Pay For Success & Affordable Housing

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The NHP Foundation
Preserving America's Affordable Housing

Contents

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Executive Summary

Millions of Americans today face a crisis of affordable housing as costs soar while wages stagnate. Across the nation, thousands of neighborhoods and communities are rallying together to guarantee all of its members access to housing that is safe and affordable, full of opportunities, and a central part of a healthy and positive lifestyle.

The purpose of this report, released by the University of Virginia's Pay for Success Lab at the Frank Batten School of Leadership and Public Policy, in collaboration with The NHP Foundation (NHPF), is to explore the background of affordable housing in the United States, and the future of the affordable housing industry. In addition, this report aims to make the case for affordable housing as a fundamental right and pressing social issue by outlining its impact on health, education, and opportunity, among other aspects of every individual's daily life. Finally, this report proposes Pay for Success (PFS) financing as a potential tool to capitalize on affordable housing preservation, rehabilitation, and support services.

PFS contracts are a new form of private-public partnerships aimed at promoting innovative and preventive social services while simultaneously mitigating financial risks for governments and allowing philanthropic donors and impact investors to contribute to efficient projects. By using private funding upfront to capitalize social service providers, PFS contracts help not-for-profit and for-profit organizations get off the ground and begin implementing social service interventions immediately. In addition, because the government does not reimburse service providers until successful completion of the contract, taxpayers are insulated from inefficient spending and governments are able to balance the budget. Because successful projects are reimbursed, philanthropies and mission-based organizations can re-invest their initial contribution into more PFS projects, catalyzing more innovation.

This report is intended to be a resource for local and national policymakers, financial and philanthropic institutions, and advocates for affordable housing who are interested in new funding mechanisms. By incorporating case studies of real housing deals the NHPF has financed and a helpful PFS worksheet to determine the feasibility of a PFS project, it aims to serve as a model for future affordable housing financing across the nation.

Five PFS contracts are currently used to provide Permanent Supportive Housing (PSH), a HUD program providing permanent housing and supportive services to individuals and families experiencing homelessness to ensure

housing stabilization. In addition to providing a breakdown of existing PFS and PSH projects, this report recommends further areas of affordable housing financing that might be capitalized through PFS contracts.

Stakeholders should use this report as a resource to pursue independent studies to explore novel implementation of PFS contracts in their communities. As one of the academic leaders in the PFS field, the University of Virginia Pay for Success Lab is prepared to provide communities, philanthropic institutions, and service providers comprehensive assistance throughout the Pay for Success process.

The NHP Foundation—What We Do and Why

The increasing scarcity of safe and affordable housing is a growing threat to our nation. Unfortunately, this threat is often invisible to all but the low and moderate income families and seniors who are quietly denied adequate shelter.

As reported by Harvard University's Joint Center for Housing Studies in *The State of the Nation's Housing 2017*, the number of renter households has been steadily rising. Sadly, more than a quarter of that growth represents households subsisting on less than $15,000 in annual income. An additional 30% of that increase is attributed to households surviving on only $15,000–$29,999 in income during the course of a year. These are clearly Americans for whom the operating margins to keep a roof over their heads are unspeakably tight.

Because the vast majority of renters are forced to spend a high percentage of their income to secure affordable housing, they are left with insufficient resources for proper nutrition, healthcare, and other basic necessities. For a young working family with small children or a senior on a fixed income, as well as recent high school and college graduates now entering the labor force and housing market, the lack of safe and affordable housing sets up a harmful pattern with little opportunity to escape. As quality housing conditions become unaffordable to more and more Americans, this crisis threatens to escalate into a fundamental human rights issue.

Headquartered in New York City with offices in Washington, D.C., and Chicago, IL, The NHP Foundation (NHPF) was launched on January 30, 1989, as a publicly supported 501(c)(3) mission based not-for-profit real estate corporation. With a portfolio that spans 15 states and the District of Columbia, NHPF is dedicated to preserving and creating sustainable, service-enriched multifamily housing that is both affordable to low and moderate income families and seniors, and beneficial to their communities.

NHPF's diverse properties are service-enriched by Operation Pathways, an affiliate program of NHPF. Our experience demonstrates that a robust service program catering to the needs of residents is directly correlated to higher standards of living, higher reported satisfaction with living conditions, and safer communities with lower costs and burden to local law enforcement agencies. By partnering with local not-for-profit service providers familiar with the neighborhood, Operation Pathways enriches the lives of residents with afterschool programming, summer education, and wellness and savings programs, all geared to helping lower income Americans and their children succeed.

How NHPF Finances Housing

Private-Public Partnerships

Contrary to what some might say, we as Americans can overcome our housing challenges. A good place to start is by building strong private-public partnerships. NHPF attributes many of its successful projects to the involvement of one or more partners from the private and public sectors. Working together with other dedicated and socially responsible organizations, NHPF has been able to use commercial bank financing, permanent tax-exempt bonds and Low-Income Housing Tax Credits (LIHTC) to preserve existing buildings as affordable housing.

Since 1986, the use of LIHTC nationwide has led to the creation of nearly 2.8 million affordable housing units, guaranteed the need for 96,000 jobs year in and year out, and boosted local economies with approximately $3.5 billion in taxes and other revenues annually.

Rental Assistance Demonstration (RAD)

An example of this type of partnership can be found through NHPF's involvement in HUD's Rental Assistance Demonstration (RAD) program. This program allows public housing agencies (PHAs) and owners of other HUD-assisted properties to convert units from their original sources of HUD financing to project-based Section 8 contracts. RAD is an effective tool in providing needed funding to repair and refurbish public housing and in some cases, to build new affordable housing. By participating in RAD, The NHP Foundation is providing evidence that the public and private sectors can work together in affordable housing, and that they can also do so incredibly effectively.

Looking Ahead

Moving forward, private-public partnerships will be essential to providing high-quality affordable housing for low and moderate income individuals, families and seniors. The NHP Foundation is actively seeking innovative solutions to affordable housing financing and operations to help future generations of Americans in need. This report and collaboration with the University of Virginia is a product of our "thought leadership" philosophy. Championed by President & CEO Richard F. Burns, thought leadership challenges NHPF and other housing advocates to go beyond providing safe and affordable housing by engaging with critical issues and searching for thoughtful answers and innovative solutions that anticipate, rather than address, critical changes in the affordable housing

industry. By sharing our extensive knowledge of the affordable housing world and demonstrating a committed and complex understanding of the culture and needs of lower income Americans, NHPF seeks to engage affordable housing leaders, policymakers, civil rights advocates, and everyday Americans alike to make the fight for affordable housing personal.

