Mending Achievement Gaps in Pittsburgh: Using Social Impact Bonds to Fund Early Childhood Education

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THESIS
To provide universal early childhood education in impoverished neighborhoods, Pittsburgh, Pennsylvania, should enter into bond agreements with the community in order to repay investments made by childcare centers that successfully decreased achievement gaps between poor and wealthy students by third grade.

BACKGROUND AND ANALYSIS
Children from low-income families often suffer from achievement gaps before they ever begin elementary school—gaps which often can never be completely overcome. Research suggests that 60-70 percent of the achievement gap between America’s poorest and richest children is already evident by kindergarten.¹ When children who did not attend preschool graduate from high school, this gap is usually still visible, resulting in higher chances of incarceration and lower wages for those children.² Most low-income families do not have access to free or affordable childcare; access to care allows working parents to fulfill other important responsibilities.³

Over a third of Pittsburgh children live below the federal poverty line.⁴ The social benefits of preschool provide those children with the opportunity to determine their futures. Report data from the Pittsburgh Association for the Education of Young Children indicates that students who participated in public pre-k programs performed better academically through grade two than those who did not participate.

Preschool education is the most cost-effective way to close the achievement gap because it saves the government money down the road. “If I could fund one single program, it would be early-childhood education,” said John Wetzel, who has served both Democrats and Republicans as the head of Pennsylvania’s Department of Corrections.⁵

TALKING POINTS
• Investing in preschool education is the most cost-effective way to close the achievement gap between low-income children and other children. The investment pays off even after the children graduate.⁶

• The Pay for Success model uses community investment to raise money currently unavailable to the government, then gives participants a return on their investment when agreed-upon criteria are achieved.⁷

• This policy positions the government as a major player in an important area which has traditionally been handled privately or on a case-by-case basis.

• Using the Pay for Success model in the City of Pittsburgh will ensure that everyone has access to quality, affordable childcare.
POLICY IDEA
The City of Pittsburgh should enter into a contract (Social Impact Bond) with locally active private investors and nonprofits in which new childcare centers would be created.

Achievement gaps in these neighborhoods will initially be measured in third grade using PSSA (Pennsylvania System of School Assessment) data, and provided the gaps decrease for beneficiaries of the new centers, the city will reimburse investors with an agreed-upon return that depends on the agreed-upon duration of the bond.

POLICY ANALYSIS
Currently, Pennsylvania ranks 30th out of 42 states for providing publicly funded pre-k programming. The city government does not allocate significant funds to early childhood education compared to funds allocated to K-12. Economically, early childhood education is a large statewide industry; however, a large portion is handled outside the government. Pay for Success is the best model for solving this budget dilemma because it does not put financial stress onto the government until the government demonstrates that it will not lose money in the endeavor. Generally, returns on investment are slow, so currently there are few examples of successful programs; however, attempting to close achievement gaps later in life is both less effective and more expensive. Based on existing examples, however, the longer the Pay for Success model is in place, the more the government benefits; these centers continue to provide benefits to their communities long after their initial program ends. The Pay for Success program in Salt Lake City, Utah, raised $7 million in initial capital for pre-k education and achieved its goals. In Pittsburgh, because of the flexibility of this policy, any amount of capital raised is effective. This policy presents no initial risk for the government; if the program is unsuccessful, the government is not obligated to pay back investors. Studies have put returns at $7 to $17 back per dollar invested.

Regardless, working families would gain access to free, previously nonexistent childcare centers.

There are clear target neighborhoods for this policy: A study by the Pittsburgh Association for the Education of Young Children identified Homewood, the Hill District, and the North Side as most concerning in terms of poverty and achievement gaps. With a smaller achievement gap, children in these areas will have greater upward mobility and the chance to break the cycle of poverty in their communities.

NEXT STEPS
In order to enact this policy, the Pittsburgh City Council would draft an agreement with community organizations interested in investing in the area and reaping a reward. The Council and partners will open dialogues to determine what makes a childcare center “successful” based on PSSA results in the third grade. The Council will then work with its nonprofit partners to set up these childcare centers and determine target children for the centers. Potential allies and partners are the Pittsburgh Federation of Teachers, the New America Foundation, and the Fred Rogers Center. Since it is clear which neighborhoods in Pittsburgh are most in need of childcare centers, the Council and its partners should start in Homewood, the Hill District, and the North Side.

KEY FACTS
- Only 55 percent of America’s three- and four-year-olds attend a formal preschool.
- Around 1,140 of Pittsburgh’s income-eligible three- and four-year-olds do not have access to publicly funded, high-quality pre-k.
- Studies find that investing in early childhood education yields a public return of anywhere from $7 to $17 for every dollar invested.
- Low-income children who attended preschool are 14 percent more likely to be employed, 20 percent more likely to graduate, and 26 percent more likely to have a savings account.
- In all 50 states, childcare costs more than rent.
5 Ibid.
8 “Pre-K and Child Care in Pittsburgh: The Reality, the Opportunities and the Challenge.” Pittsburgh Federation of Teachers.
9 Long, “By Age 3, Inequality is Clear.”
10 Center for High Impact Philanthropy, “Early Childhood.”
14 City of Pittsburgh, Pre-K in Pittsburgh.