

INTRODUCTION

Over the last two years, the field of social impact investing and the concepts of “Pay for Success” and “Social Impact Bonds” have gained increasing recognition for their potential to support the implementation of proven interventions that can meet the “double bottom line” of providing both positive social impact and the potential to generate re turns on investment. More than 20 states are currently pursuing social impact investing related efforts at the state or county level, with more anticipated in the near future¹². Social impact investing – in its many variations –presents a tremendous opportunity to diversify and expand investment in supportive housing, increasing opportunities for the people who need it most. It also presents an excellent opportunity for government to reform how it invests and allocates public resources, with much greater emphasis on paying for results.

Supportive housing, with a long, proven track record and a strong base of evidence documenting its ability to improve human and social outcomes while decreasing utilization of expensive crisis services and systems, is uniquely positioned to capitalize on this financing model that requires demonstrable reductions in costs to government. This paper highlights:

- The concept of and model for social impact investing
- Target populations for supportive housing and social impact investing
- The key elements of successful social impact investing efforts
- A strategy for promoting the use of social impact investing to create supportive housing

CONCEPT OF AND MODEL FOR SOCIAL IMPACT INVESTING

Pay for Success refers to the concept of performance-based contracting between government and the organizations responsible for implementing a given intervention, typically non-profit organizations. Under



this model, impact is measured rigorously and government makes “success payments” based on results; not on activities. This focus on paying for positive social impact, rather than paying for services performed, helps ensure that incentives are properly aligned to achieve social impact and provides a mechanism for government to ensure it pays only for what works. Social Impact Investing mechanisms support Pay for Success programs by providing the upfront working capital required to

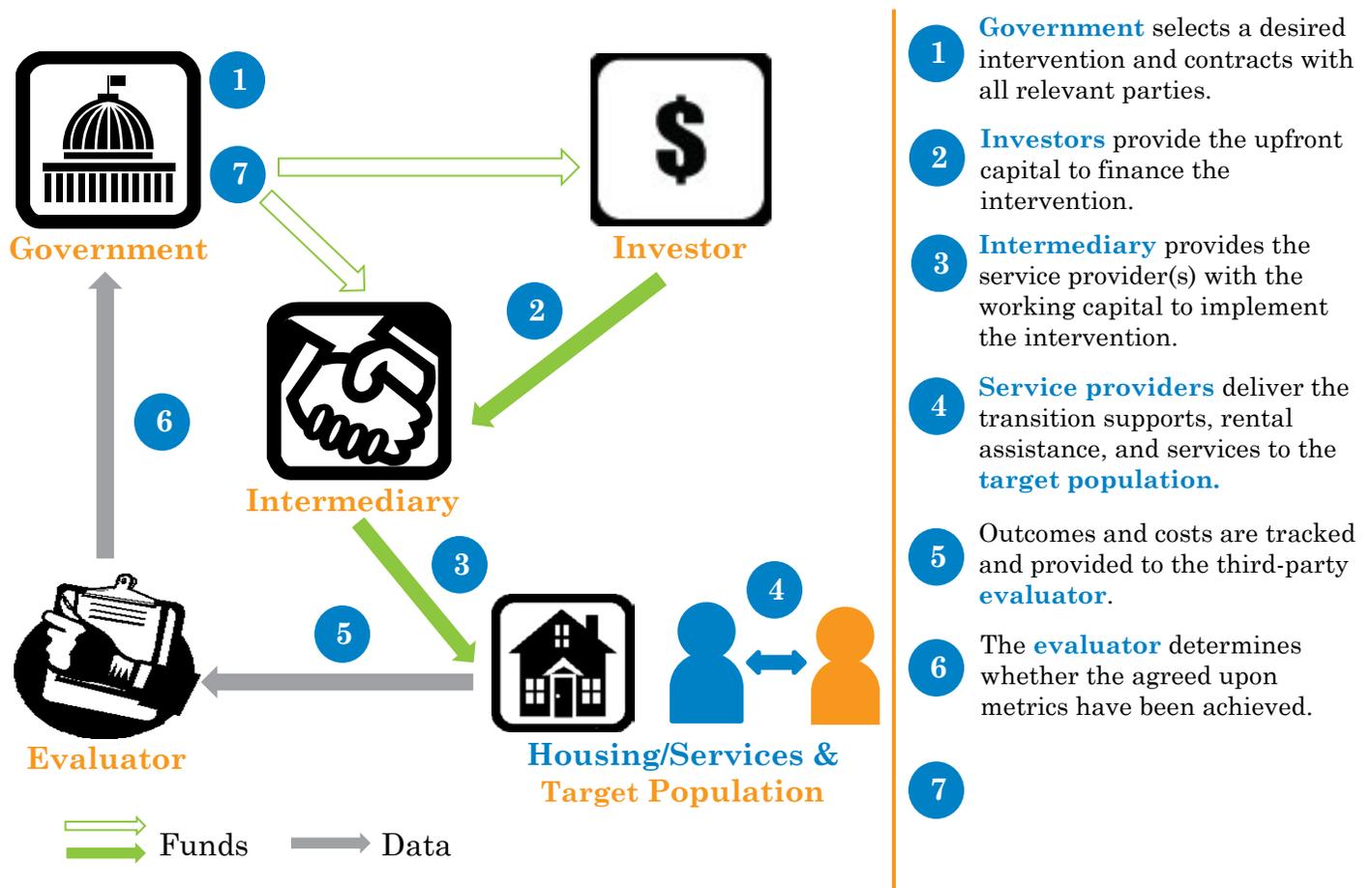
implement an intervention that is proven to save money over time but requires a significant start-up investment. This upfront capital investment can be provided by institutional investors as well as philanthropic sources, which typically receive a modest return on investment and the potential for success payments depending on the intervention’s performance. The savings generated by the successful execution of the intervention can be used to repay the investors, and/or can be reinvested into the project, allowing further growth.