Introduction

"We have accepted, so to speak, a second Bill of Rights under which a new basis of security and prosperity can be established for all—regardless of station, race, or creed. Among these [is] . . . the right of every family to a decent home."

—FRANKLIN D. ROOSEVELT, 1944

Our Neighborhood, Our Community

Housing—where we live and who we live with—is a fundamental and anchoring part of our identities as human beings. From the neighborhoods we grow up in to the communities where we plant our roots, and the homes we occupy throughout our lifetimes, the physical and social environment we call "our home" shapes us and the opportunities we encounter in our day-to-day lives. Access to a safe and nurturing home, one that is structurally sound and located in a safe, desirable community full of opportunities for personal development and growth, is crucial for childhood development.[1] In turn, positive early development is linked to higher academic performance, better personal health, and access to more socio-economic opportunities as an adult. Conversely, homes and neighborhoods that fail to provide a nurturing environment makes it increasingly difficult for disadvantaged children to access a better standard of living as adults.

Thus, it is no surprise that almost eighty years ago, President Roosevelt platformed the right of every American to have access to a decent place to call home. Although much progress has been made in the ensuing decades to address the housing needs of Americans, we still live in a society where tens of millions struggle to maintain a proper housing, or are otherwise relegated to less desirable neighborhoods devoid of opportunity. Failure of both liberal and conservative policies to adequately address affordable housing have led to permanent exclusion of the poorest Americans from affordable housing, perpetual housing insecurity among working class Americans, and (reduced, but) persistent discrimination by race in all communities, regardless of income.[2]

There is no debate that a vast number of Americans currently lack access to affordable housing. Yet there is much disagreement over exactly how many Americans are affected, and what constitutes "affordable." Such questions have widespread ramifications in the economic and policy field, which directly affects the types and quantities of aid that individuals and communities receive. Any approach to solving the affordable housing crisis must begin with a clear understanding of who is affected and what can be done to help.

What is Affordable Housing?

How to Define "Affordable"

Wide bodies of academic literature and common sense both suggest that one's ability to afford housing depends largely on household income. In turn, housing costs are both the first and largest expenditure for most American families, one that is uncompromising and inflexible.[3] Thus, most definitions of "affordable" housing are based on the premise that each family can afford or ought to allot a certain percentage of its monthly income to housing costs. Despite this economic approach, there is no true consensus on what is "economically affordable" to families of varied socioeconomic background.

Percent of Income

The most commonplace definition of affordable housing states that less than 30% of a household's income should be spent on housing expenditures.[4] Thus, renters and homeowners who spend 30 to 50% of income on housing-related costs are considered "moderately cost-burdened" and those who spend over 50% of income on housing are considered "severely cost-burdened." By this definition, about half of all renters today are cost-burdened and, and of those, over 50% are severely cost-burdened, resulting in a shocking population of about 21 million Americans who struggle to maintain housing.[5] These figures have doubled since 1960. Although policymakers generally rely on this definition because of its simplicity, percent of income calculations overlook the complexities of household dynamics and assumes household costs are relative, despite certain "absolute" costs (such as groceries, bills, etc.) that are not proportionally priced by family income. Critics of the percent of income definition like J. David Hulchinski challenge the logic of using descriptive statistics as measurements of housing needs.

Scholars identify six major uses of the percent of income ratio: description of households, analysis of trends, administration of regulation, definition of housing needs, prediction of household ability to pay costs, and selection of households for a house.[6] These uses demonstrate the impact that the percent of income definition of housing has on economically disadvantaged families. Critics express concern over such widespread use of ratios, which dramatically simplify complex household behaviors into unreliable and invalid definitions of housing affordability; others find that the ratio "rule of thumb" has been wrongfully transformed into an iron rule of affordability. Ultimately, the percent of

income ratio fails to account for "absolute" price floors, or the minimum costs of housing units that are independent of a household's income. Housing prices are not priced "relatively" to families' incomes as a certain percentage, and defining affordability as a ratio is flawed logic. Finally, what a household "can" pay is not necessarily what a household can realistically afford; defining affordable housing as "housing a family can afford" does not make logical sense.

Housing and Transportation Costs

To account for the related costs of housing, some advocate for a "housing and" approach that more comprehensively evaluates the cost of housing, namely the transportation costs incurred during commute to work, school, etc.[7] The Center for Neighborhood Technology allots 18% of income to transportation costs as reasonable. Though factoring in transportation costs gives a more realistic understanding of what is "affordable" and helps fight misleading statistics on low-cost housing that is far from an urban center, it still fails to account for other hidden costs and still relies on an arbitrary assumption that a certain percentage of monthly income can afford absolute expenses.

Shelter Poverty/Residual Income

Michael Stone's "shelter poverty" concept was proposed in the 1980s as a new barometer of housing insecurity that used a sliding scale of affordability that accounts for household composition (since larger households incur more costs) and affordability burdens that are not proportional to income.[8] Though this approach does not dramatically alter the number of individuals identified as housing insecure, it provides an innovative approach to understanding housing affordability that is sensitive to the real-world implications of economies and family life.

Further Criticisms of Economic Definitions of Housing Insecurity

Critics of a purely economic definition of affordable housing note that other negative experiences of housing, such as overcrowding or substandard conditions, also stem from issues of affordability, and thus should be factored into official calculations. They also note that "affordability" is not an absolute characteristic of housing, but rather one that is relative to each individual based on 1) what standard of "affordability" 2) individual characteristics of the renter, and 3) length of occupancy. Standards of affordability are also normative, yet regarded as empirical; what a household spends on housing may not be what they ought or want to spend.[9]

Understanding the Numbers

No matter how the affordability pie is cut, there is no disputing that the slice of Americans who are housing-insecure is disproportionately large.

Who makes up these numbers? Among the nation's lowest income renters (with incomes less than half of their area's median) over 7.7 million live in substandard[10] housing or are severely cost-burdened. About half a million people are homeless on any given night, with about 83,000 qualifying as "chronically homeless," or disabled and homeless for over one year.[11] In addition, estimated tens of thousands of people are "pre-homeless," living in cramped, illegal housing conditions. Over 9 million households live in overcrowded units (defined as units exceeding a person-to-room ratio of 1:1) or physically inadequate housing.[12] Millions of families face one or more of these problems.

