; Karoly & Auger, 2016; Yoshikawa et al., 2013, as cited in Rohacek et al., 2016, p. 13); (3) staff-to-child ratios; (4) staff qualifications; and (5) comprehensive services, such as health screening or parenting supports. Mixed evidence exists for staff-to-child ratios, staff qualifications, and more research needs to be conducted on the
impact of the comprehensive services, as well as considerations such as full-day versus part-day programs and one versus two years of services.

The Granite School District (GSD) preschool program chosen for the Salt Lake PFS project is an example of a designated “high quality” program that fits some of the aforementioned criteria. Created in the 1990s, the GSD program offers two years of preschool for children aged 3 and 4 in the Salt Lake County area. Both 3- and 4-year-olds spend 3 hours a day in the program, for 2 or 4 days per week respectively. In 2012-13, GSD spent $2,425 per pupil for both years of the program (Pace, 2015). Staff to child ratios are 1:9, with a combination of a lead teacher and assistant allowed for 18 students. The curriculum is largely development-based, and activities are conducted in small groups or with the whole group. Utah’s Senate Bill 101, passed in 2016, and House Bill 96 before that, give concrete guidelines to what elements a high quality school readiness program must have. For a complete list of these elements in SB101, see Appendix A. These two bills will be explained further in later sections.

With its focus on ongoing assessment of student’s growth, professional development, small class sizes, and family engagement efforts, the preschool program offered by GSD and the other PFS service providers follows the SB101 criteria as well as national guidelines for high quality.

METHODOLOGY

I used an inductive analysis approach in this study. The original purpose of this research was to determine how interested parties in North Carolina could best develop and implement a PFS transaction based on an assessment of community readiness and what key stakeholders in and around the Pre-K PFS project in Utah had to say about the development and implementation process. As my research progressed, I discovered that North Carolina’s progress in PFS had
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halted and therefore it did not make sense to make recommendations for a Pre-K PFS deal in NC.

With the aim of informing other policymakers that are interested in PFS, I reframed my research into a comparative case study using the following questions:

*How do the experiences of PFS in Salt Lake and NC inform future PFS efforts?*

*What were the issues surrounding the use of the metric in the Salt Lake PFS project? What lessons were learned from using this metric and what other lessons can be learned from this project?*

*What progress was made in NC in PFS? What were the lessons learned in NC from this experience?*

Utah was the first of the Pre-K PFS projects in the United States. Additionally, at the time of developing my research question, it was the only PFS project to have published its first set of results, making it the best candidate for this study. After hearing about a Request for Information in North Carolina, I chose North Carolina for the case study so I could investigate and eventually inform its progress in PFS. However, its lack of activity in PFS became apparent, putting it on the other end of the spectrum of PFS progress. The two states thus represented two ends of the spectrum—one that had successfully implemented PFS and one that had no current or planned activity in PFS—that could be compared and contrasted to each other in order to inform PFS more generally.

To answer these questions, In-depth interviews were conducted with 18 key informants in Utah and North Carolina, along with informants with other experience or expertise in PFS or Pre-K; a full list of interviewees can be found in Appendix B. I chose certain interviewees so as to get responses from those who were or would be directly involved with the process and thus
would provide the most insight, especially about the behind-the-scenes in the development process and subsequent project management. I chose other experts and academics to obtain a bird’s eye view of PFS or Pre-K in the U.S. To recruit these interviewees, I looked over previous literature and news articles for mentions of key names, then sent emails asking for their participation. I also asked each interviewee for suggestions for whom to interview next.

In Utah, I interviewed 8 people from these categories: investors, intermediaries, evaluators, child advocacy organizations, and government (local, state legislative, and state executive branch). In North Carolina, I interviewed 3 key informants familiar with PFS in NC. Additionally, I interviewed 7 informants with varying experience or knowledge of Pre-K or PFS. In all, I conducted 18 interviews. Though these interviewees did fit into these distinct categories, several interviewees could speak about other categories they were not sorted in. Several interviewees also had experience with other PFS deals, whether launched or in development.

The interviews took 30-60 minutes each and were conducted from July to September 2016. Each interviewee agreed to be audio-recorded and allowed their real names to be used in this study. This study was approved by the Institutional Review Board at Duke University. Interview guides, which consisted of questions I wanted to explore with each individual, were prepared ahead of time in order to ensure that the limited time available was used effectively (Patton, 1990). The interview guide provided a framework for me to decide which issues to explore further, affording me sufficient flexibility to gear my follow-up questions towards the interviewee’s expertise, which sometimes varied from what I anticipated from my preliminary research of the interviewee. All questions that were asked can be found in Appendix C, but not all questions were asked of each interviewee, based upon their expertise and which category of
interviewees they fell into. Examples of the questions asked to each category of interviewees are included here:

To Utah interviewees, I asked questions about the origins and motivations behind the PFS project in Utah, lessons learned in the process, and any current dealings with the PFS project.

To North Carolina interviewees, I asked questions about past and potential progress of PFS in the state, and what challenges the state faced in developing PFS.

To PFS and/or Pre-K expert interviewees, I asked questions about their opinions and judgments of PFS, both Pre-K and non.

After the interviews were conducted and transcribed, I then entered the transcripts into NVivo (Version 11.3.2), a qualitative data analysis computer software package (QSR, 2016). After several critical readings of the transcripts, I looked for “recurring regularities” in the data to use as preliminary themes (Patton, 1990, p. 403), then coded the data for those themes, revising as I progressed. These thematic similarities across interviews were then grouped together. After writing an initial results section, I revisited the original transcripts and coding scheme, attempting to ensure that my description and interpretation were not overly reductionist or misleading. The final codebook of my thematic analysis is available upon request.

The 18 interviews conducted with key informants yielded a great wealth of information. Direct quotes from the interviewees are presented in the following sections in order to illuminate and support my own interpretation of the data.

RESULTS AND DISCUSSION

Here I present an amalgamation of the content from my interviews, divided by case study (Utah and NC), and subdivided by theme. Each thematic section will conclude with a short discussion of how the existing literature does or does not corroborate the findings from this
The following section of this paper retells the Utah experience through the eyes of the interviewees, included here with the intent to draw upon these experiences to support the later conclusions and recommendations. Following this chronological development, the reflections of Utah informants on their lessons learned in Pre-K PFS and non Pre-K PFS are presented. After the Utah section, the reflections of interviewees on North Carolina’s experience with PFS are presented, concluding with a section presenting interviewees’ final thoughts on the positive and negative attributes of the Pay for Success mechanism.

**New Perspectives on the Utah Experience**

**Chronological development**

*Before PFS.*

As a recipient of the federal Early Reading First (ERF) grant from the U.S. Department of Education, Granite School District (GSD) in Salt Lake County developed its high quality preschool curriculum. GSD partnered with the Utah State University on the ERF project around 2005. For three and a half years, Mark Innocenti, Director of Evaluation at the Center for Persons with Disabilities at Utah State University, worked on that project as the evaluator of GSD’s new curriculum.

Around the time of the project’s conclusion, in 2008, a former investment banker named Janis Dubno began working for Voices for Utah Children, a local child advocacy group, where she started investigating the possibility of tracking the data of children who had participated in GSD’s preschool program who were now enrolling in elementary schools in the district. With
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United Way of Salt Lake and Voices for Utah Children behind her, she worked with the school district to collect longitudinal data on those children.

Dubno used her economics background along with the longitudinal data GSD had collected after several years to begin discussions about a PFS deal around Pre-K. Sitting on the United Way Board and privy to these discussions was a representative from Goldman Sachs who became quite interested in becoming an investor in this contract. Goldman Sachs’ second-largest office in the country was in Salt Lake City and it had already been engaged with the community through its Community Reinvestment Act requirements, making Salt Lake a prime candidate for an investment by Goldman Sachs.²

Transaction development period.

During this period, while the PFS transaction was in development, the United Way board brought several stakeholders into the fold, such as Mayor Ben McAdams, who was a state senator at the time, and Utah House Speaker Greg Hughes. But even as these various stakeholders began to see the advantages of Dubno’s proposal that Utah create a PFS deal around the GSD Pre-K curriculum, the complete lack of a precedent in educational PFS deals made it clear that this deal would be a huge undertaking. Thus, according to several interviewees, the stakeholders felt they had to make certain decisions that would keep them on track to achieve their policy goals.

For example, the curriculum used in the PFS contract was lifted from the GSD model, for reasons that Bill Crim, centrally involved with the United Way’s work on the PFS deal, details below.

² The Community Reinvestment Act of 1977 “encourages depository institutions to meet the credit needs of the communities where they do business, including low- and moderate-income neighborhoods” (Gustaffson-Wright et al., 2015, p. 34)
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I’m sure we had a few conversations about what else is out there, but no one else had 3 years of data that used a nationally normed test. It was already the case that some other providers had seen what GSD was doing and were voluntarily trying to incorporate that curriculum into their program, so it was spreading on its own.

According to a few respondents present at the time of transaction development, the Peabody Picture Vocabulary Test (PPVT) did not have many competitors regionally or nationally, in terms of other predictive measures for a child needing special education. Thus, the PPVT was chosen to be the sole success metric of the first Pay for Success contract in Pre-K, as Crim explains below:

The provider that developed the preschool program, I’m not sure what assessments they considered when they were developing the program in 2006, but by the time the transaction idea came along, the provider had been using PPVT for a number of years. The independent evaluation had been done using that test, and I don’t know if anything else was considered. But in our view and our child advocacy partner’s view, it was the strongest thing in Utah by far. People in Utah had used other tests, but not in an environment of sustained independent analysis. We don’t know of another provider where the alternative tests had the same predictive value and validity, where you could track the kids to school the way GSD had done.

Not only had the service provider been using PPVT for several years, which was where its entire evidence base came from, but it was also the only test in the area that had indicative value of later academic outcomes. The Mayor’s statement below indicates this decision to include the highly-criticized success metric was not overly simplistic, as some critics portrayed it to be, and was actually the subject of strategic thought.