Social impact investment provides a new and innovative way to finance supportive housing by creating a formal partnership between:

- Institutional and philanthropic investors that provide the needed upfront capital;

- State or local government that repays the investment and provides a return only when the intervention succeeds based on agreed upon metrics;
- Housing and service providers that work closely with the target population to ensure that each individual can select the housing and service options that best meet their needs;
- A third-party evaluator that determines whether the agreed upon metrics have been met; and,
- An intermediary that identifies and coordinates the partners together and oversees the effort for the long term.

In effect, the partnership provides the financial resources, technical expertise, and community capacity to deliver the intervention upfront, with government reimbursements coming after proven success. The chart below illustrates how this approach works.



Under this model, the government retains decision-making authority, with consultation by external stakeholders, regarding the cohort of people to be targeted for the selected intervention. Additionally, the government has the ability to hold the partnership accountable for its performance through an outcomes-based contract, with an independent third-party evaluator agreed to by the partners. The government negotiates reimbursement payments with the social impact investment partnership based on agreed upon metrics for defining success.

TARGET POPULATIONS FOR SUPPORTIVE HOUSING AND SOCIAL IMPACT INVESTING

In dozens of studies across the country over the last 20 years³, permanent supportive housing has been repeatedly proven to be an effective intervention that improves housing stability, reduces the use of expensive crisis care, and improves outcomes even for the most vulnerable individuals with complex needs. The cost savings resulting from supportive housing are particularly significant when looking at the four target groups outlined below. Since social impact investing deals are built on the premise that the cost of the intervention, in this case supportive housing, will be significantly less than the cost of the status quo for a given targeted group, these four populations provide significant opportunities for successful social impact investing efforts.



Frequent or High Utilizers of Health or other Crisis Resources

In communities across the country, there is a cohort of people who cycle between extremely high cost crisis systems, including emergency rooms, hospitals, jails, detox facilities and homeless shelters. Through administrative data integration and analysis, the highest utilizers can be identified and targeted for supportive housing. There is ample evidence this strategy dramatically reduces costs to public crisis systems.

