Social Impact Investing

A Tool to Finance Community-Based Supportive Housing and Fulfill the Integration Goals of Olmstead

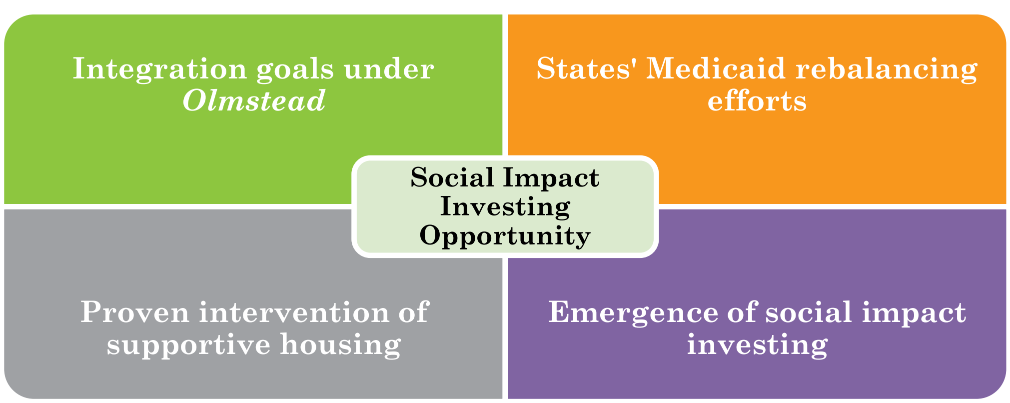
THE OLMSTEAD DECISION AND A NEW OPPORTUNITY

Since 1999, states and communities across the country have been striving to comply with the ruling in the Supreme Court's *Olmstead v. L.C.* decision. One of the major challenges states have faced in the last 15 years has involved a scarcity of affordable community-based housing. A new opportunity, using social impact investing, could expand housing availability while providing a return on the investment that would attract capital. This would allow states to expand access to supportive housing, creating opportunities for people with disabilities to live in the community. Supportive housing provides people with safe, affordable housing and access to a wide array of voluntary support services.

The central tenet in *Olmstead* 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. Social impact investing may provide a solution.**

The confluence of four factors creates a significant window of opportunity to use social impact investing to help states diversify and expand investment in supportive housing, creating opportunities for persons with disabilities to live independently in integrated community settings:

1. The ruling in *Olmstead* that states ensure that persons with disabilities have the opportunity to live in the most integrated setting possible in the community;
2. States' efforts to rebalance Medicaid spending away from institutional-based care and toward home and community-based services;
3. Supportive housing as a proven intervention that can both positively impact quality of life and health outcomes for its tenants and also provide a cost effective alternative to expensive institutional care; and,
4. The emergence of social impact investing as a way to leverage upfront private and philanthropic investment to finance interventions like supportive housing – with government paying only when the intervention achieves agreed upon metrics and goals.



Social Impact Investment Solution

Social impact investment presents an opportunity to diversify and expand supportive housing, increasing access for the people who need it most. It also leverages upfront private and philanthropic investment to finance interventions like supportive housing – with government paying only when agreed upon metrics and goals are met. With respect to *Olmstead*, social impact investing presents a promising opportunity to assist states in meeting its central tenets for five key reasons:

1. **The cost benefit analysis is clear and convincing.** Social impact investment only works when it uses interventions that are proven to be less expensive than the alternative. The costs of keeping people institutionalized in hospitals and other segregated settings are exorbitant, proving to be a significant driver of costs in state budgets. Alternatively, the cost of providing people with supportive housing – affordable housing in the community with access to services and community amenities – is a much more efficient and effective investment of state resources.

2. **States lack the resources to make substantial upfront investments in housing.** States face a "Catch 22" on Olmstead. They are dependent on the availability of affordable community-based housing to offer an alternative to institutions; yet, they have large, existing financial commitments to the very institutions they must reduce the size of in order to do so. They cannot reduce investments in institutions until after they have created alternative opportunities in the community, but their constrained budgets make securing financing for an upfront investment in community-based housing extremely difficult. In short, they have a financial timing or sequencing problem that social impact investing can address. Social impact investment can provide the upfront, non-public resources necessary to underwrite supportive housing in the community. After a substantial number of supportive housing opportunities integrated into the community are financed and made available, the state can reduce its investments in institutions and use those resources to pay for the supportive housing that was created.