We understood that there’s much more to a child’s ability to succeed in school than their vocabulary…their self-regulation and socioeconomic factors, emotional maturity, ability of a child to regulate their emotions, we know that those are multifaceted and complex factors in a child that determine a child’s ability to succeed. We had to have a tool that was pragmatic and usable in a program that we were trying to persuade others would work. So we settled on using the PPVT, and we cross referenced that with eligibility for free and reduced lunch. Was that a perfect predictor of special ed? Probably not. We think it strongly correlated with future special ed need, but by no means would we say it was a perfect predictor. But it’s a start.

The Mayor’s words indicate the tradeoff for many of these stakeholders, where they had to decide between an ideal or “perfect” program and metric that would take years to build evidence behind or a PFS project that could take place immediately, that was pragmatic and built around a...
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program with years of evidence from GSD’s longitudinal study. Contributing to the lack of uncertainty was a lack of evidence of the “true” percentage of high-risk children that could be expected to enter special education, thus resulting in a lack of a counterfactual group for the stakeholders. The original developers of the contract thus negotiated this percentage among themselves.

By the end of 2012, the PFS deal was near completion. The stakeholders envisioned that the state of Utah would step in as the outcome payor of the transaction, meaning that they would pay back the investors upon successful outcomes as measured by the avoidance of special education. The subsequent legislation in January 2013 to have Utah as the outcome payor did not pass. Bill Crim explains one of the reasons for the legislation’s failure below:

One of the reasons [the legislation] didn’t pass was people didn’t really understand what PFS looked like. It hadn’t been done in the education space in the United States, people weren’t sure there would be investors, and they weren’t sure you could negotiate a contract that everybody was comfortable with.

The lack of precedent in a Pre-K or even education PFS, he explains, led to uncertainty from state legislators that investors would be interested in paying for Pre-K, even if they were only paying upfront, or that a reasonable contract could be drawn up that appeased all of the key players involved in PFS. Cultural opposition to Pre-K from conservatives in the state of Utah also contributed to the legislation’s failure, which will be discussed in more detail later.

In the face of this legislative defeat, Ben McAdams, elected as Mayor of Salt Lake County in that same month, proposed to the various stakeholders that instead of the state of Utah, Salt Lake County could step in as the outcome payor for the first cohort of children entering the Pre-K program under study, as a proof-of-concept. The stakeholders hoped that the proof-of-concept, if successful, would strengthen their case when they asked the Utah legislature to be the outcome payor for the next four cohorts. After all, as interviewees will discuss later in this
section, the savings were really accruing for the state of Utah, not directly for Salt Lake County, so the county did not want to shoulder the payments for the entire PFS contract.

Around the same time the legislation failed, a social investment firm called Imprint Capital Advisors notified a new investor of this up-and-coming PFS transaction. This new investor, the Pritzker Family Foundation, would become the subordinate lender, with Goldman Sachs being the primary. The Pritzker Family Foundation would be entering into a multi-year agreement if the proof-of-concept year went well. As the subordinate lender, the Pritzker Family Foundation took on the most risk for the transaction, since they would be paid after Goldman Sachs if the contract’s terms of success were met.

Both investors had cause for concern if the state did not agree to be outcome payors for the project. In the initial contract, it remained unclear whether investors would have an outcome payor at all, given that the State of Utah had failed to pass that legislation once and Salt Lake County and United Way, if they agreed, could only raise funds to repay investors for the first year. As one of Pritzker’s advisers Jeff Schoenberg reflects:

We were generally operating without a net after year one. The hope among all interested parties was that we would ultimately convince Governor Herbert and the Utah legislature that they should take another look at this innovative financing alternative for social interventions.

This lack of certainty made it a riskier initial investment for Pritzker and Goldman Sachs than many people perceived when Utah’s deal was first publicized.

**First cohort.**

In July 2013, there was unanimous bipartisan support from the Salt Lake County Council to agree to be a partial outcome payor for the proof-of-concept. The County Council agreed to pay back the investors with $350,000, once successful outcomes were reached. United Way of Salt Lake funded the remaining $1 million. The result was a potential 5-year deal in which, according to Bill Crim, future “cohorts would be contingent on a public sector repayment
source.” For this first cohort, United Way played the role of both quasi-intermediary and outcome payor.

The first cohort of children now had funding to enroll in the High Quality preschool program for school year 2013-14. While the stakeholders were administrating the first cohort, they simultaneously led an advocacy effort with the Utah legislature. The stakeholders found a lot more support in the legislature the second time. In 2014, HB96 was passed.

**HB 96.**

HB96, or the Utah School Readiness Initiative, designated the State of Utah as the outcome payor for Years 2-5 of the contract. The legislation also created the School Readiness Board, which then contracted with United Way to become quasi-intermediaries of the future cohorts together. The School Readiness Board, United Way of Salt Lake, investors Goldman Sachs and Pritzker, and Utah State University then had to enter long negotiations to transition the first cohort’s contract to the future cohorts’ contract.

The state’s involvement in the PFS contract because of HB96 led to certain changes, both logistical and financial, being made transparently year-to-year. Gretchen Anderson, a state government official responsible for managing the PFS deal in its current stages explains how most of these changes were minor and specific:

In terms of who was actually providing the preschool classes and seats, there wasn’t really much change from the first year to the second year, but we did add additional students. Every year, we change certain financial components in the contract with United Way and the investors because of changing interest rates, changing weighted pupil units, changing per student classroom costs, and so forth.

For the most part, according to Anderson, the state’s contract for the second cohort onwards took what was already in place and adopted it. These changes were made transparent by dint of being a state contract and not a private one; the contracts for the second cohort and onwards can be viewed on the state’s website.
Release of first cohort results.

The results of this first cohort were released in August 2015 after the independent evaluation was completed by Mark Innocenti, the lead evaluator at Utah State University. United Way and Salt Lake County contacted the media and issued press releases for the announcement of the highly-anticipated results. But before long, the general excitement for the first successful PFS results in the United States turned into a bout of widely publicized criticism—in the New York Times, most notably (Popper, 2015). As discussed in a previous section, there were four main points of critique: the lack of a counterfactual, the use of the Peabody Picture Vocabulary Test, potential bias against English Language Learners, and low (on a national scale) levels of funding, all centering around a concern that the successful results were tilted in favor of the investors.

Second cohort and onwards.

For the second cohort and onwards, the State of Utah was the outcome payor as a result of HB96, setting the tone statewide that GSD’s preschool program was legitimate and that the state wanted to get involved in providing more Pre-K for its at-risk kids. Despite the criticism around the country for GSD’s model, there was still broad support within Utah. State Sen. Ann Millner co-sponsored SB101, the High Quality School Readiness Expansion bill, which passed in early 2016. SB101 essentially expanded access to high quality Pre-K for at-risk children with $11 million of mostly federal dollars from the Department of Workforce Services.

Discussion.

What my interviewees had to say about the original longitudinal study and choice of the PPVT was echoed in the literature review of PFS. This is not surprising given that most of the material available is written by Utah stakeholders in response to the criticism received.
Articles verified that the longitudinal study Janis Dubno worked on with GSD served as the foundation or feasibility analysis of the PFS project in Utah (Crim, 2015; Innocenti, 2015a; Innocenti, 2015b). In this study, 3 cohorts, a total of 737 low-income children, were all tested with the Peabody Picture Vocabulary Test for risk of needing special education upon kindergarten entry.

As part of the Urban Institute PFS Toolkit Series for Early Childhood Education, Rohacek and Isaacs (2016) recommend that the metric for an outcome have a known track record and be suitable for the demographics of the target population. Further, they state that it may be more feasible for the passage of PFS if stakeholders use a measure that the service provider or school system in the area is already using. According to interviewees, the PPVT had a known track record in measuring risk of special education, and it was the most feasible option, which is why it was chosen. However, it remains uncertain whether the PPVT was appropriate for English Language Learners (ELLs). Innocenti (2015) defends the PPVT in context of ELLs. He contends that since Utah is an English-only instruction state, it is crucial for these children to improve their English language skills. Otherwise, language delays could combine with other risk factors, making it more difficult for ELLs to succeed in other subjects and making it more likely that they will be identified for special education in speech and language impairment.

As for the overall chronological structure of this section, interviewees’ retelling of events matched what I found chronicled in the media and literature, lending external accuracy to the data. In this way, my findings also avoided sole reliance on interviewees’ recollection of events. In terms of the accuracy within the study, interviewees often corroborated what other interviewees had to say, allowing me to triangulate an overall history from their responses.
Challenges for Utah in development, implementation, and sustainability.

At the very beginning of the process, the principal challenge for developers of the original contract was that there was no precedent in PFS in the education space. No templates existed for developers to follow, and at the time there was very limited literature available on PFS as a general concept.

One aspect of this initial development period was determining a counterfactual group, which was a complex matter for several reasons. For some, the problem with the traditional experimental method is that the method would have meant denying preschool to a control group of children, which the developers felt they could not do ethically; “It takes some really careful consideration to come up with something that works and that isn’t working at the expense of other kids,” as Tess Davis, an Early Childhood policy analyst at Voices for Utah Children, said in her interview.

To add to the problem of evaluating a potential counterfactual group, primary school is not compulsory until the 1st grade in Utah. So researchers did not have a way to track all Utah children before that, since state identification numbers were only assigned upon entry into the school system.

Even after making certain decisions, the complexity of the transaction was daunting, according to several interviewees. Not only did numerous stakeholders with varying backgrounds have to wrap their heads around these complex financial provisions and legal jargon, but there was also no actual intermediary or technical assistance provider to push the PFS deal forward or help explain the complexities. United Way was only a quasi-intermediary, or project manager, with no previous PFS experience of its own—they only had the lessons they could learn from the very few PFS contracts already in place around the world. Voices for Utah
Children, the child advocacy group, also offered its limited technical assistance for financial structuring and research and analytic support. The lack of a true intermediary like those in existence today meant that each party involved had competing priorities aside from this PFS transaction—no party could give their undivided attention to the PFS deal alone, which is the intermediary’s strength in a PFS deal.