In addition, these numbers fail to reflect the increasing number of millennials who return home to live with their parents because they cannot find affordable housing to live in, as well as senior citizens who must choose alternative living conditions because they cannot afford to keep their homes. Finally, these numbers do not reflect families who deliberately choose to live in housing that is of a substantially lower quality than they can afford in order to offset high housing costs. Factoring in these "hidden" cost-burdened individuals shows how widespread an issue affordable housing has become, and how diversely it affects countless Americans. Ultimately, even the most conservative estimates indicate that affordable housing has become a steadily growing issue in the United States that affects a growing segment of Americans.

New Standards of Affordability

The current standards for affordable housing used by the federal government leave millions of low income Americans vulnerable and unaccounted for. There is a pressing need for a new standard of housing affordability that goes beyond percent of income. Future policymakers must conduct extensive research that takes into consideration, among other things, yearly changes in purchasing power and wages, consumption patterns of Americans at different socioeconomic levels and family sizes, and relative costs of living in different localities. The new affordability index must be a dynamic measurement of the true costs of living and account for the full (not just bare minimum) expenses every individual needs to maintain a decent (not just livable) standard of living. This measurement must break down affordability by cities and neighborhoods to account for the vast fluctuations in living costs, even in the same city or county. Finally, this index must be flexible, shifting periodically to stay up-to-date. Such a task is no easy feat, but a major step in the right direction to providing every American with a safe and affordable place to live.

The Importance of Housing

"Where we love is home—home that our feet may leave, but not our hearts."

—OLIVER W. HOLMES, SR.

Like food and water, shelter is a fundamental and necessary part of existence. Article 25 of the 1948 United Nations Universal Declaration of Human Rights recognizes housing as a component of every human's right to an adequate standard of living. Beyond the physical importance of shelter, homes occupy a psychological and ideological significance that is constant and central across cultures and history. The place we call our home is a part of who we are; without such a place, or with our homes under siege by social and economic forces beyond our control, we struggle to achieve health and happiness in our daily lives.

Given the fundamental centrality of our homes, it comes as little surprise that housing affects many aspects of our lives, such as health, education, and economic opportunity. In turn, these individual effects coalesce into larger societal trends. When Americans are denied access to affordable housing, the social and economic burden incurred by governments in addressing these effects through subsidies and social services, as well as the loss of benefits of having a strong, healthy, and happy nation, often outweighs the preventive costs of ensuring every American access to affordable housing.

Affordable Housing and Homelessness

The hardest-hit in the fight for affordable housing are those who cannot afford a house at all; burdened by unemployment, rising housing costs, and personal difficulties that make stable housing inaccessible. Hundreds of thousands of Americans live on the fringes of our communities and in the shadows of our streets. Despite recent improvements in homelessness rates across the nation due to targeted federal aid and permanent supportive housing initiatives, homelessness remains a key problem, especially among veterans and the mentally ill. Over 350,000 people experience homelessness as individuals, while there are over 216,000 homeless families.[13] The number of chronically homeless individuals, defined as individuals who have gone without shelter of their own for over a year, hovers at around 84,000, with over 60% of these individuals living on the street. Though this number has decreased by 21% since 2010, homelessness remains such a geographically widespread problem that it affects all of our communities.

Who Are the Homeless?

Homeless individuals do not have consistent access to a place of their own. The Department of Housing and Urban Development breaks down homelessness into four categories:

- Individuals living in emergency shelters, transitional homes, or areas not meant for human habitation (such as streets)
- Individuals who lose temporary housing every 14 days
- Families with children facing unstable housing conditions
- Individuals fleeing domestic violence who do not have permanent residence[14]

Measurements of homeless populations employ a point-in-time count method, conducted over a ten-day period where communities document how many sheltered and unsheltered individuals live in their communities. These measurements do not count the sizable population of at-risk individuals who are housed but face economic burdens like unemployment or severe rent cost burdens, or live doubled up with family and friends to save on rent. The National Alliance to End Homelessness finds that doubling up is the most common living situation prior to homelessness; in 2014, about 7 million individuals from poor households doubled up[15] contributing to high rates of overcrowding in low-income neighborhoods.

HUD Programs for the Homeless

In addition to local and statewide initiatives aimed at fighting homelessness, the federal government provides four major resources; emergency shelter grants, permanent supportive housing, shelter plus care, and housing voucher programs.[16]

Emergency shelter grants provide states and communities funding to rehabilitate and operate facilities like shelters, as well as provide essential services for the homeless. Permanent Supportive Housing (PSH) initiatives seek to provide homes for the homeless. Often coupled with wraparound support services to assist individuals, PSH initiatives tackle homelessness directly through housing. Shelter plus care models, like wraparound services, provide assistance to individuals with chronic disabilities. Housing vouchers aimed at low-income and homeless individuals such as Rapid Rehousing vouchers help bridge housing cost issues, which often are the primary causes of homelessness. Other federal programs, such as the Section 8 Single Room Occupancy (SRO) program, mandate an allotment of units that must be made available to the homeless.

Case Study: Homeless in Charlottesville

A 2012 study conducted by the Thomas Jefferson Area Coalition for the Homeless calculated the average cost of homelessness per person on the local government

in Charlottesville, Virginia. These costs include more than the traditional homeless assistance programs offered; calculations also accounted for costs incurred from providing social services to the homeless, like hospital and ER visits.

TABLE 1

Cost of a Single Homeless Person in Charlottesville, VA over One Year, April 2011–March 2012

Source: Thomas Jefferson Area Coalition for the Homeless

70 nights in shelter	$ 2,100.00
206 days at day shelter	$ 2,266.00
350 soup kitchen meals	$ 420.00
25 arrests	$ 532.00
15 overnight jail stays	$ 1,035.00
20 EMS calls	$ 780.00
20 ER visits	$ 7,000.00
2 hospital admissions	$ 8,000.00

The $22,000 annual cost to the city government of a single homeless individual demonstrates the incredible price communities pay to keep people on the streets. These numbers are higher in cities like New York, where the average cost of sheltering a single homeless adult in 2014 was $28,609; the figure is $37,047 for families.[17] These numbers do not include the costs of social services provided to address issues stemming from homelessness, such as arrests for vagrancy and hospital visits for exposure to the elements.

