

Assessing the Feasibility of Lee Pesky Learning Center's Idaho Early Literacy Project



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Lee Pesky
LEARNING CENTER

 SORENSEN IMPACT

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Executive Summary



PROBLEM

Meeting early literacy benchmarks is linked to a host of important long-term academic and social outcomes. Students, especially those educated in lower socioeconomic areas, are at-risk for reading failure, and those who do not meet early literacy targets are at increased risk of dropping out of high school, incarceration, unemployment and other negative social outcomes. In Idaho, almost half of the children entering Kindergarten in 2016 scored below grade level proficiency on the state's reading assessment, with that number climbing to 56% for those matriculating into Title 1 schools. Yet reading failure can be prevented in many cases when children receive more effective early literacy instruction.



INTERVENTION

Lee Pesky Learning Center (LPLC or the Center) seeks to leverage a 'Pay for Success' contract with Idaho's State Department of Education to improve early literacy outcomes by providing more effective literacy professional development to Pre-K through second grade teachers serving students at-risk in Idaho. Evidence demonstrates that more children will enter Kindergarten ready to read under this training intervention, and LPLC also predicts increased grade level proficiency and special education avoidance by third grade. By building the professional capacity of providers and teachers to provide high quality reading instruction, we can effectively and efficiently meet the learning needs of the most vulnerable children in Idaho.



FINDINGS

As summarized in this report, LPLC successfully completed a feasibility assessment of our early literacy professional development intervention with a feasibility grant and significant technical support from the Sorenson Impact Center, which was in turn funded by the Corporation for National and Community Service's Social Innovation Fund. Our assessment, in joint agreement with the Sorenson Impact Center, confirmed the viability of Lee Pesky Learning Center's Pay for Success project, including the presence of a willing outcomes payor in the State Department of Education, and several private and philanthropic investors with interest in collaboration. Consequently, Lee Pesky Learning Center is moving forward into the structuring phase of our Pay for Success project.



Context

Literacy in Idaho

In Idaho, 49% of children entered Kindergarten in the fall of 2016 scoring below grade level on reading benchmarks, with that number climbing to 56% for those matriculating into schools with low socioeconomic status marked by the receipt of federal Title 1 educational funding. Children who enter school without strong early literacy skills too often fail to develop grade level reading proficiency by third grade, which negatively impacts their learning and places them at risk for long term remediation needs, special education referral, increased risk of school dropout and a host of other negative social outcomes. There is a strong evidence base that defines effective reading instruction practices to support the needs of children from low-income and other high-risk populations. However, children attending school in low socioeconomic areas face a stronger likelihood of being taught by teachers who have not received adequate, evidence-based training in these practices, and, therefore, these children do not benefit as readily from the instruction they receive in the school setting.

Lee Pesky Learning Center

LPLC is a creative, entrepreneurial and dedicated teaching and research organization with the vision to create a path to learning for every child. Building upon a deep specialization in learning and attention challenges, our Center's mission is to work with students, families, schools and communities to understand and overcome obstacles to learning through individualized learning services, training and consultation, educational resources, and research. Over the past 20 years, LPLC has contributed over \$30 million in specialized learning services to children, families and teachers across Idaho thanks to generous supporters and grant funding. For more information on Lee Pesky Learning Center's impact, please read the Center's [2016 annual report](#), [website](#) and recent [media coverage](#).

Pay for Success

Pay for Success is a contracting and financing mechanism being leveraged in the United States and jurisdictions abroad¹ to scale evidence-based interventions that deliver measurable social² outcomes to vulnerable populations. As a contracting mechanism, Pay for Success seeks to influence governmental entities to procure for social outcomes instead of procuring for social services and to influence service providers to implement evidence-based interventions to achieve meaningful and appropriate social outcomes.

¹ This approach was developed in the United Kingdom, where transactions are referred to as "Social Impact Bonds" or "SIBs".

² The first "Environmental Impact Bond" was launched in 2016 by the District of Columbia Water and Sewer Authority, Calvert Foundation and Goldman Sachs, but Pay for Success projects have focused primarily on social services.

