

Bringing Success to Scale: Pay for Success and Housing Homeless Individuals in Massachusetts

Joe Finn

Massachusetts Housing and Shelter Alliance

Jeff Hayward

United Way of Massachusetts Bay and Merrimack Valley

Valentino became homeless after struggles with gambling and alcohol addictions left him with nothing. For more than a decade, Valentino stayed in shelters in the Greater Boston area—or in the hospital. Valentino had three heart attacks while he was homeless, each one worse than the last. He was unable to take care of his health without a stable, safe place to live.

Now, Valentino lives in permanent housing through the Massachusetts Housing and Shelter Alliance (MHSA) Home & Healthy for Good (HHG) program, which is a partnership between MHSA and its member agencies like Pine Street Inn, where Valentino lives. Access to permanent housing has turned Valentino’s life around. He is no longer plagued by his addictions. “No more gambling, no more drinking,” he says. His health has improved—he is down from taking fourteen prescription pills per day to only five—and his quality of life is better as well. He is able to watch what he eats and treat his heart condition and diabetes properly. Housing has increased Valentino’s opportunities for personal success and decreased his health costs in the process.

Unfortunately, many others who, like Valentino, just need a chance to access stable, supportive housing still struggle to survive in shelters or on the streets of Massachusetts. MHSA and United Way of Massachusetts Bay and Merrimack Valley (UWMB) have long sought ways to bring permanent supportive housing to scale in Massachusetts. For this reason, MHSA, in partnership with UWMB and the Corporation for Supportive Housing and with the assistance of Third Sector Capital Partners, is negotiating the first Pay for Success (PFS) contract with the Commonwealth of Massachusetts to house frequent users of services for the homeless population.

A growing body of evidence in mental and public health literature shows dramatic improvement in health outcomes, residential stability, and costs to society when homeless people receive supportive medical and case management services while living in permanent affordable housing units. Lack of stable housing is associated with significant health concerns, and consequently homeless people have disproportionately poor health. It has been well documented that mortality rates in homeless individuals are approximately 3.5

times higher than in the general population,¹ and homeless people are hospitalized for medical issues five times as often.² The Housing First model anticipates better outcomes, including health outcomes, if people are supported in a permanent housed environment rather than targeted for intensive services in shelters or streets. Once stabilized in housing, chronically homeless individuals are able to utilize mainstream health care resources in a far more effective and less expensive manner.

Housing First, or “low-threshold housing,” has been implemented in several cities, including Seattle, San Francisco, New York City, and Philadelphia. Outcome data have been reported on chronically homeless people with severe mental illness who were housed in New York City between 1989 and 1997.³ This study showed that supportive housing interventions resulted in lower rates of emergency public service usage and their associated costs for more than 4,600 people. Following placement in supportive housing, homeless people in this study experienced fewer and shorter psychiatric hospitalizations, a 35 percent decrease in the need for medical and mental health services, a 38 percent reduction in jail use, and a greater than 60 percent reduction in shelter usage.

In Massachusetts, we have gone beyond looking at overall cost savings and have focused specifically on the cost reductions to Medicaid that result from supportive housing interventions. Through the HHG Housing First initiative administered by MHSA, we have demonstrated that supportive housing, when targeted to the appropriate high-cost population, actually reduces Medicaid costs. HHG has provided housing with support services to more than 600 chronically homeless individuals. Actual pre-housing and post-housing Medicaid costs were obtained from MassHealth in March 2009 for the first ninety-six HHG participants. Total Medicaid costs reported include any medical service that was paid for by MassHealth, including inpatient and outpatient medical care, transportation to medical visits, ambulance rides, pharmacy, and dental care. Before housing, the mean annual Medicaid cost per tenant was \$26,124. After housing, the mean annual Medicaid cost dropped to \$8,500. Extrapolating this number suggests that successfully housing this population saved Medicaid nearly \$1.7 million. Simply put, providing housing and supportive services to chronically homeless individuals is a much more efficient use of resources than managing their medical conditions on the streets or in shelters. More recent analysis of the entire HHG cohort shows similarly promising results.

In April 2011, under the administration of Governor Deval Patrick, the Massachusetts Executive Office for Administration and Finance began to look at the possibility of utilizing

1 Jonathan R. Hibbs et al., “Mortality in a Cohort of Homeless Adults in Philadelphia,” *New England Journal of Medicine* 331 (1994): 304-309; Stephen W. Hwang et al., “Causes of Death in Homeless Adults in Boston,” *Annals of Internal Medicine* 126 (8) (1997): 625-628.

2 Jon V. Martell et al., “Hospitalization in an Urban Homeless Population: The Honolulu Urban Homeless Project,” *Annals of Internal Medicine* 116 (4) (1992): 299-303.