Housing First

It makes more sense for governments to provide quality affordable housing for homeless individuals and families than to continue paying for social services that are incurred because of homelessness. Permanent supportive housing services in NYC, for example, balanced the books by reducing usage of homeless shelters, ER visits, hospitals, and prisons. For about the same cost, the city was able to keep individuals off the streets and make social services more efficient.[18] Evidence also demonstrates that providing housing to the chronically homeless was far more cost-efficient to governments than traditional forms of assistance.[19] Beyond economics, governments have a strong incentive to keep individuals and communities safe and desirable by combatting homelessness. Research demonstrates that homeless adults report more psychological distress, such as depression, which is exacerbated by chronic homelessness.[20] Communities suffer from high numbers of homeless individuals, who might detract from the perceived safety of communities and may contribute to neighborhood deterioration.

Public policy attitudes towards homelessness have shifted in the past

decade from beliefs that the homeless were not ready for permanent housing and had to be gradually eased back into society through transitional programs to embracing a "housing first" approach that provides families and individuals with homes and supportive services. Research shows that housing first initiatives are more successful in fighting recidivism and medical costs than transitional housing, even for chronically homeless individuals with mental illness.[21] Ultimately, providing safe and affordable housing to all individuals, even the homeless, is a win-win solution for all.

Affordable Housing and Health

Safe, affordable, and well-maintained housing in thriving neighborhoods is critical to individuals' health, especially young children, the elderly, and those with chronic illness. Numerous studies find that residents of lower income neighborhoods are at an increased risk of physical and mental health problems due to a variety of housing-related factors.[22]

How Neighborhoods and Housing Affect Health

Research shows that inadequate housing in less desirable neighborhoods affects individual health through short-term influences on behavior and long-term consequences of poor health choices.[23] Lack of proper neighborhood institutions such as health facilities and supermarkets discourage healthy habits such as healthcare utilization and proper diet.[24, 25, 26] In addition, unhealthy neighborhood norms and stress (such as trauma from violence) undermine the attitudes of residents towards maintaining a healthy and active lifestyle. The cumulative effects of years of neglect and deprivation "weather" down individuals' well-being, leading to all-around poor health and high mortality rates.[27]

The Effects of Affordable Housing on Health

Nutrition: Housing instability and food insecurity are major barriers to proper health among low-income Americans,[28] and the two go hand-in-hand. Food costs remain relatively constant regardless of income; unlike affordable housing costs, which are defined as a percentage of monthly income, food costs are not proportional to salary. Thus, unaffordable rents negatively impact nutrition by reducing the residual income (after housing costs) families have to spend on food.[29] A study by Fletcher et al found that every $500 increase in annual rent led to a 10% increase in food insecurity rates among low-income families.[30] These statistics are especially troubling in their implications for families with young children, who need constant nutrition to develop and grow. Children who grow up in low-income families living in unaffordable houses are more likely to be vitamin deficient, underweight, and exhibit slower mental development than their peers.[31, 32, 33] Programs that assist struggling families with lower utility costs decrease instances of food insecurity and unstable housing.

In addition, lower income neighborhoods are less likely to have supermarkets, resulting in their being "literally starved for resources."[34] Because most poor families lack private transportation and live in areas poorly serviced by public transportation, getting to the nearest supermarket and bringing home bags of groceries is arduous and discouraging. Analysis of the Moving to Opportunity program demonstrates a statistically significant reduction in obesity rates among families who moved to neighborhoods with more food and health resources.[35]

Percy, age 8, is a resident of Walnut Square in New Orleans and has been a participant in Operation Pathways' Brighten Up afterschool and summer program since 2015. When he first came to the program, his least favorite part of Brighten Up was the daily physical fitness activities. Percy was overweight and often teased at school by his classmates. So in addition to physical health concerns associated with childhood obesity, Percy also suffered from the emotional stress from the bullying and harassment at school. Percy's lack of self-confidence also had a negative effect on his schoolwork.

Percy

Over the last year, Percy's willingness to participate in fitness activities gradually increased. Operation Pathways offered encouragement from both staff and fellow participants through a supportive and bully-free environment, which allowed Percy to feel comfortable engaging in activities that were new and challenging for him. Now, Percy participates in and fully enjoys his fitness program. His new attitude towards physical activity is showing through his fitness evaluations. He continues to improve in all three monitored fitness areas—push-ups, sit and reach, and shuttle run. Last year, he was able to do only two push-ups and now is able to do 10 consecutively. And, his flexibility has improved as he went from 1 inch to 3.5 inches in the sit and reach assessment. Even more importantly, Percy is gaining self-confidence, doing better in school, and just finished his first season of football with the New Orleans youth football league. Way to go Percy!

Physical health: Unaffordable housing impacts physical health most significantly through over-crowding and substandard physical conditions. Overcrowding (most commonly defined as exceeding a 1:1 ratio of rooms to occupants), in addition to the mental effects noted above, promotes the spread of infectious disease among occupants through extended close contact in cramped quarters.[36] Lower income families also exhibit higher rates of respiratory illnesses, such as asthma, as well as exposure to allergens and mold.[37, 38] Especially concerning is the danger of lead poisoning to children with families in older housing stock. The Center

for Disease Control estimates that over 3.8 million homes in the United States built before 1978 still have lead-based paint; a similar study found that 35% of low-income units observed had lead-based hazards.[39, 40] Though the paint itself is harmless on the wall, paint chips eaten by children pose a dangerous health hazard to lower income families. The health and supply concerns of affordable housing in America necessitate more construction of up-to-date and nurturing homes that are available to those in need.