As a financing mechanism, Pay for Success coordinates four primary stakeholders:

1. An investor(s), private and/or philanthropic, willing to provide the working capital needed to launch an effective, evidence-based intervention in exchange for a risk-adjusted return on their capital if the agreed to social outcomes agreed to by all parties are met.
2. A service provider(s) able to implement an effective, evidence-based intervention at scale and with fidelity in order to achieve set social outcomes with an appropriate investment of working capital;
3. A committed and empowered governmental entity(s) for whom achievement of the agreed to social outcomes is a priority and from whom success payments can be guaranteed if outcomes are indeed achieved; and
4. An evaluator(s) able to assess whether agreed to social outcomes are met, using quasi-experimental or experimental research study designs that contribute to the evidence-based surrounding the social intervention.

Other stakeholders, such as financial and knowledge intermediaries, can also play important roles in structuring Pay for Success transactions.

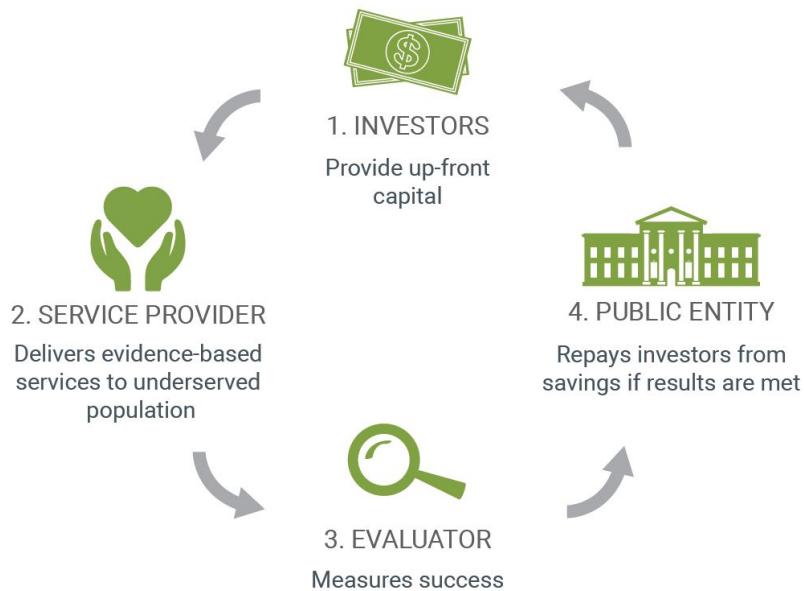


Image by Sorenson Impact

The first step in constructing a Pay for Success transaction is to conduct a feasibility assessment to ensure the criteria essential to a project's success are present and that the primary stakeholders involved in the proposed transaction are committed to negotiating a Pay for Success transaction. The Sorenson Impact Center defines these essential criteria as a targetable, high-needs population; demonstrable value creation for governments and investors; sufficient data to track the intervention over time; an evidence-based intervention conducive to rigorous evaluation; the ability to scale the intervention with fidelity; highly engaged project stakeholders and decision-makers; and sufficient sources of capital to finance the project. Those projects that demonstrate good potential across these criteria may then choose to move into a structuring phase,

bringing the primary stakeholders together to negotiate a transaction. Transactions connect working capital, proven outcomes and success payments to deliver effective services to vulnerable populations.

This field is in its early days and, overall, Pay for Success projects remain both complex and costly to construct, in part leading to a high number of potential transactions that fail to structure. However, projects across a wide spectrum of social issue areas have been successfully launched, with approximately 17 transactions constructed to date across the United States and 60 currently in feasibility and structuring stages.³ Current Pay for Success deals are contracted to pay for diverse social outcomes including kindergarten readiness, decreased prison and jail recidivism, stable housing for the homeless, decreased time for children in foster care, increased child and maternal health.

³ This count is accurate as of summer 2017. Visit the Nonprofit Financial Fund's Pay for Success Learning Hub for the most up to date information on Pay for Success transactions in the United States:
<http://www.payforsuccess.org/>



Intervention

Theory of Change

LPLC's theory of change suggests that providing more effective literacy professional development to Pre-K providers serving students at high-risk will result in more children entering Kindergarten ready to read. Continued professional development provided to Kindergarten through second grade teachers supports children in maintaining their grade level proficiency and avoiding the need for reading remediation in Kindergarten through third grades as well as special education remediation for reading beginning in third grade. By building the professional capacity of early care providers and teachers to deliver high quality literacy instruction, we can more effectively and efficiently meet the learning needs of the most vulnerable children in Idaho.