Later, once the transaction was developed, the state did not immediately pass the legislation to become the outcome payor as the developers had hoped. Mayor McAdams of Salt Lake County had to instead convince the County Council to be the outcome payor for the first year’s proof-of-concept, but he faced general opposition, as explained below:

The challenge for us was the fact that the State of Utah pays special education, so if we stepped into pay, we would not be saving us [Salt Lake County] money…we would be saving the state money. But my first point was that they’re all the same taxpayers in the same state, so it may not help the Salt Lake County’s budget, but it would benefit the taxpayers we serve.

The challenge of having PFS savings accrue to one level of government even though another level was paying for the PFS deal demonstrated why the outcome payor had to be chosen so purposefully. The County Council had no direct financial rationale to be the outcome payor, but the Council and the Mayor saw other indirect benefits that justified paying for the first year’s proof-of-concept in their view.

When it came time to try again to get the state legislature to pass legislation making the state the outcome payor in the form of HB96, there was significant cultural opposition in the state to Pre-K from conservatives in Utah who felt that children should stay at home with their parents instead of going to government-run preschool programs. Speaker Greg Hughes, the bill’s chief sponsor, detailed in his interview how the oft-praised bipartisan nature of PFS was both advantageous and disadvantageous: “The good news about a bill like this is that it is bipartisan, but the bad news is it’s bipartisan. That means you have Republicans and Democrats that hate it
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too.” Finding out and addressing concerns on both sides of the aisle was quite a challenge for the bill’s sponsors and supporters.

The bill itself was quite long and complicated, adding an obvious challenge in getting enough legislators to understand the terms and make their subsequent amendments. Several months were spent working through the bill in preparation for the vote. As Speaker Hughes noted, “If it’s truly a brand-new piece of public policy, it’s going to go through a number of iterations before you get to the finish line.”

Once HB96 passed, the new PFS contract had to be shifted from having United Way and Salt Lake County as outcome payors to the State of Utah. The transition between these two contracts meant enduring a long negotiation process among all the lawyers representing each PFS actor, as Gretchen Anderson, the government official managing the state PFS contract in the Governor’s Office of Management and Budget, describes below:

There were 12 attorneys on every call. Goldman had its attorneys, Pritzker had their attorneys, United Way had their attorneys, the State, through the Attorney General’s office, we had our attorneys, and over a period of months, we reached agreement, and we also had to go through the same process with Utah State [University]. Then, putting in place procedures and reporting, and scorecards and all of the infrastructure required to administer the program and make sure we had appropriate control, and checks and balances in place.

Anderson stated that navigating this long negotiation process was the biggest challenge on her end.

After the first cohort’s results were released, another challenge for all stakeholders was how to respond to the widely-publicized criticism that came mostly from policy experts who objected to the framework of PFS or early childhood experts who questioned the touted results. Tess Davis from Voices for Utah Children elaborates on this:

We had so many chats after that New York Times piece came out, about how to respond because the practical reality is, it didn’t diminish the success of our program, but it did sort of tarnish the reputation of what we had done. Combating that was difficult.
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Though it may have been difficult for stakeholders, in the time since the NYT article came out, their response to criticism has been meticulous. The release of publicly accessible FAQs, fact sheets, journal articles, and opinion pieces from stakeholders and supporters (Crim, 2015; Dodge, 2015; Innocenti, 2015a) to correct faulty assumptions about their work or justify their choices should only help their cause, though these pieces may not have the same spread and influence as the original NYT article did.

Discussion.

The lack of precedent in education PFS was a challenge for Utah. This sentiment was corroborated by the Brookings study of 38 PFS deals worldwide (Gustaffson-Wright et al., 2015). Twenty four respondents in that study mentioned the inherent complexity of PFS, coupled with the lack of precedent, was the single biggest challenge for them.

An intermediary or project manager, or the access to technical advice, which Utah did not formally have, was cited in the Brookings report as a major facilitating factor for successful PFS projects, confirming interviewees’ responses on the issue. Specifically, the report mentioned an intermediary’s “credibility/capacity” was important, an idea not fleshed out in this study’s interviews (Gustaffson-Wright et al., 2015, p. 31). Further research could be conducted to distinguish credible and capable intermediaries from those that are not.

The wrong pockets problem, as discussed by Roman (2015), is supposed to be circumvented by PFS. However, as Mayor McAdams relates in his interview, it can often impede policymakers from engaging in PFS. Salt Lake County Council had no direct financial rationale to be the outcome payor, but the Mayor was able to show them the indirect benefits that justified paying for the first year’s proof-of-concept. However, not all government entities will automatically see these indirect benefits; if they do see them, they may not always believe they
outweigh costs of PFS. When pitching PFS to government entities, therefore, both direct and indirect benefits should be thoughtfully considered.

Speaker Hughes discusses the troublesome side of PFS being so bipartisan. His dilemma was corroborated by news articles from around the time of HB96, in which some legislators were quoted in opposition because they believed the bill would take children out of parents’ tutelage and force them into Pre-K. Other legislators were in opposition because they believed K-12 public education was already underfunded—adding Pre-K to the mix might be taking on too much for the state (Bernick, 2014). While clearly this PFS project did not force any child into the program, a misconception that was presumably cleared up for those legislators, there are merits to the other side’s criticism, that funding Pre-K would take away or strain funding for K-12 public education. While there is no easy solution to this issue, it is my interpretation that intervening at an earlier age could reduce some of the costs (e.g. of special education) that would have added up during those children’s K-12 education, thus freeing up some of the K-12 funding for improving quality even further.

Tess Davis brings up another challenge Utah faced—the difficulty of responding to the widespread criticism. Future PFS actors, especially those who are pioneering a social issue or program, should be prepared for this challenge by preemptively bringing in experts to the table from the start, gathering their consensus around various decisions made in the process, and preparing a list of responses to potential criticism that could abound after project launch or release of results. Otherwise, as Utah witnessed firsthand, the narrative can be stolen from stakeholders.
Utah’s lessons learned in Pre-K PFS.

In this section, Utah’s lessons learned that are applicable to future iterations of Pre-K PFS will be presented.

Evidence bases for PFS programs and PFS evaluation.

Before a PFS deal is constructed around a program and respective service provider, the program is typically evaluated rigorously in order to give investors more confidence in their investments—though PFS projects can be riskier and more innovative by nature if stakeholders so choose, by investing in a program without as much evidence behind it. Often, Randomized Control Trials (RCTs) are touted as the ‘gold standard’ of research, providing the most rigorous methodology for PFS, aside from meta-analyses. Though interviewees maintained that rigorous evaluation was critical for PFS transactions, interviewees were mixed on whether specifically (RCTs) were necessary in the education space. Some felt that RCTs were too expensive and time-consuming and detracted from the overall policy goals of stakeholders, exemplified by Bill Crim’s statement below:

For me, and for many people, the evidence generally is persuasive that we will save money if we help invest money in early learning for kids that’s high quality. But again, it seems like the debate is, exactly how much do we save and where those savings come from? That could be studied, and should be studied more rigorously, but if we wait for definitive proof on every potential cost, then I think we’re not giving kids the best chance to succeed when we know they’re better off if we invest in them.

One policy goal that several interviewees explicitly and implicitly spoke of was investing in children immediately, not because there might be returns on those investments, but because it gives children better opportunities to succeed.

According to Mark Innocenti, another problem with RCTs is that the control group that “gets nothing is not really a true thing in America.” He continued, “Families that don’t get into the target program, they go out and find other things to get involved with, and it’s hard to know the quality of those other things.” People in a control group that are randomly assigned to not get
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A service will sometimes find some other type of service to replace it, but this happens especially in Pre-K.

Rhett Mabry, a North Carolina interviewee asked about the Utah experience, posited that one of the downsides of having evidence-based programs with RCTs is that parties have a reluctance to “alter [the program], improve upon it, to innovate.” He continued, “PFS may or may not help that. Most investors in PFS want to invest in the tried and true. We want to have a well-researched program, but we want to have enough incentives to innovate as well, because you’ve always got to want to improve.”

If PFS actors do prefer an RCT, one interviewee recommended using pre-existing data instead of collecting original data if possible, which would significantly cut down costs of an expensive RCT. But interviewees maintained that other research methodologies could be less complicated and therefore more desirable in PFS. Here, Mark Innocenti critically discusses RCTs and the historical baseline methodology:

Some…see [RCTs] as a way to ensure your outcomes and I don’t necessarily think that’s true. Even the same program implemented a different year in randomized studies can get different results, so I think we need to be open to other kinds of data that show support, other kinds of comparison studies that have gone on, and potentially long-term history of positive results, even if it’s within a program. There are other valid data that need to be taken into account.

A historical baseline methodology, using the long-term history of positive results that Innocenti refers to, was used in Salt Lake’s PFS, using the longitudinal study conducted on GSD participants.

Bill Crim from the United Way gives an idea of what the Utah PFS actors could have done to prevent criticism about their evidence base:

I wouldn’t advocate for this, actually, but there are people who now would say we should have had a stronger evidence base, we could have a Randomized Control Trial, etc. My perspective on that is, we have a strong enough evidence base. I think we could have helped people understand what its limitations were a little bit better, though.
Crim did not believe that an RCT was necessary for their PFS deal despite the criticism, but he asserted that the limitations of their evidence base could have been better acknowledged and publicized.

As seen below, the literature can offer a critical discussion of these methodologies, but ultimately the choice is left to the PFS actors drawing up the contract.

**Discussion.**

It is widely recognized that RCTs are a gold standard in research, especially valued for their potential to establish causality. However, they are expensive and challenging to carry out (Government Accountability Office, 2015). RCTs often, but not always, require large sample sizes and further, a control group has to be strictly maintained. Both of these criteria can be infeasible, especially in Pre-K. A control group cannot be barred from another preschool program, especially when the intervention is known to work in most contexts (Innocenti, 2015a).

One stakeholder interviewed in another report said that a poorly designed RCT can actually increase the reputational risk to service providers (Government Accountability Office, 2015). Funding streams for their cause could disappear if funders hear that the program was deemed ineffective. While increased rigor should be emphasized, it should not crowd out service providers that could still be effective, if only the correct outcomes were measured. Therefore, PFS actors should consider quasi-methodologies for their transactions, staying mindful of the limitations of their choice.