Access to healthcare: Like food costs, healthcare is often the first to go when rents are unaffordable. Studies indicate that the high price of housing may cause households to avoid purchasing insurance; a 2005 analysis found that severely cost-burdened households spent half as much on healthcare and health insurance than households with stable housing.[41, 42] In addition to financial difficulty, lower income neighborhoods often lack proper healthcare facilities altogether; like trips to the supermarket, hospital visits for non-emergency purposes are prohibitively difficult.[43]

Mental health: Greater residential stability leads to better mental health. Financial insecurity from unaffordable rents and frequent moves exacerbate stress, especially among children, and negatively impact self-esteem and attachment to the community. Crowded conditions lead to both psychological distress and tension in social ties.[44, 45] Neighborhood violence has severe negative psychological effects on traumatized individuals; these adverse consequences of unaffordable housing magnify during early childhood development. Evictions result in higher self-reported stress among families; coupled with an inability to make meaningful emotional investments in a home and a community, instability limits social ties and isolates individuals, contributing to more stress.[46, 47, 48] In addition, children whose families move often perform less well than their peers and exhibit more behavioral issues.[49]

Affordable Housing and Education

Early education experts suggest that stable and affordable housing has a positive impact on a child's opportunities for educational success. Disruptive moves, which sometimes occur due to a family's need to find more affordable housing, lead to declines in educational achievement. Why is this the case?

Residential moves often lead to interruptions in a child's academic environment, including socialization with peers. This leads to behavioral difficulties and attention problems, especially at early developmental stages of a child's life.[50] In addition, teachers are unable to establish quality contact and nurturing relationships with students who change schools frequently or are frequently absent. Children whose families face housing affordability issues are denied instructional care and often perform poorly on standardized tests.[51] Affordable

housing can reduce the need for families to move to less expensive housing in less desirable neighborhoods, allowing students time to develop and grow in a consistent environment.

Alisson and Carol Canales are twins in second grade at Sheffield Elementary School. The school is in the bottom quarter of North Texas schools, with a high student-to-teacher ratio and a lower operating budget compared to other schools in the district and state. Only 58% of students met state standards in reading last year. Luckily however, Alisson and Carol are participants of Operation Pathways' afterschool program at The Grove at Trinity Mills in Dallas, Texas. While the Canales family only speaks Spanish at home, Alisson and Carol are excelling in their English skills partly because of their participation in our reading program during afterschool time. They are both avid readers and their test scores show it! This year alone, Carol has improved her reading by one grade level putting her in the fifth grade for reading. Her sister Alisson gained two grade levels in reading and is now reading at the seventh-grade level!! Many new immigrant families struggle to assimilate while also trying to provide for their children's basic needs. NHPF and Operation Pathways work together to help immigrant families stay safe and stable in their affordable housing, and build the skills they need to become successful, self-sufficient citizens. There's no doubt that Alisson and Carol are on that path. Where THEY Live Matters!

Alisson and Carol

Not all residential moves, however, lead to declines in educational achievement. In fact, moving to communities with better and higher quality schools is beneficial to children. Research finds that individuals who live in LIHTC-financed affordable housing units are more likely to live near high-performing schools in good neighborhoods than voucher holding families or public housing residents.[52] Analysis of the HOPE VI program, a 1990s initiative by HUD to revitalize the worst public housing projects into mixed income properties, and its residents, shows that affordable housing units anchor holistic community development, which in turn provides a nurturing and stable environment for children in their neighborhoods and communities.[53] Evidence shows that providing safe and affordable housing is not enough if their housing is not located in neighborhoods and communities that foster opportunities for advancement.[54]

A few weeks ago, Pam (the resident services coordinator at NHPF's Ships' Cove property) saw Shalimar in the lobby of the building. Shalimar was Pam's summer intern in 2015, and Pam

Shalimar

hadn't seen her in several months. Shalimar reported that she has been very busy working her full-time job, while attending college. She's currently in a certificate program to become an interpreter, and plans to continue her education towards a bachelor's degree in business management. Shalimar told Pam that she's working hard to achieve her goal to buy a house someday, and because of her internship with Operation Pathways, she understands the planning and effort needed to achieve that dream.

Shalimar thanked Pam for helping her manage her income last summer, teaching her the importance of prioritizing her expenses. "Now I look at those sunglasses, that shirt, that milkshake . . . and I think, that's one hour of work!" Shalimar also had a positive influence on her family, who she claims never saw the importance of saving money. This year, they will go on their first family vacation ever because Shalimar encouraged everyone in her family make a monthly contribution to a vacation fund. Shalimar is also encouraging her younger sister to be responsible with money. She told Pam to make sure that there will still be a summer internship program for her sister when she turns 16.

Shalimar is working hard every day, continuing her education, prioritizing her expenses, modeling good fiscal behaviors to her family, mentoring her sister, and working towards her goals.

Affordable Housing and Economic Opportunity

Economic opportunity and housing have an interesting "chicken and egg" relationship. A stable income is crucial to obtaining affordable housing, but consistent access to quality housing often dictates one's ability to hold down a steady job. Without affordable rents, families are unable to save up to own their own homes, locking them in a perpetual cycle of renting instead of homeownership. Income is the most important determinant of housing affordability. Data shows that no city in America is affordable to individuals who work a minimum wage job.[55] The Center for Housing Policy finds that the salaries and wages of 34 occupations in the United States are too low for workers to afford rents. The increasing divergence between business booms and worker earnings, combined with the failure of "trickle-down" economic beliefs, leads to wage stagnation, while costs of living, such as housing costs, continue to climb.[56]

Macroeconomic trends of globalization and the decline of blue-collar industry jobs in American cities due to deindustrialization have led to a "spatial mismatch" between jobs and affordable houses.[57] Current housing patterns exacerbate inequality by spatially separating affordable housing from economic

opportunities. This means that individuals must commute longer hours to and from workplaces, and have more difficulty finding jobs. Research shows that urban areas with lower levels of economic segregation lead to higher levels of upward mobility among families.[58]

The neighborhoods and communities NHPF serves are the economic backbone their residents rely on. Access to affordable housing in neighborhoods of opportunity is fundamental to helping millions of Americans find and maintain gainful employment and improve their economic standing.

> Joy is a single mother of two children currently living at Bayview Towers in Stamford, CT. For several years, she bounced among family members' homes in central Connecticut, just trying to keep a roof over her children's heads. Her name was on a waiting list for a Section 8 voucher, but she had been waiting for more than a year and was now faced with having to move out from her cousin's apartment. Joy qualified for a rent subsidy on a LIHTC unit at Bayview Towers. Being at Bayview meant that she could have a permanent address to list on her resume and job applications; and being in Stamford broadened her radius for her job search. Joy accepted a position in New York City working in an HR department. She was well aware that her wage increase meant an increase in her rent, but this also meant that she was working towards her goal of moving out of subsidized housing and buying her own home. "When I was able to afford to live on my own and provide for my own children, it gave me the motivation to push forward. I'm on a learning ladder. I have had many life lessons, each one giving me another step up and I still have work to do. I am not where I want to be yet, but I will get there. Without the help of rental assistance and the services from the resident service coordinator, I believe I would still be jumping from home to home and job to job. I have a steady job now and we no longer just have a place to lay our head, but a place to call home."