Idaho Early Literacy Project

LPLC's intervention improves student reading outcomes and, consequently, reduces the financial and social costs associated with literacy remediation and special education remediation. Specifically, LPLC's model begins with a full day training for Pre-K providers, emphasizing three foundational literacy skills found to be highly predictive of later reading achievement:

1. Print awareness (including alphabet knowledge);
2. Phonological awareness; and
3. Language and vocabulary.

An LPLC trainer then visits each provider every three to four weeks to help systematically implement the daily activities taught in the training: alphabet routines, print awareness activities such as name recognition games, phonological awareness activities, and language development techniques including strategies for reading books aloud to children so that educators can introduce children to new words.

The evidence for this intervention, described in greater detail below, demonstrates that Pre-K providers trained by LPLC have more children meeting grade level literacy benchmarks when they enter Kindergarten. This Pay for Success project seeks to scale this intervention within Idaho, with the objective to reach all early care providers serving early learners at-risk statewide, and to further demonstrate the efficacy of the model for providers across the country. Providing continued professional development to Kindergarten through second grade teachers serving these students when they matriculate in Idaho public schools will support early learners in achieving and maintaining grade level reading benchmarks throughout elementary school, allowing these measurable outcomes to be tracked and paid on in the state's first Pay for Success contract.



Feasibility

Sorenson Impact Center's Feasibility Assessment Criteria

LPLC conducted a feasibility assessment in collaboration with the Sorenson Impact Center from the summer of 2016 through the summer of 2017 under a 2016-2017 funded Social Innovation Fund feasibility grant. The Social Innovation Fund was a program of the Corporation for National and Community Service that received funding from 2010 to 2017. Using public and private resources to find and grow community-based nonprofits with evidence of results, Social Innovation Fund intermediaries received funding to award subgrants that focus on overcoming challenges in economic opportunity, healthy futures, and youth development.

The Sorenson Impact Center has identified seven key indicators that support a successful Pay for Success transaction and our feasibility assessment provided reasonable assurance that each is present in our project. They include:

1. A targetable, high-needs population (see pg. 11);
2. An evidence-based intervention conducive to rigorous evaluation (see pg. 11);
3. The ability to scale the intervention with fidelity (see pg. 12);
4. Sufficient data to track the intervention over time (see pg. 13);
5. Demonstrable value creation for governments and investors (see pg. 14);
6. Highly engaged project stakeholders and decision-makers (see pg. 15); and
7. Sufficient sources of capital to finance the project (see pg. 17).



Target Population

The target population for this intervention includes Pre-K providers and Kindergarten through second grade teachers in Idaho who teach students at increased risk for not achieving reading benchmarks in the elementary years. Students are identified as at-risk by their performance in Pre-K on an early literacy screening tool. Kindergarten through third grade students are identified as at-risk if they are not able to meet grade level targets as measured by performance in the fall of a given academic year on Idaho's statewide norm-referenced reading assessment. Students who are unable to meet performance targets are at increased risk of continued poor performance and the subsequent identification and placement in remediation or special education services. This population of students at-risk is a priority not only for state legislators and the State Department of Education, but also for district superintendents and principals who are increasingly required to prove the efficacy of their literacy interventions and improve student reading outcomes.



Evidence-Based Intervention Conducive to Evaluation

During our feasibility grant, the Sorenson Impact Center reviewed and verified the results from LPLC's quasi-experimental research evaluation for this intervention from a Head Start Pre-K setting.⁴ These results confirmed the meaningful and statistically significant impact of LPLC's professional development model on children's Kindergarten reading proficiency levels, as demonstrated by their scores on Idaho's fall literacy assessment. The data team did note the potential for selection bias based on Pre-K provider opt-in (versus randomized) participation, and further analysis noted some pre-test performances differences between control and treatment groups. Accordingly, LPLC needs to be cognizant of these issues in selecting evaluation criteria and choosing the control group(s) for a Pay for Success evaluation. The data team also noted uncertainty regarding the generalizability of the findings outside of Head Start Pre-K environments, which will be taken into account when designing the evaluation for the Pay for Success project.

Historically, LPLC has worked with districts, administrators, and educators who are committed to evidence-based practices and a culture of educational success. Therefore, LPLC has had exploratory conversations with education evaluation experts and Sorenson Impact's data team to understand the quasi-experimental and experimental options that might be available for evaluating our intervention. A randomized control trial, considered a gold standard for building and establishing the evidence base, is possible. Identifying a qualified evaluator(s) and determining the evaluation design will be a key area of focus under the structuring phase of this project.

