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Pay-for-Performance Fund Pairs Affordable Housing, Coordinated Services

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Making a concept work is one thing. Proving its benefits and creating a model are another—even in a long-standing industry, such as affordable housing. Whether career counseling to help residents find jobs or an after-school program to help children get a head start in school, experienced housing providers have long recognized how coordinated resident services can drastically improve the lives of low-income families. Participants in the newly formed, \$70 million Strong Families Fund are taking these benefits and what they've learned a step further. Strong Families Fund partners will not only finance affordable housing and social services, but they also hope to demonstrate the power of combining the two and refining a model that can be replicated across the country.

At the heart of the Strong Families Fund program is a pay-for-performance structure that measures and rewards developers for specific outcomes in high-quality service coordination. The on-site service coordination and “success payments” to developers are paid for via guarantees and grants from Kresge and the Robert Wood Johnson Foundation. “We’re looking at the social determinants of health and what services increase the efficacy of housing,” said Kimberlee Cornett, managing director of The Kresge Foundation’s social investment

practice. Kresge’s total commitment to the fund is nearly \$7.8 million in guarantees, grants and debt.

“What sets this [program] apart is the data we will be able to collect to prove the value of having resident service coordinators in these developments,” said Nancy Barrand, Robert Wood Johnson Foundation’s senior adviser for program development.

Within the Strong Families Fund are two investment vehicles: syndicator Great Lakes Capital Fund (now called Cinnaire), paired with investor KeyBank; and syndicator National Affordable Housing Trust (NAHT), paired with its investor, Goldman Sachs. Together, the partners expect to finance the construction or renovation of 600 to 700 low-income housing tax credit (LIHTC) homes in the next three years, while also funding coordinated social services.

“This impressive initiative has found an innovative way of incorporating private capital to create safe, decent, affordable housing,” said Rob Likes, KeyBank’s national manager of community development lending and investment. “We’re proud to be working with so many partners to improve the daily lives of low- to moderate-income families, especially when the lack of quality affordable housing is at an all-time high in this country.”

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With so many partners at the table, one of the challenges of putting the fund together was addressing everyone's goals and concerns. "We discussed in detail the goals that each party wanted to achieve and about the importance of balancing mission and margin—the impact for shareholders and the community," said Kevin Nowak, national equity investment manager of Key Community Development Corporation.

What brought partners together was the common goal of finding a sustainable and cost-effective way to finance affordable housing and coordinated social services. "When discussion started a year-and-a-half ago, we wanted to dig right in," said Margaret Anadu, managing director in Goldman Sachs' Urban Investment Group. "We're using these transactions to collect data and learn lessons about how dollars can be saved."

Pay-for-Performance Model

Under the Strong Families Fund pay-for-performance model, properties will receive service funding based on their performance the previous year in several areas of outcome measurement. CSH, the social impact advisor to the fund, will then provide the developer up to \$90,000 per year based on data submission and outcomes. As a bonus performance incentive, if developments meet certain benchmarks in the first 10 years, KeyBank and Goldman Sachs will provide a back-end equity contribution to help sustain service coordination.

Compared to situations in which owners have to fundraise for services annually, Strong Families Fund offers a longer runway of service funding to achieve greater program stability. "How do you provide services

Deborah Strong Housing

The first development financed through the Strong Families Fund is Deborah Strong Housing, a scattered-site rehabilitation of public housing in Ypsilanti, Mich. "We are thrilled to be the first project in the Kresge and Robert Woods Johnson Foundations' Strong Families Fund, which is a nationwide pay-for-performance pilot that seeks to pair affordable housing with resident service coordination," said Zac Fosler, executive director of Ypsilanti Housing Commission. "The [Strong Families Fund] provides the opportunity for 10 years of funding for a full-time, onsite social worker to work with our residents to improve key areas of their lives that increase both self-sufficiency and general quality of life."

Deborah Strong Housing accounts for 118 units of Ypsilanti Housing Commission's portfolio. All units will be renovated and converted to Section 8 project-based rental assistance through the U.S. Department of Housing and Urban Development (HUD) Rental Assistance Demonstration (RAD) program. Once renovation is completed by summer 2016, Deborah Strong Housing will consist of 112 homes across three apartment complexes and 30 scattered-site duplexes.

"Deborah Strong Housing is a terrific flagship development for the Strong Families Fund," said Rebecca Arthur, a partner with Novogradac & Company LLP's Government Consulting and Valuation Advisory Services (GoVal) group, who performed the property's market study. "I look forward to seeing how the planned property updates and coordinated services will benefit residents and the surrounding community."

Deborah Strong Housing units will be gutted and will have new drywall, flooring, windows, doors, washers and dryers, bathroom and kitchen fixtures, central air conditioning, roofing and siding. Common area updates include new landscaping, parking lots and driveways, lighting, fencing, porches and sidewalks. In addition, five duplexes will be demolished and rebuilt. The two largest apartment complexes will get community buildings with onsite management space, an office for a social worker, community space and computer labs. Services will include health and wellness programs, GED assistance and personal finance guidance. There will also be job training, job placement groups and continued support to help residents maintain jobs.

KeyBank provided a construction loan of \$13.2 million and LIHTC equity of \$14.7 million. Community Development Trust (CDT) provided a \$2 million permanent loan. Brian Gallagher, a senior vice president at CDT, said, "When you bring resources to physical properties, you turn bricks and mortar into homes for families."

Deborah Strong Housing

FINANCING

- ◆ \$14.7 million of low-income housing tax credit (LIHTC) equity from KeyBank
- ◆ \$13.2 million construction loan from KeyBank
- ◆ \$2 million permanent loan from Community Development Trust

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in the long run and pay for them? We're using [Strong Families Fund] as a model and template to collect data that can be used by others," said Michael Lohr of Goldman Sachs' Urban Investment Group.

Steward of Affordable Housing for the Future (SAHF) and its nonprofit developer members designed the service performance measures that will be used to calculate service payments. "Housing can serve as a key base to bring opportunities to families so they can improve their lives," said Eileen Fitzgerald, SAHF's president. "Whether it's for policymakers or funders and investors, we want to make them aware that it's smart policy and investing."

SAHF's metric highlights five service priority areas: health and wellness; work, income and assets; housing stability; youth and education; and community/neighborhood engagement. CSH will oversee performance evaluations. "The whole idea is to collect performance measures over a 10-year period and make the case to investors and funders about the value and

merit of funding these activities," said Jane Bilger, senior program manager for CSH.

The goal is for the performance measures to illustrate the importance of safe, quality housing and coordinated services. "One of the key measurements asks whether residents feel safe in their homes," said Lori Little, NAHT's director of capital markets and investor relations. "When there's less crime, people will take better care of their homes, there will be fewer repair needs and the physical asset is more valuable—there are tangible benefits for both [residents and investors]."

These are benefits that Strong Families Fund hopes to show policymakers. "Documenting [service impact] is powerful information to use when you go to Washington, D.C., or your own state and people question the value of affordable housing," said Mark McDaniel, president and CEO of Cinnaire. "You can say to them, 'Here's the economic impact, here's the educational impact.'"

Strong Families Fund closed its first transaction and has several deals in the pipeline for 2016. ♦

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