Fighting Discrimination in Affordable Housing

The United States has a long and harrowing history of explicit and subtle racial segregation that has left a legacy that affordable housing advocates are still fighting to overcome today. Across America, minorities, especially African Americans, occupy different residential patterns than white Americans in the same communities, regardless of socioeconomic status.[59]

Some scholars suggest that socio-economic differences between racial and ethnic groups prevent minorities from moving into affordable neighborhoods and contribute to residential segregation. They argue that economic

inequality, due to stagnating wages and loss of industrial work from urban cities, then later from non-urban areas in the United States, have stranded working class African Americans on an "economic island" devoid of opportunity and far removed from affluent, predominantly white suburbs.[60] In turn, black and white socioeconomic disparities are reinforced by residential segregation, with measures such as unemployment, labor market performance, education, and family structure all attributed to housing segregation.[61] Some studies find that African Americans reside in neighborhoods of similar racial composition regardless of income, while others find that high-income African Americans are more likely to live in whiter neighborhoods.[62]

For most of the twentieth century, widespread efforts have been made to deliberately segregate neighborhoods by race. With the tacit approval of the federal government, landlords, banks, and sellers actively prevented African Americans from entering white neighborhoods. When such efforts failed against pioneer black families, neighborhoods used violence and intimidation tactics to further discourage more integration. When even violence failed, white families moved en masse out of neighborhoods, leading to high levels of residential segregation.[63] Despite the dismantling of discriminatory policies and tactics through the Civil Rights movement and other efforts to promote racial equality, informal discriminatory practices against African American families persist today. Match-pair audit studies that use black and white names have found evidence of discrimination by real estate agents and renters alike.[64]

Through experimental studies, scholars find significant discriminatory behavior against minority renters and homebuyers, such as showing fewer units, responding less frequently to inquiries, and denying that available units are still on the market. Audit studies demonstrate that cities with high levels of discrimination are more segregated, thus demonstrating that discriminatory practices have notable ramifications on neighborhood diversity. However, the degree to which discrimination affects segregation is debated. Subsequent studies using different model specifications provide varying results, although housing discrimination never accounts for more than half of total residential segregation.[65]

Affordable housing providers must work to actively combat residential segregation and discrimination of African Americans and Latin Americans in neighborhoods and communities. Despite the Department of Housing and Urban Development's commitment to "affirmatively further fair housing" there are few mechanisms in place to proactively fight racism. Ambiguity in rules governing racial concentration for public housing programs like LIHTC and HOPE VI developments leads to litigation that has weakened interpretations of the rules. For example, the LIHTC program has been instrumental in financing construction of thousands of affordable housing units in the United States. However, it contains specific contradictory incentives that prohibit low-income housing construction in racially concentrated neighborhoods, yet makes exceptions for

qualified census tracts in the poorest areas. On the surface, these two clauses may seem unrelated and equitable, but demographically, these exempt tracts often exhibit high levels of segregation.[66] Studies find that most LIHTC units are built in low-income neighborhoods, where land prices are cheaper, but rates of segregation are higher.[67] In addition, scholars have found that the HOPE VI program has done little to promote desegregation among original residents.[68] Providers and local governments must be cognizant of the social effects of placing affordable housing units in certain areas, and should work together to combat racial discrimination and segregation within our neighborhoods and communities.

Millennials and the Housing Market

Numbers fail to reflect the increasing number of millennials who return home to live with their parents because they cannot find affordable housing. Millennials are facing an increasingly unaffordable housing market, especially in urban areas. Studies find that a sizable majority of young graduates in their early 20s are "silently cost-burdened," forced to move back home or live in overcrowded housing to save on housing costs. Despite sizable reductions in unemployment rates since the Great Recession, the percentage of 18- to 34-year-olds who have returned home has steadily risen to 26%.[69] Among 25-year-olds, the rate of at-home living increased 63% from 2000 to 2013.[70] In addition, 48% of millennials live doubled up with roommates or family members. Credit report studies show student loan debt is a significant deterrent for millennials in starting their own households, while delinquencies and low credit scores also keep young adults tethered to their parents' homes.[71]

Because young adults are vulnerable to labor market trends and generally lack sufficient capital buildup and high credit scores, an increasing percentage of millennials are cost-burdened—about 69%. A 2016 national survey by NHPF of 1000 Americans ages 18 to 34 found that:

- 76% of millennials have compromised to find affordable housing.

Of those who compromised:

- 46% live with parents or family
- 41% live with a roommate
- 43% have put off saving for the future
- 36% live further away from schools and jobs to find cheaper housing, and
- 30% have put off home ownership entirely.[72]

The Elderly and the Housing Market

Senior citizens are a high priority for access to affordable housing because they

are especially vulnerable to high rents due to lower incomes and increased medical and care costs. Research finds that half of all seniors have incomes that fall under 50% of their area's median income, and over a third are severely cost-burdened.[73] As the baby boomer generation ages and retires, affordable housing advocates must be aware of the needs of the elderly for safe and affordable housing that promotes a high standard of living and facilitates adequate medical care and attention. A 2017 national survey by NHPF of 1000 Americans aged 55+ found that:

- 42% of retirees report daily anxiety over housing affordability
- 46% of respondents worry about the ability to afford desirable retirement living, and
- 64% worry about their adult children's access to safe and affordable housing.[74]

Though the housing affordability issue is multigenerational, federal programs like Section 202, which promotes affordable and supportive housing for the elderly, help affordable housing advocates provide adequate housing to our seniors, along with HUD-funded service coordinators who assist residents with special needs.

Costs and Benefits of Affordable Housing

The previous sections have outlined the far-reaching effects of affordable housing on individual's lives. Research demonstrates that affordable housing not only improves the lives of millions of Americans, but also reduces local, state, and federal government burden of of providing social services to address housing-related issues. A stable residence makes it easier for governments to deliver efficient services to those in need, such as welfare checks and food assistance programs. Housing also contributes to higher education outcomes for children, who will make up a stronger and more competitive workforce. Individuals with access to economic activity are empowered to achieve success and rely less on government assistance. Healthier Americans are also less of a burden on our healthcare system.