Ability to Scale with Fidelity

Over the past 20 years, LPLC has worked with more than 45 individual school districts across Idaho and extensively with the Idaho State Department of Education to provide teacher training and special education services. The LPLC model is innovative in its hands-on teacher training model and its dedication to ensuring that Idaho has public school teachers who are highly trained to meet the learning needs of students they serve. In addition to the Idaho Early Literacy Project, LPLC has a long and celebrated history working together with students, families, and schools to understand and overcome obstacles to learning. LPLC is confident in our ability to implement services with fidelity under a Pay for Success contract.

From 2008-2011, LPLC received a \$1 million Congressional appropriation that resulted in training more than 800 Pre-K educators and contributed to

⁴ Lane, C., Prokop, M., Podhajski, B., Nathan, J., & Johnson, E. S. (2014) Promoting Early Literacy Development through the Professional Development of Head Start Teachers, *Early Years Education: An International Research Journal*, 34, (1), 67-80, doi: 10.1080/09575146.2013.827157

strengthened early reading outcomes for children at-risk for poor school outcomes in Idaho. The evidence was assessed in a quasi-experimental study published in the peer-reviewed journal *Early Years: An International Research Journal* in 2014. Additionally, LPLC has completed pre- and post-test assessments (with no control group) of our intervention in a program called P-16. As a part of this program, LPLC trained early educators working for the Child Development Center at the YMCA, and results indicate significant literacy gains for children who were taught by Pre-K providers participating in this professional development program.

With Pay for Success funding on the horizon, our professional development team has been able to adopt a more consistent approach to delivering this proven intervention to ensure efficacy at scale. Additionally the team has created a single district demonstration project to work out implementation processes during the 2017-2018 academic year. Finally, given that there are two levels of impact under this intervention – teacher-level outcomes resulting from LPLC teaching teachers and student-level outcomes resulting from these teachers teaching children – a robust fidelity assessment and a robust program evaluation are both essential, and will be finalized during the structuring phase.



Sufficient Data to Track the Intervention Over Time

The Idaho Reading Indicator (IRI) is the state assessment administered to all students in grades Kindergarten through third grade in the fall and spring in all public schools. Performance on the IRI in the fall determines whether a student receives early reading remediation, thus triggering a cost to the school district and to the State Department of Education. Similarly, the need for additional remediation, and additional school district investment, in the third grade as a result of performance on the Idaho Standards Achievement Test (ISAT) is assessed. Districts also track those students who require special education remediation, generally through an Individualized Education Plan (IEP). Accordingly, in the Idaho Early Literacy Project, a significant difference is anticipated for early literacy and special education remediation between students in LPLC's Idaho Early Literacy Project treatment group and a representative control group.

Specifically, the efficacy of the intervention will be tracked using (1) Pre-K fall and spring reading performance screener scores; (2) Kindergarten through third grade fall and spring literacy assessment scores; (3) special education identification through the existence of IEPs in third grade; and (4) performance on the ISAT in the third grade. We have confirmed that the literacy and special education data needed for LPLC's project is both available from the State Department of Education and that LPLC can secure access to it through contracting.



Demonstrable Value Creation

In the Idaho Early Literacy Project, a significant difference is anticipated in the need for early literacy remediation between students in LPLC's Idaho Early Literacy Project treatment group and a representative control group. These outcomes will determine payment on an annual literacy remediation avoidance metric from Kindergarten through third grades within a Pay for Success contract. Additionally, the difference in need for special education remediation between the students in the treatment and control groups will determine payment on the special education avoidance metric, assuming that metric is used in the final version of the financial model.

LPLC has identified several potential payment streams for outcomes achieved under LPLC's early literacy professional development intervention, including literacy remediation dollars, ISAT remediation dollars, special education dollars and professional development dollars. Upon the successful achievement of these performance outcomes, cost savings from both literacy remediation and special education avoidance, as well as cost efficiencies for professional development investments, are expected to be realized by participating districts. LPLC's current cost benefit model demonstrates reasonable five year investor returns for each cohort trained using a best and middle-case approach, with a worst-case scenario showing only partial returns.