- In Los Angeles county 10% of the homeless population accounts for 72% of homeless healthcare costs. When comparing the year before and after entering supportive housing among this group:
 - Emergency department visits decreased 71% from 9.8 to 2.8 visits per person per year on average;
 - Inpatient readmissions dropped 85% from 8.5 to 1.2 admits;
 - Inpatient days decreased 81% from 28.6 to 5.5 days; and,
 - On average cost avoidance per person per year was \$59,416 with a total cost decrease of 81%.⁴
- In Massachusetts, a statewide pilot of chronically homeless individuals showed a reduction in mean Medicaid costs from \$26,124 per person annually before entering supportive housing to \$8,499 in the year after entering supportive housing.⁵
- Among chronically homeless persons with physical and/or psychiatric conditions in Seattle overall Medicaid charges were reduced by 41% in the year after entering supportive housing.⁶
- The independent evaluation of the Frequent Users of Health Services Initiative (FUHSI), a CSH-led effort in California, found that participants averaged \$58,000 in hospital charges annually prior to program enrollment.

- A study of 100 chronically homeless individuals in Denver found that supportive housing led to a 76% reduction in the number of days spent in jail. Supportive housing resulted in total cost offsets of \$31,545 per person over a two-year period.⁷

Residents of Health Care Institutions who Prefer to Live in the Community

The central tenet in the Supreme Court's *Olmstead* decision is that the Americans with Disabilities Act (ADA) gives people with disabilities the right to have an alternative to an institutional setting when they need long-term services and supports, in order to be fully integrated into their communities. Housing is an essential component. States are now grappling with identifying and securing the resources necessary to fulfill the goals of the ADA and *Olmstead* decision. Several factors make targeting this population for social impact investments viable:

- In general, the average cost of community-based care for the elderly, disabled and for people with intellectual disabilities is about one-third of the average cost of institutional care⁸. The most recent data published by the National Council on Disability reports the average annual expenditures for state institutions was \$188,318, compared to an average of \$42,486 for Medicaid-funded home and community based services⁹.
- Although states have been working to rebalance their Medicaid spending away from institutional-based care and toward home and community-based services, in many states these efforts have been stymied by a lack of affordable housing. Social impact investment can provide the financing for additional units of supportive housing, allowing states to correspondingly shift Medicaid spending to support tenants in integrated community housing.
- States are consistently, year after year, incurring exorbitant costs for persons residing in institutional care settings, and they will continue to underwrite these costs in future years as well. Long-term cost savings can be realized from moving people out of institutions and into the community. A 2012 analysis by H. Stephen Kaye shows that even a gradual shift away from spending on institutional settings like nursing homes to services delivered in the community can significantly reduce costs at the state level. A shift of just 2% per year can reduce spending by about 15% over ten years.¹⁰
- The Department of Justice has stepped up its *Olmstead* compliance efforts, and a number of states are already under federal decrees to create supportive housing opportunities for people with disabilities in the community. Dozens more are now creating *Olmstead* implementation plans in the face of heightened scrutiny. Proactive engagement by states that support the tenets of the ADA and *Olmstead* decision is also a prudent strategy given the compliance environment.

People Exiting State Prison with Chronic Health Conditions

States across the country are grappling with the extremely high costs of incarceration. More specifically, they are incurring enormous expense in providing care and treatment to people with complex, chronic health needs. This problem is exacerbated by the aging of the prison population and the additional health care needs that represents.

States are currently absorbing enormous cost (and carrying the full load of it) for correctional health care, including behavioral health care, medications, and treatment. A social impact investment that targeted this high-cost, high-need population, providing them with supportive housing as they exited prison, could reduce re-arrest and re-incarceration rates significantly and correspondingly reducing healthcare costs.

