



Social Impact Bonds: *A Promising Tool for the Future of Permanent Supportive Housing*

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Supportive housing is an innovative and proven model that helps communities to address the unique housing needs of the homeless and those with chronic health conditions, mental illnesses and/or substance abuse issues. Supportive housing combines the very low rent levels of affordable housing with wrap-around services that help people who face complex challenges to live with stability, autonomy and dignity. Services are provided in the home or wherever the tenant chooses and are typically not required as a condition of their tenancy; tenants can remain in the housing as long as they wish. Financing the development and operations of supportive housing has always been a challenge, and requires the weaving of myriad resources including Low Income Housing Tax Credits, loans, bonds, human ser-

vices contracts and partnerships, and private funds. Since the 2007 recession and the subsequent budget crises at the national, state, and local levels, funding has become increasingly scarce and the supportive housing industry is now trying to find its new normal for financing and operating these successful programs.

The Social Impact Bond (SIB), a tool within the “Pay for Success” model, is a promising finance option that may become a critical component of a new mechanism for developing and operating affordable supportive housing. SIBs promise returns for a program’s private sector SIB investors if that program meets certain performance targets and, in the process, reduces costs to the public.¹ The first SIB-funded program is underway in the U.K. and last summer Massachusetts became the first state in the U.S.

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to issue a competitive, transparent procurement to obtain services using social innovation financing.² Both SIB initiatives are funding strong, evidence-based program models – the U.K. model is a prisoner rehabilitation program and in Massachusetts both a supportive housing program and a youth offender program are being planned.

In order to attract investors and realize the cost savings to pay returns, programs funded by SIBs must have evidence-based track records of success. Supportive housing has been proven to be a cost effective model, generating significant cost savings to public systems. Cost studies in six different states and cities found that supportive housing results in tenants' decreased use of homeless shelters, hospitals, emergency rooms, jails and prisons.³ In areas where homeless persons with more complex issues frequently use health services in emergency rooms and jails, there are substantial cost savings to the public. Among the overall population of homeless single adults in Los Angeles, ten percent incur the greatest public costs at an average of \$6,529 per month, compared to \$574 per month among the other 90 percent. In contrast, when these individuals live in supportive housing, the public saves a total of \$4,589 per month per frequent user.⁴

To realize these savings in emergency service costs while still ensuring expert care, CSH has helped to establish several innovative pilot programs that are already demonstrating cost savings while providing coordinated services and housing for homeless people with the most complex needs, using housing as a platform for health care delivery and coordination. These pilots will build the foundation necessary to attract SIB investments to pay for supportive housing.

In Los Angeles, the CSH Frequent Users Systems Engagement (FUSE) pilot program uses supportive housing integrated with care management and primary and behavioral health services to improve health outcomes while reducing public costs among individuals with complex health needs. Funding for the program comes from the Hilton Foundation and the UniHealth Foundation. CSH has been able to make the business case for hospitals to invest in housing the highest-cost, most frequent emergency room users. On a national level, CSH received a prestigious federal Social Innovation Fund grant of \$2.3 million from the Corporation for National and Community Service (CNCS) to address the critical intersection of health, housing and homelessness through supportive housing pilot programs located in four different communities throughout the country – Los Angeles, San Francisco, Washtenaw County, MI, and Connecticut.

A similar pilot under development in Los Angeles uses the Just in Reach (JIR) model, and will demonstrate cost savings by providing supportive housing to homeless, frequent users of LA County jail who have chronic mental health and/or substance abuse issues and are reentering the community. The JIR model, pioneered by CSH with funds from the Los Angeles County Sheriff's Department, the Robert Wood Johnson Foundation and the Hilton Foundation, provides comprehensive support services and linkages to housing to those who are being released from jail, have been chronically homeless, and have a mental illness and/or substance use issues. In the coming months, working with LA County and the JIR partnership of providers, CSH will explore strengthening rigorous data collection and evaluation, to inform the business case for this model. The cost savings to county correctional services, health and behavioral health services, and homeless services could attract investments to finance the future development and operation of supportive housing for this population through SIBs and other Pay for Success mechanisms.

In summary, CSH is now working to place this evidence-based approach to helping and housing communities' most vulnerable residents at the forefront of the Social Innovation Financing movement. Supportive housing, with its demonstrable cost savings across multiple public sectors is the perfect vehicle with which to bring new funding to programs that work. **CI**

For more discussion of Pay for Success financing models like the social impact bonds highlighted in this article, be sure to take a look at the newest issue of the Federal Reserve Bank of San Francisco's *Community Development Investment Review* (Volume 9, Issue 1, 2013). This issue of the Review aims to serve as a comprehensive resource for the most current thinking on the origins, models, and potential implications of Pay for Success, and encourages readers to weigh its exciting potential against its possible pitfalls. View the issue here: http://www.frbsf.org/publications/community/review/vol9_issue1/full-issue.cfm

Endnotes

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- 4 Michele Lerner, "Real estate investors are impacting traditional buyers," HSH Financial News Blog, March 8, 2013; Morgan Brennan, "Wall Street Institutions Behind Home Price Surges in Markets Like Phoenix," *Forbes*, March 18, 2013.
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- 19 Landis and McClure 2010, p. 331.
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- 2 Ludwig, Terry, "Pay for Success: Building on 25 Years of Experience with the Low Income Housing Tax Credit," *Community Development Investment Review*, Federal Reserve Bank of San Francisco, Vol. 9, Issue 1, 2013.

Putting Housing Program Delivery into High Gear

- 1 The term "project-based rental assistance" is intended to distinguish these programs from HUD's Housing Choice Voucher program.
- 2 These properties had financing from the Department of Agriculture's Rural Housing Service rather than HUD, but most of the same issues applied.
- 3 Housing America's Future: New Directions for National Policy, February 2013, pp. 96-103.

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- 2 "Massachusetts First State in the Nation to Announce Initial Successful Bidders for 'Pay for Success' Contracts." Mass.gov, The Official Website of the Executive Office for Administration and Finance, <http://www.mass.gov/anf/press-releases/fy2013/massachusetts-first-state-in-the-nation-to-announce-ini.html>, accessed March 6, 2013.
- 3 "Evidence and Research," CSH The Source for Housing Solutions website, Supportive Housing Facts, accessed March 8, 2013, <http://www.csh.org/supportive-housing-facts/evidence/>
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Improving Financial Stability by Building the Capacity of the Local Community

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