**Peabody Picture Vocabulary Test.**

The use of the PPVT to estimate the risk of needing special education services was highly controversial. Some critics misunderstood the use of the PPVT and thought the preschool program was directly sending anyone with a score below 70 into special education. Others
complained that the PPVT should not be used in singularity even to assess risk. Still others argued that the test delivery in English put English Language Learners (ELLs) at a disadvantage, potentially mislabeling them as at-risk. Despite this criticism, the interviewees of this study did not condemn the use of the PPVT. Of the interviewees that had closely studied the test and its use in this PFS project, almost every single interviewee recognized the nuanced benefits of using the PPVT, but several offered insight into how the measurement of risk for special education could be improved or built upon.

One interviewee clarified that the PPVT is one of many diagnostic tools in a battery of assessments for special education, but is not used by itself. In terms of other metrics, a few others were discussed. Billy Powers, who helps develop Pre-K PFS contracts as a PFS Fellow at the Sorenson Impact Center,³ said that one of their future projects may use the ESI-R as a developmental screener. The ESI-R, or Early Screening Inventory-Revised, would help determine eligibility for further testing, not immediately gauge risk for special education, and would be used in conjunction with the PPVT and an English Language Attainment exam for ELL students.

Interviewees also observed that PFS should incorporate more evaluation at different periods of time by measuring several outcomes, as opposed to just one, as in Utah’s case. Investors would pay at different points for different outcomes, like they do in PFS contracts in Home Visiting programs like Nurse-Family Partnership, in which evaluators assess multiple child and parental outcomes, as Mark Innocenti explained in his interview. Innocenti, the independent evaluator of the PFS deal from Utah State University, calls this a “scorecard approach,” where investors would pay, for example, “both for special education avoidance, and

³ The Sorenson Impact Center is located within the David Eccles Business School at the University of Utah that provides technical assistance to potential actors interested in developing PFS.
for school readiness at kindergarten entry, and then again for third grade reading skills.” By eventually paying for different points for different metrics, Innocenti states, the school district has an incentive to ensure that classroom quality is maintained as a child progresses through school. In fact, this exact combination of metrics was used by Chicago Child-Parent Center in their more recent PFS deal. Having several metrics also “blunts criticism” that the contract is only focusing on one outcome, according to Joe Waters, an interviewee from the Institute for Child Success. It remains to be seen what criticism they, and other PFS deals with multiple outcomes measured, will receive.

A few interviewees mentioned school readiness as another outcome to study in Pre-K. Though Bill Crim was one of the interviewees who supported measuring the outcome of school readiness, he also discusses the challenges of measuring it:

The challenge of school readiness as a metric, I think, is nobody’s put a price tag on what it means if a kid isn’t ready in kindergarten. If they score two standard deviations below what the mean is on that school readiness test…I don’t know anybody in Utah that has assigned a dollar value to what it costs for kids not to be ready for school. That seems to me one of the biggest challenges with all this. For me, and for many people, the evidence generally is persuasive that we will save money if we help invest money in early learning for kids that’s high quality. But it seems like the debate is, exactly how much do we save and where those savings come from?

As Crim mentioned, there are challenges associated with studying that outcome; namely, that it is not yet monetizable in a clear and evidence-based manner.

Another challenge for using school readiness as an outcome of success is determining what tests would qualify as a proxy for school readiness and whether those are standardized or not.

Discussion.

Though the PPVT came under criticism, the literature suggests that the PPVT was in fact recommended by experts, namely from the Committee on Developmental Outcomes and Assessments for Young Children of the National Research Council (Innocenti, 2015a). However,
the debate around the use of PPVT has been largely overshadowed by a discussion around which outcomes to measure in future iterations of PFS. This is likely because future PFS projects in Pre-K will choose measurement tools that are relevant, feasible, and known in their community or service provider, but more importantly, they will only choose tools necessary for the outcome(s) they decide to measure. Therefore, a debate over the PPVT is irrelevant for projects that do not decide on avoidance of special education as their outcome of success. For those projects that do decide on avoidance of special education as one of their outcomes of success that they measure, the PPVT has not been ruled out by experts and can therefore continue to be used, or, stakeholders can look at other tools, since “a specific outcome can [often] be measured in multiple ways” (Rohacek & Isaacs, 2016).

Movement towards school readiness and literacy as outcomes of success was made in the Chicago Child-Parent Center PFS project. Rohacek and Isaacs (2016) enumerate several other options for future Pre-K PFS iterations to consider; namely, shorter-term proxies for much further-out outcomes of success.

**Programs and quality.**

The high quality preschool model created by Granite School District was the only one in the area with enough years of data at the time of transaction development, which is why it was chosen for the PFS contract. The evaluator for the PFS deal, Mark Innocenti, said the higher quality programs have less of a fade-out effect for the students than lower quality programs, an important point for developers of the contract. That is, the program’s effects will last longer than the first few years of elementary school. As a few interviewees noted, it was not the only program that could be shown to be effective, but it was the only one that had three years of data using a nationally normed test, the PPVT.
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One of the criticisms received by Utah stakeholders was that the preschool program was insufficiently funded by investors and that the Salt Lake PFS deal could not have achieved such high success rates (99% in the first cohort) with so little spending per pupil. Speaker Greg Hughes responds to that criticism in this manner:

What I think that the pilot showed and the only reason that I think we were able to pass the bill was that we had good data that showed we were able to move the needle with the finite resources that they had and that you can truly make that difference.

Hughes’ statement that Utah showed it could make a difference with finite resources complemented another interviewee’s observation that Utah knew how to get a lot of value with less spending since it was used to working with lower budgets for public expenditures.

**Discussion.**

Interviewees’ responses echo my review of the PFS literature. Higher funding does not always guarantee higher effectiveness (Innocenti, 2015a). Crim (2015) also points out that the *New York Times* article by Popper (2015) used a “fundamentally misleading comparison” when comparing reductions in special education claimed by various preschool programs around the country. An expert in the article cited data that studied children of all income levels, while Utah’s data looks only at low-income children. But low-income children with other risk factors are more likely to be at risk for special education (Innocenti, 2015a); therefore, they should show larger reductions with the right intervention. This may have been key to why other experts, who are used to looking at data for mixed-income children, found GSD’s results unbelievable.

**Investors for Pre-K PFS.**

Julia Korn, a former associate at Social Finance, suggested in her interview that different types of funders may be better suited to Pre-K PFS versus non Pre-K PFS. Education

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interventions inherently have longer timelines for desired outcomes—as opposed to interventions that aim to achieve shorter-term outcomes like staying out of jail—so investors should be comfortable with a longer timeline. As she puts it, “I don’t think it makes sense to think of education in 2- or 3-year increments, where you don’t always know what the outcome you want is…like, are our kids doing better?” Her point is that in 2 or 3 years after an educational intervention for children, it is hard to determine whether the program worked to its fullest potential—that is, doing better in longer-term outcomes that manifest many more years down the road.

Korn says that the best funders for the education space, then, are those from traditional foundations. According to Korn, foundations might be “more comfortable with longer timelines for payback, whereas some of these other banking investors are really looking for, in 3 years can we mark this box—‘success’ that we kept kids out of special ed.” An added benefit of contracting investors from foundations is that these types of funders normally give away money to programs, not expecting to receive it back. But through PFS, they have a chance of getting their money back, plus potential returns.

Discussion.

In a similar vein to Julia Korn, Rohacek and Isaacs (2016) present the variations in different types of funders. They write, “What is acceptable to funders will vary; most will want to recoup their principal and receive some level of return, but some philanthropic funders do not require returns” (p. 3). This corroborates one of Korn’s recommendations. However, Gustafsson-Wright et al. (2015) found that PFS investors they surveyed entered PFS with the motivation to fulfill corporate social responsibility work and were not opposed to or indicated interest in recycling their repayments after the project’s conclusion.
Utah’s lessons learned in non Pre-K PFS.

In this section, Utah’s lessons learned that are applicable to future iterations of non Pre-K PFS will be presented.

Outcome payor.

Mayor McAdams discussed the difficulty Utah stakeholders had regarding the complexity of deciding which level of government to finance PFS contracts, also known as the wrong pockets problem, as he describes below:

The challenge for us was the fact that the State of Utah pays special education, so if we stepped into pay, we would not be saving us [Salt Lake County] money…we would be saving the state money. But my first point was that they’re all the same taxpayers in the same state, so it may not help the Salt Lake County’s budget, but it would benefit the taxpayers we serve.

The mayor’s approach to this problem deserves attention because it puts the taxpayers’ benefits over the savings accrued to the government entity. Often, this is a major roadblock to implementing PFS—not knowing whether the entity that initiates Pay for Success the program will accrue the benefits. However, it is worth considering how much of this burden local governments should be expected to take on.

In certain cases, PFS has the ability to harness the federal government’s grant money. If the federal government realizes that they are saving money with PFS projects (e.g. Medicaid savings in Home Visiting), they may fund competitive grant processes.

Discussion.

The wrong pockets problem has been extensively discussed in this paper. From a federal wrong pockets perspective, however, Roman (2015) posits that PFS forces federal governments to seriously consider sharing PFS savings with the state or local government in order to incentivize states or localities to undertake more effective or more evidence-based programs.
Transaction development costs.

The time it takes to develop a PFS transaction before launch can be staggering and sometimes insurmountable for several government entities, even if the government officials know which program they want to use PFS for and which level of their government will finance it upon success. One interviewee, Fraser Nelson, who was closely linked to PFS projects in Salt Lake County, cited a total of 10,000 hours of labor spent among all the parties involved over the course of two years. At the beginning, the one or two parties who initiate the transaction must work to get other parties on board. Raising money for a development fund to pay for the hours of labor during the transaction development period takes time in and of itself. Then, each party who has expressed interest must actually agree to all of the terms in the contract, which can take a lot of time, but even more significantly, a lot of money to hire and pay the lawyers and experts responsible for drawing out that contract. Once all parties agree, they have to then continue to educate the more tertiary stakeholders, as these financial provisions and legal terms are not easy to understand. In Utah’s case, examples of tertiary stakeholders included Salt Lake County Council members and the state legislature.