The Department of Housing and Urban Development spends over $51 billion annually to provide affordable housing to Americans. Although there are no exact estimates of the costs of social services provided specifically to low income residents, the Senate Budget Committee reports that the federal government spends $746 billion annually on welfare, supplemented by an additional $283 billion by states. We can assume that a sizable portion of this $1.03 trillion is provided to low income individuals and households.

The monetary benefits of HUD programs are difficult to calculate, but a 2010 report by University of Wisconsin-Madison researchers on the impact

of Section 8 Housing Vouchers finds that total costs of the program to society annually are approximately $6,812–$7,052 per person, while benefits to society are $7,700–$9,642 per person.[75] This means that society receives a net benefit of $648–$2,830 per person by preventively providing safe and affordable housing and thus reducing social service costs. These benefits are reflected in reductions in social services, increases in employment and tax revenue, and greater standards of living for a community, which attracts more investment and perpetuates a positive growth cycle.

Studies estimate that about 29% of Americans are low income, or about 93 million Americans. Assuming from national trends that most, if not all lower income individuals and households face one or more affordable housing difficulty that can be addressed through government intervention, either through housing or voucher assistance programs, the net benefit of affordable housing to society ranges from $60 billion to $263 billion annually. Though further research should directly link costs and benefits of housing to government spending, rough estimates are clear that the fiscal benefits of affordable housing alone are significant.

> When George found himself in credit card debt, he knew he needed to make a plan. Thankfully, George lives in a building with an Operation Pathways resident services coordinator. Together, George and the resident services coordinator sat down and came up with a budget and payment plan. George is still working to pay off his debt, but with a resident services coordinator to check in with and a plan to keep him on track, George feels confident he is now in control of his debt and making the best decisions for his financial future! George said, "It felt great to tell resident services that I paid off a portion of my debt with their help."

Affordable Housing Policy

"Do we believe housing is a right and that affordable housing is part of what it should mean to be an American? I say yes."

—MATTHEW DESMOND, AUTHOR OF PULITZER PRIZE-WINNING BOOK *EVICTED.*

Understanding Affordable Housing

Affordable housing carries largely negative connotations of high-rise concrete buildings in debilitating neighborhoods, infested with crime and drug use, scarring the surrounding community with blight and poverty. Though early attempts at affordable housing, like the infamous Pruitt-Igoe apartments in St. Louis, provided austere, undesirable, and dangerous housing conditions to poor (and largely African American) families, affordable housing today provides welcoming, supportive, and safe homes to families in need in neighborhoods across America. Private for-profit and not-for-profit developers of affordable housing prioritize a high standard of living, often combined with resident services, aimed at helping individuals and families spend less on housing in order to afford other necessities, such as nutrition and healthcare.

Though some developers choose to build or rehabilitate housing units that are entirely affordable, some choose to construct mixed-income housing, where a percentage of units are set aside from the regular rental market to be made available to lower income residents. The federal government no longer constructs public housing of its own; instead, it provides funds to states and cities to privately develop affordable housing units, in addition to funding housing vouchers that allow low income renters to move into government-subsidized regularly-priced rental units. The following sections explore the most popular forms of housing finance currently employed in the United States, used by thousands of communities to fund construction of millions of dollars' worth of affordable housing units.

Public Housing in the United States

The public housing program emerged in 1937 as part of Franklin D. Roosevelt's New Deal. Public housing, as the oldest affordable housing program in the United States, is incredibly diverse. In the past three decades, more resources have gone into the rehabilitation and redevelopment of existing older units than expansion of the program. Public housing programs are overseen by Public Housing Agencies (PHAs), who collectively operate over 1.15 million units.

Occupants of public housing are the nation's poorest and most vulnerable tenants. Families who qualify for public housing often have incomes that are far too low to afford housing on the private rental market. About one third of public housing occupants report income from wages and salaries, while another third receive federal welfare subsidies. Because the federal government has always allowed local communities to decide the locations of public housing units, they have tended to be concentrated in less expensive and less desirable neighborhoods. To save costs, public housing units are often austere and of lower quality than private rental units. The generally older and inferior quality of public housing means that as time goes on, more resources are needed to renovate buildings. 2010 estimates indicate that overall, $19 billion is needed for modernization costs, in addition to another $3 billion in annually accrued needs. The National Commission on Severely Distressed Public Housing estimated that 6%, or 86,000, of the nation's public housing units are severely distressed, meaning families live in areas defined by low opportunity, high rates of serious crimes, physically deteriorated buildings, and difficult-to-operate properties. The HOPE VI program has been the federal government's largest attempt to redevelop distressed properties, investing $6.2 billion to renovate or construct public housing in 34 states. However, by replacing large public housing units with smaller mixed-income units, HOPE VI has reduced the overall supply of affordable housing units in the United States. Generally, less than half of the original occupants return to the redeveloped area.

Overall, the supply of public housing has been steadily decreasing since the 1990s due to demolition of older, debilitating units and construction of mixed-income units. Thus, trends indicate that public housing has become steadily less available to the lowest income families who are in most need of government assistance. The changing climate of the public housing landscape means that the need for privately developed affordable housing units has never been greater. It is up to affordable housing advocates to step in and fill the gap in the housing market to provide safe and affordable housing to all.

The Low-Income Housing Tax Credit

The Low-Income Housing Tax Credit (LIHTC) was established in 1986 to provide financial incentives (through allocated tax credits) for investors and developers to develop and rehabilitate affordable housing units. Through the tax credit, over 2.5 million affordable housing units have been created, over twice as many as public housing programs. LIHTC sales account for 50 to 60 percent of equity capital in most low income housing developments today.[76]

LIHTC is a dollar-for-dollar reduction in federal income tax dues, distributed to investors over ten years. States are responsible for the allocation and distribution of tax credits. Currently, states can allocate $2.20 in credits per capita. Though housing credits can be used to directly subsidize affordable housing

units, most developers sell the credits on a secondary market through syndicators to interested investors and corporations, using the proceeds to finance development. Additional "gap" funding is acquired through other means, such as block grants and capital from housing trust funds.

