Innovative Financing in Early Childhood Development

Reinventing Our Communities
Baltimore, MA
October 2, 2018

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*The views expressed here are those of the author and not necessarily those of the Federal Reserve Bank of Minneapolis or the Federal Reserve System.
Human Brain Development
Synapse Formation Dependent on Early Experiences

Sensory Pathways (Vision, Hearing)

Language

Higher Cognitive Function

FIRST YEAR

-8 -7 -6 -5 -4 -3 -2 -1  1 2 3 4 5 6 7 8 9 10 11 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19

Birth (Months) (Years)

Human Brain at Birth  6 Years Old  14 Years Old

Source: Chugani, Phelps & Mazziotta (1987)
Perry Preschool
Costs and Benefits Over 62 Years

Source: Schweinhart, et al. (2005)
Perry Preschool —
Estimated Return on Investment

- Benefit-Cost Ratio = $16 to $1
- Annual Rate of Return = 18%
- Public Rate of Return = 16%
- Heckman Reanalysis = 10%

Sources: Schweinhart, et al. (2005); Author’s calculations; Heckman, Moon, Pinto, Savelyez, & Yavitz (2010)
Benefit-Cost Ratios for Other Longitudinal Studies

- Abecedarian Educational Child Care
  - $7 to $1

- Chicago-Child Parent
  - $10 to $1

- Elmira Prenatal/Early Infancy Project
  - $5 to $1

Pay for Success early childhood programs
Outcomes tied to success payments

- Salt Lake City – Preschool
  - Reductions in special education and remedial services

- Chicago – CPC Preschool
  - Kindergarten readiness
  - Reductions in special education services
  - Third grade literacy

- South Carolina – Nurse Family Partnership
  - Reductions in preterm births
  - Reduced hospitalizations and emergency room visits
  - Increase in healthy spacing between births
  - Increase in mothers served in high-poverty areas

Source: Pay for Success Learning Hub
Pay for Success early childhood programs
Investors and Payers

- **Salt Lake City – Preschool**
  - **Investors:** Goldman Sachs, J.B. and M.K. Pritzker Family Foundation
  - **Payers:** Salt Lake County, United Way of Salt Lake for first year, State of Utah for subsequent years

- **Chicago – CPC Preschool**
  - **Investors:** Goldman Sachs, Northern Trust, J.B. and M.K. Pritzker Family Foundation
  - **Payers:** City of Chicago, Chicago Board of Education

- **South Carolina – Nurse Family Partnership**
  - **Investors:** A group of foundations (The Duke Endowment largest contributor), private funders, The Boeing Company
  - **Payers:** South Carolina Department of Health and Human Services

Source: Pay for Success Learning Hub
Social Impact Partnerships to Pay for Results Act

- $100 million to fund Social Impact Partnerships designed to raise private capital to fund social programs that have the potential to create value for local, state, or federal government
  - Government repays investors if certain outcomes are met
- 50% of support for outcome payments must directly benefit children
- Up to $10 million for feasibility studies
- Up to $15 million for evaluation
Sources


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