Discussion.

The lengthy period of transaction development is not a unique challenge for Utah. The Brookings report, which studied 38 PFS projects, found that the range of time for project development was six months to three years (Gustaffson-Wright et al., 2015). Survey respondents from that study “anticipated that the time to develop the deals would decrease as the market matured,” as is the case for the United Kingdom (p. 30).
Federal assistance in PFS knowledge sharing could also reduce the time costs of future projects. The Government Accountability Report (2015) proposes a “central” and “collaborative” mechanism for agencies to share technical and process information across the country (p. 64). This is a sound recommendation, though intermediaries or technical assistance providers whose entire purpose is to provide this technical expertise for a fee may object to this. Gustaffson-Wright et al. (2015) also proposes workshops, conferences and easily accessible online content for facilitating PFS.

**Important qualities of PFS actors.**

These high transaction costs make it that much more crucial to recruit the right candidates for the PFS deal. Being the right candidate often means having certain qualities that will be discussed here.

*Service providers.* One interviewee from the State Budget Office in NC, Erin Matteson, talked about the importance of having a “fairly mature” service provider. To engage in PFS, the service provider needs “enough of a reputation and record of success and demonstrated performance to be able to gain support from the investment side.” Service providers must also be fully prepared for total exposure and constant evaluation and interfering. Utah interviewees were not asked specifically about the qualities needed for a service provider in PFS, and no service provider actors in the Utah PFS deal were available to be interviewed to gain a more thorough understanding of these qualities.

*Level of government involvement.* As discussed before, the level of government or the specific agency that will be the outcome payor is important. They should ideally be the level of government or agency that will accrue the largest savings from PFS.
Intervieeees also recommended harnessing federal grant money for supporting local PFS. The federal government, according to Fraser Nelson, is realizing more and more that they can save money with PFS projects too (e.g. Medicaid savings from Home Visiting programs or programs that are aimed at reducing hospital stays), so they are funding competitive grant processes to receive help from an intermediary or consultant. Fraser Nelson, who is now working on more PFS projects with Salt Lake County, said that the federal government has “really stepped up between our first and second transactions.”

**Political leaders.** Several interviewees mentioned the need for a political leader to spearhead and commit their full support to the PFS effort with their time and political influence. Stakeholders in Utah highlighted Mayor Ben McAdams’ political leadership as a key reason for the PFS contract’s successful implementation. Fraser Nelson discussed how a high-level committed leader is more likely to have the political will to see PFS to completion—something that is “expensive and hard and risky.” She said, “If you don’t have that kind of ability to gain the political will, to push something like this through, and you don’t know what it is you want to change, you can’t even begin to do it [PFS].”

**Investors.** Investors are more likely to be interested in PFS if they can replicate projects that have already been successfully undertaken, especially given huge transaction costs of time, resources, and money. One interviewee, Jeff Schoenberg from Pritzker Family Foundation, recommended thinking of creative ways to incentivize banks to invest in PFS. One of his suggestions was to recruit banks who are CDFIs, or Community Development Financial Institutions, or banks who need to meet their CRA requirements.5

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5 CDFI: Community Development Financial Institution. Private-sector, financial intermediaries with community development as their primary mission...[but] with a variety of structures and development lending goals.” (CDFI Coalition, 2016).
Having foundations as investors instead of traditional bankers may have some advantages, since foundations are more comfortable with longer timelines and may even want to recirculate their success payments back into the program the PFS deal was funding, leading to longer-term sustainability for the program itself, outside of the PFS contract.

*Intermediaries.* Importantly, for all of these players to get on board with PFS and stay on board, an crucial PFS actor should be present—the PFS intermediary, sometimes called a project manager. An alternative to an intermediary is the technical assistance provider. These may be nonprofits or centers run by universities. Some PFS deals, like Salt Lake’s Pre-K project, did not hire an official intermediary, leaving those less experienced and with competing priorities for their time and resources to run the extremely long and resource-heavy negotiations. Fraser Nelson estimates that the PFS actors spent around 10,000 or more hours on Salt Lake’s upcoming portfolio PFS project that also does not have an intermediary. As the sole project manager for that portfolio project, her recommendation is to hire an intermediary to help run these complicated and exhausting negotiations, even in the case that the PFS deal falls through:

There have been, what, ten completed transactions—that’s not a lot. There are many, many in the pipeline, but very few that have actually closed. And they usually don’t close because it’s hard to find the final investment. It’s much harder than I thought it would be. You have to have those things pretty dialed in. You need money, people who are willing to risk an investment on something that may not work. You hope it works, but it may not work. That’s not easy to do either. That’s why I think having a paid consultant intermediary, whose job it is to help get this thing over the finish line, or to be with you when you realize it can’t, is really important.

Nelson’s recommendation is enlightening in that she recognizes the importance of an intermediary’s presence regardless of whether the deal passes or falls through. Her difficult experience as the current project manager for the upcoming portfolio PFS projects in Salt Lake particularly supports her advice.

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**CRA:** Community Reinvestment Act of 1977. “Intended to encourage depository institutions to help meet the credit needs of the communities in which they operate.” (FFIEC, 2016).
Discussion.

These actor qualities are corroborated by the existing literature. The most crucial of these appear to be the maturity of the service provider and a political champion (Government Accountability Office, 2015; Gustaffson-Wright et al. 2015).

Messaging and framing.

This section pertains to the messaging and framing of PFS during development, after launch, and after release of interim results. Billy Powers, a Fellow at the Sorenson Impact Center working on upcoming PFS deals, felt there were several lessons to be learned from how the Utah PFS deal was messaged and framed after launch. He used the 99% special education avoidance number as an example of a claim the PFS actors made that was a “red flag” for most critics. “Without irrefutable evidence, it’s just too sensitive of a topic…[to] make causal claims like special education avoidance.” He clarified that the evaluation was completed per the contract’s terms and was careful to not place blame upon the evaluation conducted. “There was nothing improper about what Utah did, but my biggest lesson that I learned is that it was the way in which it was messaged.” This could be an important takeaway for others considering new PFS deals, whether it be in Pre-K or not.

Another interviewee discussed the importance of messaging and framing before launch, during the transaction development period. When Kerri Nakamura, Program Director at the Sorenson Impact Center, messages to various PFS actors, she selects different key points to different key players:

There are going to be key points that different people hit on, and once I figure out which one really works for you, then I’m probably going to show you a demonstration of the fact through the lens that works best for you and lets you be most supportive. But the danger is, you have to be very careful that you never change the facts of what’s going on. I can emphasize this fact over this fact, but the fact base needs to remain the same.
Nakamura was careful to separate choosing different points of emphasis from purposely misleading the target audience and saying what they wanted to hear, even if it was untrue.

Speaker Greg Hughes raises another important aspect of messaging and framing that has changed the way PFS is talked about and perceived:

Some people call it the Social Impact Bond, SIB. Some call it the Pay for Performance or Success model. I find it depends on your politics. If you're a conservative, you like the Pay for Performance moniker; if you are more left-leaning you like the Social Impact Bond. It really is a unique issue in that it really strikes a chord in a bipartisan way. The words that you use and the way that you talk about the projects or the policies matters.

Not all interviewees agreed that the two monikers had distinct party line differences, but Hughes’ overall point that the framing of the mechanism mattered for how PFS was perceived is an important takeaway. Kerri Nakamura’s opinion is that SIBs evolved into PFS because it was confusing:

I think we’re all moving away from Social Impact Bond, because at first, that was a very confusing term for people, because when you say “bond” you think, we’re building a building, you think we’re doing some capital infrastructure and that we’re incurring debt for that. But definitely, I might talk about [providing] services to the vulnerable population versus, government doesn’t have to pay unless it works. Some of the semantics you change based on who you’re talking to.

Her statement may provide some clarity for readers who question the use of the word “bond” and for readers who are confused about the often interchangeable and prevalent usage of both labels in the media and literature.

Discussion.

Recommendations as specific as Hughes’ and Nakamura’s regarding the messaging and framing of PFS did not appear in the literature that I reviewed. Given the lack of recommendations in this area in other literature, this section may be of particular interest to actors seeking to engage others in PFS.
Perspectives from North Carolina: Past Progress and Moving Forward

In 2015, NC put out a Request for Information (RFI) to explore PFS across several sectors. However, there has been no substantial progress made in PFS.\(^6\) A few officials did explore some options, but none were seriously considered. Additionally, no feasibility studies for PFS in NC were ever conducted. Despite its seeming irrelevance, North Carolina’s consideration of and inaction in PFS can still be informative for policymakers, which is why I chose to include the state in the comparative case study. This section is informed by two NC state officials, one former and one current, a president of a prominent charitable foundation in NC, as well as a few key informants not directly involved in NC but who had relevant expertise. The section will take a look at what NC’s challenges were in PFS and how that can inform other PFS projects.

**Challenges for North Carolina.**

The two state officials interviewed in NC mentioned the need for a political leader to step up and give their full support to the PFS effort with their time and political influence. Stakeholders in Utah had highlighted Mayor Ben McAdams’ political leadership as a main factor in the Pay for Success contract’s successful implementation. One interviewee pointed out similar leadership in South Carolina Governor Nikki Haley’s successful effort to implement PFS in her state. Professor Ken Dodge of Duke University stated that before any feasibility studies are conducted, the first step should be to identify someone in government that would see the PFS project through from start to finish. The Office of the Governor of NC did not have a lot of sustained interest in PFS following the RFI, according to several interviewees. Moreover, the upfront cost of setting aside the payments for PFS was too much of a deterrent for a lot of stakeholders.

\(^6\) A copy of the RFI is available at [http://www.payforsuccess.org/sites/default/files/10880400.pdf](http://www.payforsuccess.org/sites/default/files/10880400.pdf)
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leadership in the state, according to Joe Coletti, a former state official in NC. He said, “You need to throw all of the resources at it. That’s the level of commitment you have to have.”