- A 2014 study from the Pew Charitable Trusts and the John D. and Catherine T. MacArthur Foundation found that spending on inmate health care had a median growth rate of 49% among states from 2001-2008, with 11 states seeing an increase of 90% or more.¹¹
- A study by the Urban Institute in Ohio found that the treatment group of supportive housing participants was 40% less likely to be re-arrested and 60% less likely to be re-incarcerated within a year of initial prison release as compared to the control group.

Families with High Utilization of Child Welfare Systems

There is a relatively small but significant subset of extremely vulnerable families that have long histories of homelessness as well as extensive (and often times multi-generational) involvement in the child welfare system. These families often have complex health challenges, experience extreme poverty, and have challenging family situations. Through CSH's Keeping Families Together initiative, supportive housing has been shown to result in significant reductions in public costs for these families, including reduced child welfare involvement, and reduced reliance on the foster care system. The model is now being replicated and rigorously researched by the U.S. Department of Health and Human Services (HHS)'s Administration for Children, Youth, and Families (ACYF).

- Keeping Families Together moved 29 families into stable homes that had, over the past twenty years, collectively spent 17,451 days in shelter at a total cost of \$1.4 million and used 75,931 days in foster care at a cost of \$7.4 million.¹²
- Keeping Families Together's evaluation results demonstrated that 90% of families stayed housed, and child welfare involvement decreased, as indicated by a case closure rate of 61% and an 87% reduction of reported abuse and neglect cases. 100% of children returned from foster care, and school attendance increased.¹³

KEY ELEMENTS OF EXPANDING SUPPORTIVE HOUSING THROUGH SOCIAL IMPACT INVESTING

Based on two decades of experience and numerous rigorous studies that have demonstrated its efficacy, supportive housing is poised for expansion through social impact investing in communities across the country. As governments, philanthropy, service providers and others explore the viability of a social impact financed intervention, there are several key elements necessary to make this promise a reality.

The list below outlines the necessary ingredients to successfully design and implement social financing mechanisms related to supportive housing. Combining the proven intervention of supportive housing with committed partners invested in its success presents a powerful opportunity to provide critical assistance to our most vulnerable citizens while focusing public resources on programs that work.

- A **concrete, discrete problem** with the corresponding availability and access to data necessary to identify a cohort to be served by the intervention.
- A **proven, cost effective intervention** with a strong track record of success that gives stakeholders the confidence to move ahead.
- **Innovative government partners** and the **political will** to employ and test a new model.
- **An experienced intermediary** that brings all the partners together and oversees ongoing implementation.
- **Philanthropic and institutional investors** that provide the upfront funding to implement the intervention.
- **Experienced, high capacity non-profit housing and service provider(s)** that deliver quality housing and services to the target population.

- **Credible data and concrete metric(s)** agreed upon by all parties coupled with a **rigorous third-party evaluation** to track performance.

THE ROAD AHEAD

CSH has developed a multi-pronged approach as we cultivate opportunities to use social impact investing mechanisms to increase investment and expand supportive housing opportunities for vulnerable people. Outlined below is our five point plan:

1. **Engaging state and county governments.** The success of social impact investing rests on the interest and willingness of government to re-think how it allocates resources and finances social interventions. CSH is currently actively engaged in conversations with elected and senior-level officials and various stages of requests for information and proposal responses with multiple states and localities.
2. **Cultivating private and philanthropic investment.** Funded jointly by the Robert Wood Johnson and Rockefeller Foundations, the Corporation for Supportive Housing (CSH) and the Center for Healthcare Strategies (CHCS) have partnered in order to further assess, develop and promote the use of social impact investment to address the integration goals under *Olmstead*. CSH is reaching out to institutional investors and is also engaged and doing additional outreach to a number of national foundations, as well as regional and local foundations in target communities, to gauge and cultivate interest in social impact investing.
3. **Engaging and building the capacity of the provider community.** In the end, the success of these efforts will require that non-profits can succeed in achieving the social outcomes agreed to by the partners. For 20 years, CSH has been working to build capacity with providers in the community that have the expertise and wherewithal to succeed, both nationally and in jurisdictions that are now actively pursuing social impact investing.
4. **Developing a template to streamline social impact investing development.** As social impact financing deals move forward across the country, CSH is developing templates and frameworks for routinizing the process to tailor the financial and programmatic models to the specific conditions, populations, and parameters of a social impact investment deal in a new state. This will include programmatic and financial models that can be adapted and replicated. The development of these tools and templates will allow CSH to more easily assess the opportunity to implement a social impact financing intervention in a new state and to implement the model more expediently, with the tools capturing all key assumptions that can be adjusted, lessons learned, and rules of thumb from the first few implementation sites.