The utilization of special education dollars as a source for outcomes payment can be a controversial issue in Pay for Success early education projects. As the leading service provider in Idaho whose core mission is to identify and overcome obstacles to learning, LPLC believes that early literacy training for providers and teachers is critical to ensure that students who track into special education services do so because they require support to overcome learning obstacles and not because they previously received insufficient or ineffective literacy instruction. LPLC has been intentionally conservative in estimating the cost per student and the number of outcome payments related to special education avoidance in the current cost benefit model, thus rejecting the long payment schedule used in early Pay for Success deals.

In Idaho, a majority of special education remediation is funded through state and school district dollars. While this provides some risk mitigation for prospective cuts in the federal education budget, national studies also indicate that instances of identification of students as learning disabled are declining in Idaho,⁵ which will likely have impact on state appropriations for special education.

⁵ Compare <http://www.ncld.org/state-snapshots> (search - Idaho) to <http://www.ncld.org/wp-content/uploads/2014/11/2014-State-of-LD-FINAL-FOR-RELEASE.pdf> (pg. 43 – Idaho)

Additionally, because the Idaho Department of Education is introducing a new state reading assessment in the 2017-2018 school year, a demonstration project is being launched to confirm the efficacy of LPLC's intervention under the new assessment, iStation. A demonstration project has the additional benefit of supplying more robust data to underpin assumptions within the cost benefit model, such as student attrition, out-migration, and teacher attrition, alongside process reviews of the proposed Pay for Success project's implementation. With that input, LPLC will finalize the cost benefit and financial models during the structuring phase. The financial model is one of the final pieces of information needed to begin negotiations with the State Department of Education and interested investors.



Highly Engaged Project Stakeholders

As described previously in the Pay for Success section, there are four central stakeholders in every Pay for Success project, including a service provider able to implement an evidence-based intervention at scale with fidelity; a committed and empowered outcomes payor(s); an investor(s) willing to provide the working capital needed to launch the intervention; and an independent evaluator(s) who can assess whether the intervention is providing the desired impacts.

Service Provider: LPLC has a seasoned Pay for Success team that will transition from feasibility to lead the structuring process, including Director of Professional Development, Cristianne Lane, and Pay for Success Fellow, Angeli Weller. Additionally, LPLC has leaders who have focused on the Center's Pay for Success strategy since 2013, and who will continue with structuring efforts. This includes: Scientific Director Dr. Evelyn Johnson, who has two decades of experience conducting quantitative research in the field of learning disabilities, with a specific focus on improving reading outcomes; and LPLC board members Matthew Weatherley-White and Decker Rolph, who led early financial modeling for our Pay for Success project and are impact investors with expertise in Pay for Success and other methods for investing to scale social change.

LPLC has been exploring Pay for Success as a financing strategy to scale our external operations—specifically early literacy professional development intervention across the state—for nearly five years. With the completion of the feasibility assessment, LPLC is excited to leverage the work that the organization has devoted to the process and begin the transaction structuring phase. The Center believes Pay for Success is a viable strategy for scaling our early literacy professional development intervention, and the significant amount of time and resources invested to date is a testament to that commitment.

Government Outcomes Payor: The Idaho Department of Education is a committed outcomes payor for this project. In 2015, Idaho passed House Bill 170, legislation that authorizes the Department of Education to engage in Pay for Success contracts related to education and early literacy, an effort that Lee Pesky Learning Center initiated and helped to lead. In 2017, the Idaho legislature passed critical revisions to the original bill to ensure the State Department of Education's ability to Pay for Successful education outcomes. More specifically, these revisions enable Idaho state and school district dollars to be allocated more easily for Pay for Success outcomes payments. Upon completion of the financial model and identification of an evaluator, LPLC will begin Pay for Success contract negotiations with the State Department of Education through the procurement process detailed in the enacting legislation.

Additionally, the state legislature passed a rule in 2017 that requires districts to improve the administration of their literacy programs, including funding of, and measuring performance on, literacy goals. As such, districts are required to leverage metrics, benchmark performance, compare spending on literacy year-on-year and generally demonstrate the effectiveness of their programming. Evaluation of LPLC's intervention will provide school districts with this performance data and with greater confidence in increasing student literacy performance. This environment of performance and accountability supports an early literacy Pay for Success contract and further emphasizes Idaho's commitment to improving literacy outcomes. LPLC has also received strong support for our efforts to scale the professional development intervention from districts across the state, Pre-K providers (including Head Start) and Idaho STARS, the credentialing and capacity building organization supporting Pre-K providers in Idaho.