Not only did NC not have a high-level committed political leader, but it was also impacted by turnover in the state officials responsible for investigating PFS for NC. Though the reasons for this turnover were not explicitly discussed in any of the interviews, it is readily apparent from the interviews that the turnover did slow down and eventually halt all progress in PFS in NC.

Erin Matteson, Assistant State Budget Officer for the State of NC, noted another challenge for NC: the lack of strong legal and contract professionals within the state. She claimed that the lack of expertise in those areas would ultimately hinder the actual transaction development of a PFS contract in NC, as PFS contracts are complex arrangements. Specifically, she mentioned that some officials she worked with were concerned that the contract would not adequately protect the state’s interests given that the legal and contract professionals were supposedly not up to the task. She later acknowledged, however, that was the benefit of having an intermediary or project manager who could provide technical assistance for such tasks. Joe Coletti also agreed with this latter part, that if NC had gotten to that point of the process where there was real, sustained motivation, they would have realized it was “beyond our abilities—let’s bring in some outside counsel.” Both interviewees’ responses indicate that the root of the problem went deeper than a lack of expertise.

Joe Waters at the Institute for Child Success, the intermediary for the South Carolina PFS deal, said that a challenge he perceived unique to NC was the relatively risk-averse political climate in NC. He used the example of SC to elaborate:

In SC, where Republicans have been in control of the legislation since 2000, they have now — 16 years later — realized that they’re not in perpetual campaign mode, and that it’s time to govern. And so we see two things that are different. One, we see various shades of nuanced positions within the
Republican caucuses, both the House and the Senate. Second, you have a willingness to take risks in SC because there is no chance in any time in the near future, that the Republicans are going to lose control of either the General Assembly or the Governor’s office. So in that environment, there’s an awareness that it is time to govern, that there’s no need to be in perpetual campaign mode, on the one hand, and secondly, that seats are secure and some risks can be taken. All of that combines to mean that SC is much more interested in these sorts of innovations and willing to take those risks. And NC, from my perspective, just does not seem to be willing to take those sorts of risks.

Waters’ overall point is that NC is generally considered a politically divided state, with the Republicans only assuming tentative control in recent years, producing an emphasis on reelection and campaigning more so than governing and taking some risks in order to govern in a substantive way.

Matteson also recognized the difficulty of communication about a potential transaction across state agencies that were very independent. “It’s hard to herd all those people together and get them focused on one thing,” she said, especially “something that’s going to take a lot of their time and a lot of staff time,” amidst “all of the other problems and priorities that they have.” Her observations suggest that a culture of cross-department communication was not present in the state government.

Matteson observed that the previously discussed wrong pockets problem impacted the progress of PFS in NC. She said it disincentivized some departments from looking into PFS because they work in “silos,” making it difficult to “think about doing something that’s going to generate savings not for them but for somebody else.” She noted that this was especially true while talking to leadership too generally and abstractly about PFS—but once the actual programs were discussed, people were “a little more oriented at improving things from a broader social perspective.” That is, people in leadership positions in the state considering PFS were initially viewing it through a primarily financial lens, while other parties were likely thinking more about the services and benefits to society.
Matteson notes another major challenge: the misalignment of policy priorities between the interested parties and the state government:

What they were proposing to do didn’t necessarily meet a top priority need for the state. It wasn’t quite what they had in mind…Some of it is, how do you find the right fit, because you need it all to come together, and you just happened to have a provider or investor that want this thing that meshes perfectly with this need the agency has. Sometimes what the nonprofits and others want to do is not necessarily the top need that we have.

As Matteson says, these needs should match up, and if they do not, perhaps the deal should not be initiated—a partially developed transaction that does not launch is essentially a sunk cost. If there are red flags such as this one, perhaps that is a sign that it is not the right time or fit for PFS.

Discussion.

As discussed in Utah’s case, a high-level, committed political leader was crucial to Utah’s success. In NC, the absence of continuous commitment from both high-level leaders and lower-level state employees considerably discouraged progress in PFS. In all likelihood, the high-level leader’s commitment would have sparked more commitment from state employees responsible for looking into PFS. This information could be of potential interest for PFS scholars looking to determine what qualities or characteristics are common in state governments that do and do not decide to engage in PFS.

Challenges and strengths in Pre-K for NC.

Erin Matteson observes that NC differs from other states in the larger role it plays in education, necessitating statewide action:

NC has a much stronger hand in the role of education than a lot of other states do. Other states can be very city and county managed and operated, so it’s easy for a county to go do something experimental with their school system and do one of these PFS models, whereas in NC, you’re talking about doing that statewide if you’re going to do it, which is much more difficult. There are geographic and social demographic differences for each LEA [Local Education Agency] that PFS might work in one but not necessarily work in all. It’s not that you couldn’t do something specific to a county, but it is harder to do something like that.
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Matteson’s second point is that PFS is harder to institute statewide in a state that has unique differences and idiosyncrasies for each Local Education Agency in the state. Based on Matteson’s opinion then, the increased role of the state of NC in education is thus seen here to be a challenge.

One interviewee felt that NC should not consider Pre-K for PFS for a completely different reason. According to Sandy Hong at the Frank Porter Graham Institute (FPG) at UNC-Chapel Hill:

NC Pre-K has a pretty long history of measuring quality in NC based on some of the measures of preschool environment that were published at FPG. And NC is one of the pioneer states that really defined the idea of quality and has incorporated that research in a really integrated way with their policymaking, historically. Now that’s been somewhat different in the last 10 years, but there continues to be a legacy of understanding quality in NC among early care and education providers. So NC actually has a pretty strong precedent for measuring quality compared to other states in the US. I think that NC has a pretty saturated market in terms of providers knowing what quality is, knowing how to improve their quality, and having the supports to get there other than funding. So it seems to me unless there’s just money to pay for those things, it’s not a question of whether or not programs feel incentivized in North Carolina. But that’s not true in the rest of the country.

Hong makes the argument that NC’s trailblazing history of measuring quality makes PFS unnecessary, since PFS incentivizes social programs that are evidence-based but not likely to receive enough political attention on their own. However, as she points out, the rest of the country does not have that same history, making PFS in Pre-K a more likely and necessary choice for other states.

Discussion.

A recent study conducted on Pre-K in NC could shed some light on this discussion. Though Sandy Hong stated that Pre-K does not need to be the focus of PFS in NC, the 2016 study indicates that increased government funding for NC Pre-K might be preferable, and PFS might be the innovative mechanism needed to secure that funding. In this study, NC Pre-K’s program effects did not fade out over time and in fact grew, in some cases; moreover, the researchers indicate spillover effects for lower-poverty families who were not part of the NC Pre-
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K program (Dodge, Bai, Ladd, & Muschkin, 2016). Therefore, sending more children into public schools who have attended NC Pre-K could be beneficial to society as a whole, and especially for government (Dominello Braun, 2016). Pre-K advocates could consider PFS as a method for scaling up such a program, being careful not to sacrifice quality as they do so.

**Possible next steps for PFS in NC.**

To move forward with PFS, policymakers or interested actors might consider the following recommendations from the interviewees. After targeting a political leader to champion PFS, as Ken Dodge recommended, the interested parties could go to the big private foundations and the banks in Charlotte, especially those that are CRA-regulated. On the legislative side, as Joe Coletti alluded to earlier, there has to be a willingness to set aside money in an escrow account. As Erin Matteson stated, service providers have to align with the state’s policy priorities.

A few interviewees predicted that if a PFS deal were to take place in NC, it would be for a Home Visiting program, similar to South Carolina’s PFS deal with the Nurse Family Partnership, given that NC’s legislature is Republican-controlled. According to Joe Waters at the Institute for Child Success, Home Visiting enjoys greater support from Republicans in the legislature than Pre-K does. He cites two reasons for this:

- It is more attractive to Republicans because it is a health intervention in a lot of ways and it’s focused on controlling Medicaid spending. Secondly, it’s not about government doing the job for you, it’s about empowering the parents to be better, more responsible parents, and that’s very attractive to Republicans at least in SC, and I suspect it would be similarly attractive to NC’s Republicans as well.

Though Home Visiting was not extensively researched in this case study, it is interesting to note that different social programs might fit better in different political contexts and have a better chance of getting to launch.
Discussion.

Further research might investigate reasons for why certain preventive programs have more partisan support than others within state governments, and whether that differs across state lines.

The Case For and Against PFS

In this section, I summarize the reasons all interviewees gave for why they support the PFS mechanism and what reservations they have around PFS.

For.

Some interviewees recognized how much the conversation around certain issues and around a social program itself can change because of PFS. Within Utah, there has been an increased awareness of benefits of Pre-K in the business community, which invested in a nontraditional program, and conservatives in the state, whose staunch opposition and skepticism prior to PFS evolved into helping pass legislation supporting Pre-K. Utah, previously a state without state-funded preschool, was able to pass SB101, the High Quality School Readiness Expansion bill, in early 2016. As Sandy Hong from the Frank Porter Graham Institute observed, “[PFS] is a politically popular option…It’s a way to build support” for high-quality, expensive services.

Some appreciated how PFS encourages a cycle of continuous improvement in public programs. According to Mayor McAdams, PFS allows policymakers to “set up a premise, act, measure, evaluate, improve, iterate, and start the cycle again.” The emphasis on an evaluation component was highly valued by interviewees, even though it could be exhausting. The Mayor said, “The PFS context has been critical because it requires us to have an empirical basis for
everything we do, to clearly state our outcomes, to focus the population that we’re trying to work with very directly.’”

PFS emphasizes and encourages the measurement of outcomes, not processes. The Pre-K programs, for example, are not deemed successes by how many children they serve, or what their staff to child ratio is, but rather by the best estimate of how the children fare after the intervention. Even if the exact outcome and proxy are under contention, they are still a vast improvement over process metrics, several interviewees argued.