CSH is excited to continue our efforts to engage government, philanthropy, and providers as we explore opportunities to expand investments in supportive housing that improve lives, build stronger communities, and reduce costs.

CONTACT US

Visit our website at csh.org or email us at info@csh.org to learn more about how social impact investment to create supportive housing could work in your state or locality and how CSH can help.

END NOTES

- ¹ Nonprofit Finance Fund. (2013). Pay for success deals in the United States. Retrieved from <http://www.payforsuccess.com/learn-out-loud/activity-map>
- ² CSH. (2014). Map of CSH Involvement in Social Impact Investment Efforts. Internal document.
- ³ Rog, D., Marshall, T., Dougherty, R., et al. (2013). Permanent supportive housing: Assessing the evidence. *Psychiatric Services*. Retrieved from <http://ps.psychiatryonline.org/article.aspx?articleid=1790640>
- ⁴ Flaming, D., Lee, S., Burns, P., & Sumner G. (2013). Getting home: Outcomes from housing high-cost homeless hospital patients. Retrieved from http://www.csh.org/wp-content/uploads/2013/09/Getting_Home_2013.pdf
- ⁵ Massachusetts Shelter and Housing Alliance. (2007). Home and health for good: A statewide pilot housing first program. Retrieved from <http://www.mhsa.net/matriarch/documents/HHG%20June%20report%20FINAL.pdf>
- ⁶ Larimer, M., Malone, D., Garner, M. et al. (2009). Health care and public service use and costs before and after provision of housing for chronically homeless persons with severe alcohol problems. *JAMA*. 2009; 301(13):1349-1357.
- ⁷ CSH. (2011). Returning home: Emerging evidence and lessons learned. Retrieved from http://www.csh.org/wp-content/uploads/2011/12/RHIUpdateReport_FINALpdf.pdf
- ⁸ Houser, A., Fox-Grage, W., & Ujvari, K. (2012). Across the states: Profiles of long-term services and supports. Retrieved from http://www.aarp.org/content/dam/aarp/research/public_policy_institute/ltc/2012/across-the-states-2012-executive-summary-AARP-ppi-ltc.pdf
- ⁹ National Council on Disability. (2009). The costs of deinstitutionalization: Comparing the costs of institution versus community-based services. Retrieved from <http://www.ncd.gov/publications/2012/DIToolkit/Costs/inDetail/>
- ¹⁰ Kaye, H. S. (2012). Gradual rebalancing of Medicaid long-term services and supports saves money and serves more people, statistical model shows. *Health Affairs*, 31, 6 :1195-1203
- ¹¹ Pew Charitable Trusts and John D. and Catherine T. MacArthur Foundation. (2014). Managing prison health care spending. Retrieved from http://www.pewstates.org/uploadedFiles/PCS_Assets/2014/PCT_Corrections_Healthcare_Brief_JAN14.pdf
- ¹² CSH and Robert Wood Johnson Foundation. (2011). Keeping families together webinar: Can supportive housing strengthen vulnerable families and keep their children safe? Retrieved from http://www.rwjf.org/content/dam/farm/meetings_and_conferences/speeches_and_presentations/2011/rwjf69406
- ¹³ CSH. (2012). Keeping families together business plan: A roadmap for national scaling and replication. Retrieved from <http://www.socialimpactexchange.org/sites/www.socialimpactexchange.org/files/2012%20CSH%20KFT%20Business%20Plan%20FINAL.pdf>