Pay for Success Investors: LPLC has been in conversations with several experienced Pay for Success investors to discuss the intervention and its funding potential. These investors have expressed interest in our work and in the possibility of helping to scale what could be one of the first provider-led Pay for Success deals in the country. Indeed, after an engaging conversation during which we described the Center's history, footprint, intervention, overall Pay for Success philosophy, and answered all of a prospective Investor's questions, the investor concluded with this statement: "I am fascinated by the Lee Pesky Learning Center." With the finalization of the financial model, LPLC will more formally engage with interested investors to negotiate and review prospective deal terms.

Evaluator: LPLC is firmly committed to building the evidence base surrounding early literacy interventions. The Center has a strong research partnership with Boise State University and with researchers from across the country. While LPLC has not yet formalized a relationship with an evaluator for this project, the Center is prepared to begin that work early in transaction structuring.

LPLC's proposal to the State Department of Education must include a recommendation for a qualified evaluator.



Sufficient Sources of Financing

Across the Pay for Success field, capital flow appears to be limited more by the lack of quality deals than by the lack of investors interested in funding Pay for Success projects. This has been underscored by the wide range of prospective funders that have expressed interest in LPLC's potential deal, including established Pay for Success investors, high net worth individuals and private foundations. LPLC believes that our Pay for Success project financing partner(s) should align with the strategic priorities of the Center. First and foremost, the Center is deeply committed to building an evidence base and ensuring effective impact, making the financing aspect of our Pay for Success project essential but not directional.

Additionally, it would be careless not to emphasize that the transaction costs for building Pay for Success deals remain high. The full cost of the transaction includes not only the capital provided by investors who support the final transaction, but also the costs borne by the myriad of other organizations engaged in the Pay for Success field who provide support to create the deals. LPLC has benefited immensely from a large grant from the Sorenson Impact Center at the University of Utah to complete this feasibility assessment. This grant represents several hundred thousand dollars in cash and technical assistance to build the Center's capacity to deliver on a Pay for Success contract. The Center would not be structuring a deal without this essential support.

This grant, alongside the transaction structuring grant that LPLC recently received from Sorenson Impact Center and Social Finance, were made possible by grant awards made from the Social Innovation Fund at the Corporation for National and Community Service (CNCS). Importantly, this agency has had its budget zeroed out in the 2016 and 2017 federal budgets, ending a significant source of capital for Pay for Success field building. As such, the public funding available for future service providers and governmental agencies interested in exploring Pay for Success in need of capital to support feasibility analysis or structuring activities is uncertain.



Strategic Recommendations

LPLC should maintain our central commitments to proving the intervention's impact on Idaho students and to building the evidence base while structuring a PFS transaction.

While there have been challenges to overcome through our feasibility assessment, it has also provided a tremendous opportunity to think creatively to meet the goals that provide the framework for our Pay for Success project. Those goals are:

1. Scale the impact of the early literacy intervention to achieve systems change (consistent with the Center's goal to train the current and next generations in effective practice);
2. Build the evidence base around LPLC's early literacy intervention (consistent with the Center's research goal); and
3. Grow the Center's financial stability with predictable revenue streams over time (consistent with Center's sustainability goal).

The second goal has particular importance because LPLC recently implemented a strategic pivot to elevate our research agenda, with our Executive Director taking on a newly created role as the Center's first Scientific Director. Seeking scientific, evidence-based learnings including those related to early literacy, the Center's Pay for Success efforts have become even more important to LPLC's long term strategy and success. Regardless of the ultimate direction taken by the Pay for Success field,⁶ collaborating with people and organizations aligned with LPLC's commitment to proven and meaningful impact and to building the evidence base is a central tenant for any Pay for Success transaction undertaken by LPLC. As such, we are delighted to end feasibility and begin structuring by maintaining our partnership with Sorenson Impact Center and extending our collaboration to also include Social Finance.

LPLC should consider a wide range of Pay for Success financing structures and pursue a contracting vehicle that is simpler and more replicable than most deals currently present in the field.

No two Pay for Success deals have been constructed in exactly the same way, and as such, LPLC should not assume that there is a singular way to approach our Pay for Success transaction. As the field develops, there are likely to become common approaches that can be replicated, but we have not yet reached that juncture and we believe there are other effective approaches not yet leveraged in existing transactions.