3 Randall Kuhn and Dennis P. Culhane, “Applying Cluster Analysis to Test a Typology of Homelessness by Pattern of Shelter Utilization: Results from the Analysis of Administrative Data,” *American Journal of Community Psychology* 26 (2) (1998): 207-232.

social innovation financing to direct capital to unique and promising innovations aimed at resolving complex social problems. MHSA and UWMB immediately saw an opportunity to bring two long-held concerns to the forefront of public discussion: outcome-based investment and the benefits associated with Housing First. After a public procurement process, MHSA, with UWMB as its fiscal agent, won the right in July 2012 to negotiate a contract with the Commonwealth of Massachusetts to be the intermediary for the first PFS contract to address the problem of long-term homelessness through housing. Contract negotiations began in earnest in January 2013.

The concept of social innovation financing is a “brave new world” within both government and the nonprofit sector. To date, there is no empirical evidence to suggest that the model works—and yet social innovation financing has caught on with a level of enthusiasm seldom seen. We find ourselves at times caught between its promoters, who proclaim it as salvation for charitable institutions struggling to achieve difficult ends, and its detractors, who view it as the latest privatization scheme or the product of snake-oil salesmen meant to further less noble objectives. As with most things, we believe the truth rests somewhere between the extremes. Our experience with HHG reminds us that new innovations are often greeted with doubt, and progress would be impossible without some level of risk. We have entered this fray because it represents one of the first serious attempts to discuss the important relationships between public agencies, outcome measurement, appropriate capital financing, and the appropriate role of the private sector.

Although we have yet to fund a single housing unit through PFS, we have learned a great deal that is worth sharing. First, social innovation financing is a broad concept. Although its most public iteration is the social impact bond, a number of financing models are in fact available to achieve a social objective. All of these models are premised on the concept of private capital preceding public investment. However, the practical implications of such models can affect public procurement reform and philanthropic support, as well as the engagement of the private investment world in socially meaningful ventures. At this stage of development, all avenues should be explored. MHSA and UWMB now have the opportunity, not only to consider new aspects of financing the nonprofit sector, but also to reconsider the relationship between government and the nonprofit sector.

Second, the introduction of social innovation financing lays bare the critical question of our time: what is the obligation of the public sector to address the most complex and difficult social ills, such as poverty, homelessness, addiction, and mental health? In an age of scarcity and incredible deficit, such questions become even more pressing. What remains uncertain at this point—and clearly needs to be part of negotiations with any public entity—are the objectives that social innovation financing must meet. Both social and fiscal objectives are in play. While the social objectives are often good in themselves, the premise that the incredible needs that exist can all be met through the savings produced through innovative initiatives (like Housing First) remains untested. What responsibility does a state have to ensure that severely disabled persons are not relegated to the street or mass shelters, and

who bears that cost? MHSA and UWMB believe that the social innovation financing process provides an opportunity to struggle with such important questions and that novel financing approaches that address both social and fiscal objectives are possible.

If someone asked Valentino the difference Housing First makes, he would likely not focus on financing models. Instead, he would share the significant stabilizing impact housing has had on his life. MHSA and UWMB remain committed to creating more housing opportunities for people like Valentino—simply because it is worth doing. We have set out on this journey in the faith that there must be new and exciting ways to finance such important initiatives. The discussions it has promoted have made the journey thus far worth the effort.

Joe Finn has been executive director of the Massachusetts Housing and Shelter Alliance (MHSA) since 2003. Mr. Finn has worked on homelessness issues for nearly 15 years. Prior to coming to MHSA, he served as executive director of Shelter, Inc. in Cambridge and Quincy Interfaith Sheltering Coalition in Quincy. Mr. Finn is a 1978 graduate of Siena College. He earned a master of arts degree in Theology from the Washington Theological Union, a master of arts degree in Sociology from the New School for Social Research, a Juris Doctorate from the New England School of Law and an Honorary Doctor of Humanities from Bentley College. In 2001, Mr. Finn was elected City Councilor for the City of Quincy. He and his wife Dolores McIlmail have seven children.

Jeff Hayward is chief of external affairs at United Way of Massachusetts Bay and Merrimack Valley. Mr. Hayward is responsible for overseeing the annual strategic investment of nearly \$35M in initiatives and agencies contributing toward the United Way of Massachusetts Bay and Merrimack Valley's mission and vision. He is also responsible for shaping, executing and managing United Way's public policy strategy and agenda. Mr. Hayward also oversees the United Way efforts to engage volunteers in furthering the United Way agenda and leads a team responsible for major giving and transformational gifts along with grants and foundation giving. Mr. Hayward previously served as chief of staff to the Mayor of Lynn for five years. He later served as a member of the Massachusetts House of Representatives before becoming the New England vice president for development and marketing for a national, publicly traded health care company. He was also a member of the MA Policy Academy on Ending Family Homelessness charged with developing a 10-year plan to eliminate family homelessness; and was a member of the MA Department of Transitional Assistance's Housing and Homeless Advisory Committee appointed by the Commissioner of DTA. More recently he served on the Massachusetts Commission to End Homelessness which developed a five year plan to end homelessness in MA under the Patrick Administration.