3. **Olmstead compliance is receiving increased federal scrutiny.** 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 therefore is also a prudent strategy given the compliance environment.

4. **States are working to rebalance Medicaid spending.** Although states have been shifting their spending away from institutional-based care and toward home and community-based services since the creation of the Home and Community-Based Services waiver program, these efforts have accelerated due to the *Olmstead* decision, new opportunities in federal law (such as Money Follows the Person, Community First Choice, and others), and related federal emphasis on community integration. In many states, however, efforts to shift individuals from institutional settings to the community 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.

5. **Anticipated returns based on savings are consistent over time.** States are consistently, year after year, incurring exorbitant costs for persons residing in institutional care settings, and they will to continue to underwrite these costs in future years as well. Unlike an example targeting homeless high utilizers of health care and correctional services in which cost savings would diminish

as people stabilize in the community, the cost savings realized from moving people out of institutions and into the community remain relatively constant. This suggests a consistent rate of savings over time.

THE BUSINESS CASE FOR SOCIAL IMPACT INVESTMENTS

The ADA and *Olmstead* decision first and foremost stand for the proposition that people with disabilities deserve to have a choice about where they live when they need an institutional level of care in order to have the option to live in the most integrated setting possible in the community. At the same time, a brief review of the costs illustrate there is also a compelling business case for community-based long-term services and supports – not only is it better, it is less expensive.

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 care[1]. In its annual profile of long-term services and supports in 2012, the AARP showed that nationally persons with physical disabilities could receive services in the community for $10,957 versus $29,533 in a nursing facility. Persons with intellectual disabilities could be served in the community for $42,896 while institutional costs for the same group averaged $123,053 per person.[2] Table 1 illustrates this cost savings in a range of states by comparing the costs of providing supports to persons with disabilities in institutions versus providing them with supportive housing in the community. Although each scenario differs slightly based on the target population as well as variances in service intensity and setting, it is clear that providing people with housing and supports in the community is far less expensive than doing so in institutions.

Table 1: Costs of Institutionalization vs. Costs of Community-Based Approach

State	Annual Cost of Institutionalization *(per capita)*	Annual Cost of Housing and Services in the Community *(per capita)*	Cost Details
Illinois	$51,528[3]	$23,608[4,5]	Average cost to house a nursing home resident covered by Medicaid versus supportive housing costs (including Medicaid costs, rental assistance, and non-Medicaid funded services)
Minnesota	$89,990[6]	$42,832[7]	Annual cost for residential care through Minnesota State Operated Community Services versus supportive housing costs (including Medicaid costs, rental assistance, and non-Medicaid funded services)
New Jersey	$215,952[8]	$37,230[9]	Annual average cost of care in a state psychiatric hospital versus annual cost of supportive housing
New York	$136,310[10]	$58,885[11]	State-operated psychiatric facilities versus supportive housing costs