⁶ For example, some jurisdictions are emphasizing the Pay for Success rate card approach, under which governments offer set payments for the achievement of a variety of relevant outcomes. While this may be effective for areas of social service with a large and well researched evidence base, this is not the case for early literacy and special education, making it less relevant for LPLC's strategy to prove the link between the Center's intervention and outcomes and thereby build the evidence base.

Criteria to consider include: (1) values alignment with investors; (2) simplified deal structures; and (3) reduced transaction costs.

Many deals have a mix of private and philanthropic investors, though early deals have also reflected an inverse relationship between risk and return in the capital stack, which is not sustainable for the Pay for Success field over time. In addition to the existing models, finding a single investor interested in funding this intervention is an attractive approach, as it decreases the potential for competing agendas and could simplify contracting and oversight, as discussed further below. Launching a deal with a philanthropic partner that structures its investment as a recoverable grant is one additional potential pathway that lowers risk for LPLC, especially if the impact from the iStation literacy assessment change is less conclusive than anticipated. Another approach may be to construct a direct procurement contract with the State Department of Education that has an outcomes guarantee, with that guarantee secured by philanthropic dollars.

Additionally, in order for the Pay for Success field to be sustainable over time, future deals including ours need to achieve lower construction and transaction costs. As such, LPLC should maintain our current aspiration to create a deal that is as simple as possible, with as few individual contracts as possible, and to open source all available documents to allow future Pay for Success stakeholders to learn and benefit from the investment of capital and effort. Without this collective commitment to overcoming proprietary leanings, it is unlikely that the field will replicate quickly enough to be sustainable. While this is not the sole responsibility of LPLC, leadership is needed to build the Pay for Success field to reflect the tenants we wish to see.

LPLC should construct a pilot of the early literacy professional development intervention beginning in Kindergarten either as a risk-adjusted component of a Pay for Success transaction or as a stand-alone research project.

LPLC's data demonstrates efficacy of our early literacy professional development intervention on Pre-K providers, who serve as an essential touchpoint for reaching students as early as possible so that they arrive in Kindergarten meeting grade level reading benchmarks. The intervention is strengthened by the continued delivery of early literacy professional development in Kindergarten through second grades to ensure students maintain their gains throughout elementary school.

However, in Idaho, Pre-K is delivered primarily by private providers,⁷ which increases logistical and operational challenges for the Pre-K level intervention. For example, Pre-K providers are limited by state regulation to serving a maximum of 12 children, with many providers serving far fewer (especially when accounting for different age groups

⁷ There are several exceptions. Head Start is a federally funded Pre-K program and as of 2016, there were 80 program sites and 300 classrooms serving 156 communities in 41 of Idaho's 44 counties. Head Start regions serving the state of Idaho. <http://www.idahohsa.org/fact-sheets/> Additionally, providers like the YMCA are technically nonprofit organizations.

within the same provider). Because the economics of the intervention are based on outcomes achieved by students, fewer students per teacher increases the unit cost of the intervention. Additionally, per state regulation, Pay for Success contracts in Idaho must incorporate three school districts in diverse parts of the state as part of intervention scaling efforts and those districts must then commit to payment on outcomes out of their state education appropriations. To connect the dots,, tracking students as they transfer from Pre-K into Kindergarten is essential, but not straightforward. In addition to student attrition, parents may place children with Pre-K providers closer to their work than their home, which could mean students track into a different district entirely.

Implementing a pilot of the early literacy professional development intervention beginning in Kindergarten provides another opportunity to address students' reading challenges early in their educational trajectory and simplifies some of the Pre-K logistical challenges. Kindergarten teachers generally have classrooms of 20+ students, making the unit cost of the professional development intervention lower. Students do not need to be tracked as they have already matriculated into Idaho's public school system, and the intervention can thereby focus on teachers and students in the relevant districts. Additionally, the Center has promising data (not evaluated using quasi or experimental research design methods) that demonstrates the efficacy of the intervention beginning in Kindergarten. While this pilot should not substitute for the evidence-based Pre-K intervention that is the primary focus of the Center's Pay for Success efforts, the potential for an iterative intervention implementation and evaluation approach is worthy of exploration.

LPLC should reflect, and encourage the broader Pay for Success field to reflect, on the most effective role for service providers.