Some interviewees valued the flexibility of PFS. If designed correctly, the PFS project allowed programs some flexibility to individually target their programs as best they could in order to get the desired outcomes. According to Speaker Greg Hughes, PFS does not let policymakers hide behind the excuse that a government-funded program is not working because it has insufficient funding. PFS, because of its constant monitoring and evaluation, can be tweaked mid-contract if outcomes are not being achieved as desired. For these reasons, he saw the merits of the New York Rikers PFS deal, where PFS and the program had to be shut down because it was not achieving outcomes. In his words:

The investor's program did not work, no one was reimbursed, and that program was gone. If it were a government-sponsored program, I will tell you how that conversation goes: How's it going? Going terrible. Why? We don't have enough funding. Well, here's some more funding. How are we doing now? Terrible. Why? We need more funding. It's a circular argument in government, that oftentimes what's wrong with the program is that you're not investing enough. As a lawmaker for 14 years, sometimes you feel that you never get in front of that argument, or that line of logic. You're never spending enough. Any failure of any program we put in place, those that run can always point to insufficient funding as their problem. How great it is that if we have a program in a PFS model and the desired outcomes are not met, it's gone.

For Speaker Hughes, cutting—not increasing indeterminately—funding to unsuccessful programs is an essential part of governing and PFS encourages that.
Discussion.

These findings are consistent with the literature. Speaker Hughes’ anecdotal response provides a possible talking point or argument that would appeal to fiscal conservatives.

Against.

Again, though interviewees were not strictly opposed to PFS, some discussed reservations of their own or of their colleagues.

Julia Korn, formerly of Social Finance, Inc., raised a concern some have, that PFS creates perverse incentives on the participants’ end to achieve “success.” In the case of special education, PFS actors should be careful that there is no perverse incentive to “push kids through” the program and deny them services they need, just to achieve success. She did not have this same concern about the Utah PFS project.

Others felt that PFS is a lot of trouble for something that the government could just contract for without the tremendous effort that PFS can be. There are high transaction costs and the entire PFS process, from initial development to the release of final cohort’s results, can take more than 5 years. For example, the duration of Utah’s project will be about 7 years. Erin Matteson expressed that she was not pushing for PFS in NC because she had not seen a “good, true, clean model of it being done successfully at the statewide level” and was not convinced yet that it was worth the significant costs. Relatedly, the high transaction costs may not be worth it to government entities that may not accrue the savings from the program.

Korn cautioned against a “misalignment between the outcome you are measuring and the outcome you really want.” In the was ineffective, but that the outcome the stakeholders were measuring, the cost of avoidance of special education, was not convincing as a proxy for true effectiveness.
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PFS may contribute to a reluctance to innovate in the social services program. Investors and policymakers may only want to put in this much effort if they know the outcomes are likely to be successful, which means they will look for tried-and-true programs, according to Rhett Mabry at the Duke Endowment.

Finally, Tess Davis from Voices for Utah Children discussed how many criticize how private investors can make a profit on social programs in PFS deals. They argue that these social programs should just be offered by the public sector without all of these complex transactions. As she puts it, however:

For the investors in our project, this was not a windfall for them. This isn’t their bread and butter. They did this because they saw the social value in it. Yes, they’ve made their money back in ROI [Return On Investment], but this is Goldman Sachs. This isn’t where they’re making their money.

That is to say, perhaps the central draw of PFS should shift from the traditional focus on financial benefits and rather focus on the broader social value the mechanism offers, like an increased emphasis on flexible, responsive, evidence-based programs and measuring outcomes, not processes to measure true effectiveness.

Discussion.

Existing literature clarifies that the perverse incentive Korn refers to was anticipated and prevented in the Utah PFS project. Children who were at-risk for special education were not prevented from getting services if they needed them. Elementary school classrooms were mixed with PFS-participating children, children the PPVT deemed at-risk for special education, and children from the neighborhood that did not attend the preschool programs at all. Schools did not receive any information on which children belonged to which group—the independent evaluator, Mark Innocenti at the University of Utah and the Utah State Office of Education were the only ones with this information (Innocenti, 2015a). Future PFS iterations in Pre-K and non Pre-K should carefully guard against perverse incentives inherent in their social programs as well.
High transaction costs as discussed by Erin Matteson are covered extensively in the literature. Thus far, costs appear to remain high but there are signs that they could be reduced. The U.K. has been successful in implementing PFS with decreasing costs as its market matures.

Difficulty in aligning the outcomes with true effectiveness is not a concern that was raised in the Brookings report of actors that have already engaged in PFS (Gustaffson-Wright et al., 2015), but it is often raised as a concern about the PFS mechanism by other scholars from the outside looking in.

The perceptive point Rhett Mabry makes about the reluctance to innovate is a valid concern. As McHugh et al. (2013) warns, PFS could have the unintended consequence of “lead[ing] entities away from activities that are most needed towards activities that are most measurable” (p. 250)

The shift from talking about direct savings to government entities and rather to broader social value, as discussed by Tess Davis, could be a future direction of the messaging and framing of PFS. If explicit savings are reduced in emphasis, the intangible benefits of the social program could be incorporated into discussions of the social intervention as well. Intangible benefits are not readily monetized, though they are valued by society (Rohacek & Isaacs, 2016). On the other hand, the explicit focus on savings may be the only way for social programs to gain traction in fiscally conservative government bodies.

**Limitations of this Study**

A limitation of my study was the fact that certain key players involved in Utah’s Pre-K Pay for Success deal did not respond to my request for an interview. Their responses would have added greater validity to my findings as they were most centrally involved. Therefore, it was not
the number of interviewees (18) that was a limitation, but rather the lack of response from certain key figures, especially those from a service provider perspective.

Though my method of the non-standardized interview guide approach afforded me flexibility in my research (Patton, 1990), it did have a shortcoming. Interviewees may not have always had the chance to speak on certain issues because I assumed they would not have that expertise and therefore did not ask them the related question. However, as these interviewees often had distinctive experiences and positions, I thought it more advantageous to sacrifice greater reliability for deeper and broader insights into their respective expertise.

Because of time constraints, I did not have the opportunity to conduct follow-up interviews with informants. My very first interviews were much more exploratory as I was still gaining interviewing experience and a sense of what the most important questions were. Had I been able to follow up with those first interviewees, I would have been able to ask more incisive questions.

Finally, the qualitative approach allowed me to study two cases in-depth, producing a wealth of detailed information about those cases, but it does not lend itself to high generalizability (Patton, 1990). Therefore, the following section should be understood in context and carefully and thoughtfully applied in future iterations of PFS.

POLICY IMPLICATIONS

In this section, I synthesize the findings from both case studies and existing literature in order to show this study’s novel contributions to the larger discussion of PFS and draw conclusions for future policymaking.
For Pre-K Pay For Success

Despite the criticism the Peabody Picture Vocabulary Test (PPVT) garnered, other PFS deals in planning stages are still looking at the outcome of special education reduction to measure success of interventions. The difference is that they are looking at multiple outcomes hand in hand with different measurement tools.

There are less obvious reasons to use PFS in Pre-K as well. Though a state with a relatively high emphasis on Pre-K quality, such as NC, may not appear to need PFS to incentivize development, PFS could potentially be used to scale up the high quality program to an even larger extent, especially if there are spillover effects into elementary school classrooms.

Additionally, certain types of funders, like foundations, might be more predisposed to wait out longer timelines for outcomes that are measured later in a child’s life. This might also indicate a predisposition to provide continued funding past the conclusion of a PFS contract in order to conduct a longer study of the program participants. This money would not be paid back, but would contribute to a stronger evidence base.

For Non Pre-K Pay For Success

Future iterations of PFS might consider a bidding process to choose the service provider and respective program model. While Utah’s choice happened to be the strongest program in the area, that is not always the case. If a social issue is targeted first, then PFS actors have to be prepared for the possibility that there may be several interventions that aim to resolve that particular issue, and that the most evidence-based model or intervention may not be the one they had in mind.

A strong presence of cross-sector partnerships in the community that is trying to engage in PFS is tremendously helpful. Before potential actors begin PFS activities, they may want to
consider scoping out such partnerships and connections first. If they are not present, actors should try to build them up before PFS enters the conversation. In Utah’s case, the United Way of Salt Lake had a board that consisted of leaders from all over the community, facilitating the early conversations.

Strong political leadership is another necessary ingredient for successful development. Knowing that higher-level leaders are so invested and committed spurs lower-ranking government employees to commit time to PFS. If a high-level leader initially shows interest but does not follow through, the PFS effort will lose momentum. Mayor McAdams and Speaker Greg Hughes provided strong leadership in Salt Lake, but the absence of it in NC contributed to NC’s lack of progress.

For interested parties worried about the complexity of PFS, there are technical assistance providers that can help. However, hiring one too soon in the exploratory stages of PFS could turn out to be a sunk cost, while never hiring one is inefficient for all other PFS actors, as seen in Utah. Whenever PFS looks like a moderately strong possibility, an intermediary/project manager or technical assistance provider should be brought in.

PFS actors should keep in mind the valuable lessons learned in messaging and framing of methodology and PFS more broadly from Utah’s case. Quasi-methodologies may certainly have their merits, but actors must publicly acknowledge its limitations so as to control the narrative. Additionally, experts in the relevant fields should be brought in as early as possible. These outside experts can lend the project unbiased credibility later on where the project’s stakeholders can’t due to their high investment in the project. In the case of Utah, the limitations were almost all recognized after the release of the first cohort’s results, and though stakeholders tried very
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hard to rewrite the narrative with op-eds, FAQs, fact sheets, and the like, what the public will most likely remember is the highly critical *New York Times* piece.

**For Evidence-Based Policymaking**

As parties interested in PFS move past solely focusing on savings, they might consider another strength of PFS: the development of stronger proxies for longer-term outcomes and for intangible benefits. This could better inform economic evaluation tools, as discussed in the Background of this study.

Ultimately, PFS brings to light the importance of collecting data on outcomes in order to evaluate policies and programs. To all interviewees, rigorous evaluation of programs is essential, not only to hold government accountable to taxpayers but also to beneficiaries of such programs. In the words of Salt Lake County Mayor Ben McAdams, “if we have programs that are promising that outcome and failing to deliver, then the costs on the people who are in our stewardship and their families and loved ones are so high.”