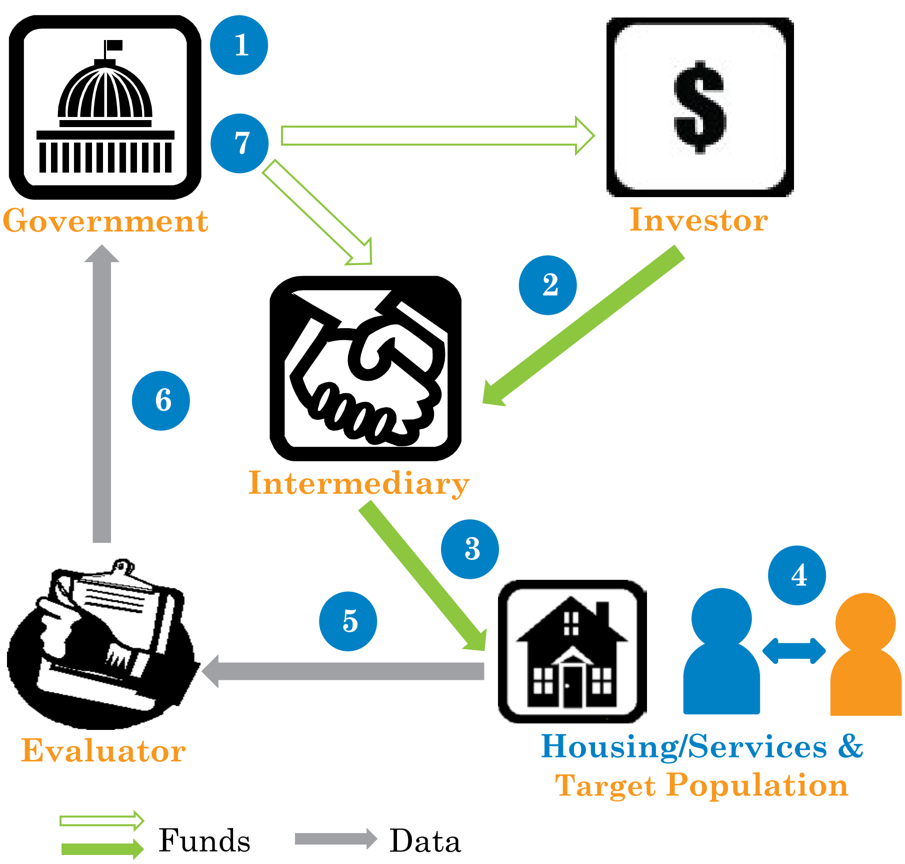
Social Impact Investment: How would it Work?

Although the case for investing in community-based supportive housing instead of institutions is clear and compelling, states in many cases do not have the available resources to make this shift. Creating a social impact fund that attracts and aggregates private and philanthropic investment provides the upfront financing necessary to expand the housing and services opportunities available to persons with disabilities in the community.

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; and,
- 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.



1. **Government** selects a desired intervention and contracts with all relevant parties.
2. **Investors** provide the upfront capital to finance the intervention.
3. **Intermediary** provides the service provider(s) with the working capital to implement the intervention.
4. **Service providers** deliver the transition supports, rental assistance, and services to the **target population.**
5. Outcomes and costs are tracked and provided to the third-party **evaluator**.
6. The **evaluator** determines whether the agreed upon metrics have been achieved.
7. **Government** makes success payments to either the intermediary for distribution or directly to the investors if outcomes are met.

Under this model, the state retains decision-making authority, with consultation by external stakeholders, regarding the cohort of people to be integrated into the community. Additionally, the state 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 state negotiates reimbursement payments with the social impact investment partnership based on agreed upon metrics for defining success including the successful transition of the targeted consumers into integrated community settings.

Moving Forward

As more and more states grapple with their desire to fulfill the vision of *Olmstead*, there is a tremendous opportunity to capitalize and leverage social impact investments to create the supportive housing necessary in the community to turn this vision into reality for thousands and thousands of people. Social impact investment provides not only a mechanism for securing much needed investments in supportive housing but also improves the way states' allocate and invest public money. It supports states' efforts to shift from funding activities to paying for results.

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 a national non-profit intermediary and Community Development Financial Institution that has unparalleled expertise in the issue of homelessness, supportive housing models, financing streams, and service delivery best practices, and deep experience in client targeting. CHCS is a nationally recognized technical assistance provider to Medicaid agencies and their partners and has worked with nearly all 50 states, more than 160 health plans, key federal agencies, and community-based organizations, providers, and consumer groups across the country.

As part of this partnership, CSH and CHCS are conducting a rigorous, multi-state assessment to identify states with high potential for execution of social impact investment contracts. The partnership is also developing relationships with investors who are interested both in investing in individual social impact investment deals as well as collaborating on the development of the overall model. The partnership is focused both on executing social impact investment deals to provide further proof of concept as well as developing a framework to simplify and streamline the creation of future deals. CSH and CHCS are leading the way forward as local and state governments look to social impact investment to better meet the needs of persons with disabilities in their communities and their obligations under *Olmstead*.

Conclusion

As states turn to supportive housing as a proven intervention that supports their goals to connect persons with housing and supports in the community, social impact investing can be a valuable tool. The structure of the model in which private and philanthropic investors provide critically needed upfront funding with repayment hinging on successful performance gives states the support they need to fulfill the vision of the ADA and the *Olmstead* decision and save money in the long term through shifting toward community-based service provision. CSH and CHCS look forward to continuing to develop this model and working with states to implement it.

End Notes

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