LPLC is poised to launch one of the first provider led Pay for Success deals in the United States. While there are still barriers to overcome as we transition from feasibility to transaction structuring, we hope our efforts will catalyze other evidence-based social service providers to consider a similar approach in jurisdictions with need for their services. Service provider participation is essential to effectively building the evidence base for social impact programs. Additionally, without service providers at the table from the earliest days of a transaction, terms are set without their input on the real costs of services and real implementation challenges, which can create perverse incentives for multiple stakeholders in the transaction. Finally, service providers are the primary touchpoint between the Pay for Success contracting parties and the vulnerable population they are intending to impact in a positive way. Without true legitimacy and voice to express concerns, which happens when service providers are seen more as contractors than as partners in the deal, unintended consequences and/or undue performance pressures may go unspoken. There is a significant leadership role for service providers to play in the Pay for Success field that has gone untapped.

That said, involvement in Pay for Success requires competencies that may not be widely present in nonprofit organizations. LPLC was able to invest early resources to

explore Pay for Success over several years because of the presence of several impact investors on the board of directors who are knowledgeable about the opportunity and the risks involved in this strategy. Not every nonprofit will have the benefit of this financial competency within its management team or board. Additionally, socializing and getting support for Pay for Success enacting and enabling legislation, as well as building effective relationships at all levels of state government, requires significant political expertise. This was a competency not present within LPLC and the Center has been fortunate to receive excellent counsel from Kestrel West, a political strategy firm specializing in education policy as well as to receive these services pro bono. Finally, LPLC's Scientific Director Evelyn Johnson (who served as the Center's Executive Director for six years) concurrently serves as a professor at Boise State University and is one of the nation's leading researchers on learning challenges related to early literacy. She has guided the Center's investment in research and implementation fidelity over the past six years. Each of these competencies has been essential to the Center's ability to pursue a Pay for Success contract, and equivalent skills may not be widely found among service providers.

The Pay for Success field is also still emergent and these projects are complex, unique and slow to develop. As such, this is not a pathway for service providers primarily seeking new sources of sustainable revenue, but instead is for those determined to grow the efficacy and the impact of preventative social services. There is no system as of yet to account for the full costs to the service provider involved in a Pay for Success transaction, including both hard and opportunity costs, both of which are significant. The reality is that many service providers are nonprofits and are not in a position to bear these additional costs on top of their existing programmatic commitments. Any service provider engaging in Pay for Success activities primarily for the perceived funding source will never survive the myriad of obstacles currently associated with Pay for Success projects.

Some in the field have opined that service providers bear the least amount of risk in Pay for Success transactions because in most cases, they get paid regardless of whether outcomes are achieved. The primary risks are seen to be reputational. However, in a service provider-led deal, like in all Pay for Success deals, there is still a high likelihood that the transaction will fail to launch, making the sunk costs of the investment a significant burden for the organization. Additionally, service providers involved in Pay for Success deals open their operational curtain, not only to early scrutiny of methods and implementation fidelity but also to influence from government agencies and/or investors with priorities and agendas that could ultimately distract service providers from their core mission and programmatic strategy.

Service providers have an essential and directional role to play in the development of the Pay for Success field, and also bear significant risk from their involvement. As such, more discussion is needed to ensure that those who have the ability to deliver evidence-based interventions have a strategic seat at the Pay for Success table as the field develops. LPLC should play a leadership role to ensure that this involvement occurs.

Next Steps

LPLC has been awarded a Pay for Success transaction structuring grant from the Sorenson Impact Center and Social Finance, both of whom are leading Pay for Success intermediaries who have received support from the Social Innovation Fund to work with organizations like the Lee Pesky Learning Center. With the cash and technical support provided by this grant, the Center will launch a demonstration project for Pre-K providers located within Idaho's West Ada school district. This project will allow LPLC to assess the impact of the change in the state's reading assessment tool on our intervention and also to finalize the assumptions underlying the project's cost benefit model.

Additionally, in collaboration with our partner intermediaries, we will work to identify a qualified evaluator and evaluation methodology for our project. With the financial model and recommended evaluator determined, we will then begin the procurement process with the State Department of Education by submitting a formal proposal for consideration through their established Pay for Success procurement process. Additionally, we will engage with investors aligned with LPLC's impact and evidence-building priorities to identify the source of the working capital needed to launch a Pay for Success contract.

Our collective goal is to structure a deal that is aligned with the Center's strategic goals and creates significant progress for Idaho's most at-risk early learners beginning in 2018.

Please send inquiries regarding this report to LPLC Pay for Success Fellow Angeli Weller at aweller@lplearningcenter.org.

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