**Areas for Future Research**

This study has a few key contributions to the existing body of research. It is the first to compare Utah with North Carolina. Knowing factors that contributed to Utah’s success and NC’s lack of progress could help inform interested actors develop PFS in NC when a policy window opens for them.

Additionally, most of the literature on the Utah PFS project was written around the time of the initial launch or the months immediately following the release of the first cohort’s results. This study is more temporally removed, allowing for less reactive and more reflective contributions from Utah’s stakeholders highly invested in the project. Moreover, the lapse of
time allowed for interviewees to reflect and consider tangential lessons learned from subsequent PFS projects launched after Fall 2013.

However, further qualitative research should be conducted with the stakeholders from these subsequent PFS projects to comprehensively understand the lessons learned from their experiences. Additionally, as I discovered with NC, there are still valuable lessons to be learned from researching failures to launch around the U.S.

More research needs to be conducted within the Pre-K field for PFS purposes. Though early childhood education has broad support and evidence, it remains to be seen what the “best” proxies for long-term outcomes (those that accrue many, many years later) are. That is, what proxies have a clear dollar value behind them that also accurately indicate long-term success for program participants and long-term savings for the government entity? Pre-K PFS projects that have launched or are in the pipeline since Utah’s in 2013 are experimenting with new and creative possibilities, but a meta-analysis or comprehensive review of all Pre-K projects will be of the utmost importance to decide on best practices.

As more projects launch and see interim results, researchers need to investigate best practices for choosing the research methodology that underlies PFS projects. Ultimately, the choice is left to the stakeholders in the project, but the impact of this choice cannot be understated and therefore should undergo much deliberation. More conclusive research on best practices could assist PFS actors in this difficult choice. As one interviewee pointed out, not enough emphasis is put on replication studies and meta-analyses of these studies with similar intent. Researchers should look into how they can support more replication studies and meta-analyses to build a stronger foundation of evidence for or against public programs and contributing to the “cycle of continuous improvement” in public policy.
CONCLUSION

Aside from numerous specific implications for future policy, this study of Utah’s successful launch and North Carolina’s partial exploration of PFS has two high-level takeaways. First, the overall goal of PFS actors should be a long-term sustainable solution to these tough social problems. It is not enough to find nontraditional sources of funding and shift risk—PFS should fundamentally change the conversation around the social issue, potential interventions for that issue, and the rigor of evidence behind those interventions. In Utah, PFS was able to bring at-risk children to the forefront of the policy conversation, change several policymakers’ and laypersons’ minds about the merits of Pre-K, increase the emphasis on evidence, and most importantly, work towards a more sustainable solution by increasing state-funded Pre-K for at-risk children. But it is still not the ultimate panacea, as one interviewee cautions: “Simply scaling a single strategy, even if it’s a high-leverage strategy like preschool, doesn’t solve the social problem like poverty for these kids.”

This leads into the second takeaway from this research. Society could use broader cross-sector partnerships to solve its most entrenched problems. PFS provides one path to achieve such partnerships because it brings together so many different stakeholders and their respective skillsets, from the private investor to the service provider, from the evaluators to the government, asking for their unique input and perspective. In this way, PFS is truly unprecedented in public policy, and therein lies its value to society.
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http://www.qsrinternational.com/what-is-nvivo


APPENDIX A

Figure 1. A visualization of the Pay for Success mechanism.

Figure 2. An example of the intergovernment wrong pockets problem.
PAY FOR SUCCESS: LESSONS LEARNED FROM SALT LAKE AND NC

Relevant text of Utah State Bill 101.

Section 53A-1b-105. Elements of a high quality school readiness program.

1. A high quality school readiness program run by an eligible LEA or eligible private provider shall include the following components:
   a. an evidence-based curriculum that is aligned with all of the developmental domains and academic content areas defined in the Utah Early Childhood Standards adopted by the State Board of Education, and incorporates intentional and differentiated instruction in whole group, small group, and child-directed learning, including the following academic content areas:
      i. oral language and listening comprehension;
      ii. phonological awareness and pre-reading;
      iii. alphabet and word knowledge;
      iv. prewriting;
      v. book knowledge and print awareness;
      vi. numeracy;
      vii. creative arts;
      viii. science and technology; and
      ix. social studies, health, and safety;
   b. ongoing, focused, and intensive professional development for staff of the school readiness program;
   c. ongoing assessment of a student’s educational growth and developmental progress to inform instruction;
   d. a pre- and post-assessment[1] of each student whose parent or legal guardian consents to the assessment that, for a school readiness program receiving funding under this part, is selected by the board in accordance with Section 53A-1b-110
   e. for a preschool program run by an eligible LEA, a class size that does not exceed 20 students, with one adult for every 10 students in the class;
   f. ongoing program evaluation and data collection to monitor program goal achievement and implementation of required program components;
   g. family engagement, including ongoing communication between home and school, and parent education opportunities based on each family's circumstances;
   h. for a preschool program run by an eligible LEA, each teacher having at least obtained:
      i. the minimum standard of a child development associate certification; or
      ii. an associate or bachelor's degree in an early childhood education related field; and
   i. for a preschool program run by an eligible private provider, by a teacher's second year, each teacher having at least obtained:
      i. the minimum standard of a child development associate certification; or
      ii. an associate or bachelor's degree in an early childhood education related field.

APPENDIX B

List of Interviewees

_Utah Stakeholders:_

**Investors:**
- Jeff Schoenberg, Advisor for Pritzker Advisors

**Project Intermediary (United Way of Salt Lake):**
- Bill Crim, President and CEO of the United Way of Salt Lake

**Child Advocacy Organization (Voices for Utah Children):**
- Tess Davis, Early Childhood Policy Analyst for Voices for Utah Children

**Government Officials:**
- Ben McAdams, Mayor of Salt Lake County
- Fraser Nelson, Director of Data Innovation for the Mayor of Salt Lake County
- Greg Hughes, Speaker of the House of the Utah House of Representatives
- Gretchen Anderson, Director of Pay for Performance in the Governor’s Office of Management and Budget in the State of Utah

**Evaluators:**
- Mark Innocenti, Director of Evaluation at the Center for Persons with Disabilities at Utah State University

_North Carolina Stakeholders:_

- Joe Coletti, Former Deputy Director for the NC GEAR Initiative
- Erin Matteson, Assistant State Budget Officer for the State of NC
- Rhett Mabry, President of The Duke Endowment

**PFS and/or Pre-K Experts and Scholars:**
- Kerri Nakamura, Program Director at the Sorenson Impact Center at the University of Utah
- Billy Powers, Fellow at the Sorenson Impact Center at the University of Utah
- Joe Waters, Executive Vice President of the Institute for Child Success
- Kenneth Dodge, Director of the Center for Child and Family Policy at Duke University
- Cathy Clark, Director of the Case i3 Initiative at Duke University
- Sandy Hong, Research Scientist at the Frank Porter Graham Child Development Institute at UNC-Chapel Hill
- Julia Korn, Former Summer Associate at Social Finance
APPENDIX C

List of Questions in Interview Guides

Utah:

Development and Implementation

1. What position did you hold at the time of implementation of the PFS contract in Utah?
2. Can you detail what your involvement was with developing the PFS contract in Utah?
3. As far as you can tell, who or what was the impetus for the PFS process in Utah? How were they able to garner enough support to make it work?
4. What do you see as the biggest challenges in developing the contract?
5. What went well during the process?
6. What were some of the lessons learned in the process? How would you improve if you could go back and start again?
7. If involved in another PFS contract: What were the lessons you internalized from the Utah PFS project and how did you apply those to the new project?

HB96

1. Could you describe the purpose of HB96 and why it helps Utah’s PFS contract?
2. Can you tell me the story behind the passage of HB96? What kind of input did you get from the public and from your colleagues? If there was opposition, why were they opposed?
3. What preschool programs were chosen to receive grants from HB96?
4. Who is on the School Readiness Board (created by HB96) and how do you get on?
5. What does it take to get a bill like HB96 to pass in the state? How can another state learn from that process?

Management

1. What does managing the PFS contract in its current stages entail? What involvement do you require from the other stakeholders?
2. What challenges do you have managing the contract?
3. How can changes be made to the Pre-K contract if necessary?
   a. Is anything up for reform before the end of the contract?

Sustainability

1. What are the critical next steps for implementing the pilot programs and expanding Pre-K programs? How is Utah thinking about sustainability of the program after the contract ends?

Pre-K

1. How was the outcome of success chosen?
   a. What were the alternatives considered?
b. How would you improve on this outcome?
2. How was the Peabody Picture Vocabulary Test chosen?
3. How was the high quality curriculum used in the PFS project chosen?
   a. Is the curriculum consistent among all the service providers?
   b. Who is responsible for teaching that curriculum to providers?
4. Was the funding given by Goldman Sachs and Pritzker sufficient for each child’s education?
5. How long will the children in the cohorts be studied? Will they be part of any studies past the sixth grade?
6. What are the challenges and benefits around conducting a Randomized Control Trial in early childhood education?

Opinions

1. What is your opinion of replicating or trying similar Pre-K PFS contracts in other states?
   a. If positive: What advice would you give to those states?
   b. If negative: What would need to change for you to give a recommendation to other states to try this type of social financing?
   c. Either way: What do you think of implementing PFS in other issue areas? Would your advice stay the same?
2. Do you have any reservations about PFS?

North Carolina:

Developing PFS in NC

1. Can you detail what progress has been made in North Carolina in PFS and who in the government is behind that progress?
2. What are the challenges in this process for NC?
3. Can you detail what government involvement would be required in developing and implementing PFS?
4. Have any feasibility studies been conducted in North Carolina?

Early Childhood Education

1. What kind of curriculum would be provided in an early childhood education PFS project in North Carolina?
2. What are the challenges and benefits around conducting a Randomized Control Trial in early childhood education?

Opinions

1. What type of PFS project most likely to take form in NC? What organizations are likely to be investors/providers?
2. Do you have any reservations about PFS?
3. How is the 2016 election going to impact the implementation process in NC?

PFS and/or Pre-K Experts:
Interviewees in this group were asked a combination of questions from the first two groups depending on their expertise.