Not-for-profit housing groups account for about 22% of all developments and 19% of all affordable housing units in the United States.

About 96% of apartments in a tax-credit project are designated for low-income households. About 62% of all tax-credit projects are new construction, while rehabilitation accounts for almost all of the rest. Tax credit housing is generally located in low-income and minority neighborhoods more than other types of rental housing. A 2009 study demonstrated that 44% of tax-credit units are located in tracts with over 50% minority population.[77] However, tax-credit projects are much less concentrated in minority and poor neighborhoods than other government-based housing projects, such as Section 8 housing. In addition, research suggests that tax-credit housing is more effective than vouchers in promoting housing mobility of low-income residents to more affluent neighborhoods.[78]

LIHTC-subsidized housing is generally financially viable. Studies demonstrate that the median occupancy rate of units is 96.6%, which is much higher than the recommended 89–91% threshold. Only about 12.4% of properties reported occupancy rates of less than 90%. However, some claim that tax credits are inefficient due to transaction costs and investor profits. Others claim that underwriting low income housing projects is cumbersome and complicated, and may deter more developers from getting involved, limiting the number of affordable housing units available to those in need.

The Future of Housing Policy

The 2008 financial crisis and accompanying economic recession clearly demonstrated the vulnerability of our nation's housing stock, with millions of homes put into foreclosure and families pushed into rental housing, competing for already scarce space with other renters. The future of affordable housing relies on strong advocates in the public sector who prioritize consistent and sufficient funding for affordable housing projects in local communities. The key to successful affordable housing projects is not just construction, but also the maintenance, of units. Public financing should be paired with private sector and not-for-profit housing and service providers through contracts and partnerships with third sector organizations (TSOs) in areas such as health, housing and social care. This third sector model, although now just being adapted to other industries, has proven to be a remarkable tool in the housing industry to promote safe and affordable housing for decades. Future policymakers must continue to foster this relationship and expand it to encompass more aspects of affordable housing, such as resident services and supportive housing initiatives. Programs

such as the LIHTC, HOME Investment Partnerships (HOME), and Community Development Block Grant (CDBG) must be sustained and expanded to continue support for affordable housing.

Almost ten years down the line from the Great Recession, the national Housing Trust Fund (HTF) is one of the first new federal resources aimed at promoting safe and affordable housing for extremely low income Americans.[79] Block grants distributed to states (independent of existing HUD programs) help target the most vulnerable populations in states, such as extremely low income (ELI) renters, the homeless, veterans, the elderly, and individuals with disabilities. In addition to focusing on the traditionally most vulnerably housed individuals, states place emphasis on projects that are environmentally friendly, located in neighborhoods of opportunity, and are conveniently located to essential public transportation services. HTF is a new and exciting tool for affordable housing providers and advocates and the first step in the right direction. Future initiatives by the federal government must continue financial support for states and local communities to pursue housing projects.

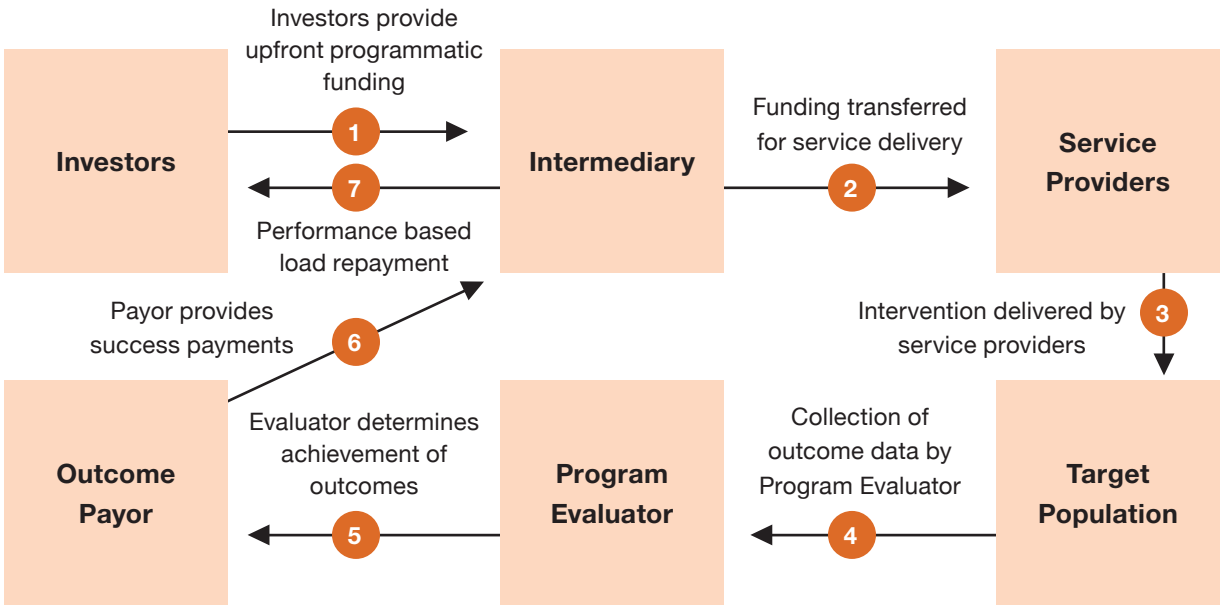
What is Pay for Success (PFS)?

Pay for Success is a service contract through which governments purchase preventive social services from non-governmental service providers. Instead of up-front capitalization, service providers use an operating loan, acquired from third-party investors, which buffers governments from financial risk. In the event of success, the government pays out the contract and interest to investors; in the event of failure, the government pays out nothing. Measures of success are pre-determined by the government and service provider and evaluated by an independent organization after the project is completed.[80]

Table 2 below provides an overview of the PFS financing Mechanism. See Appendix A for a detailed explanation of the Pay for Success model.

Pay for Success is ideal for projects that cannot be funded through traditional mechanisms because of high up-front costs, risky or unsympathetic target populations, or success outcomes measured over a longer period of time.[81]

TABLE 2
Pay for Success Project Mechanics



Why PFS?

Why is PFS an ideal mechanism for local and state governments to finance affordable housing and support services? What inefficiencies and concerns are addressed through alternative financing?

The Problem

Social problems are traditionally addressed by governments, with philanthropic or charitable help. Hundreds of billions of dollars are spent by communities across the United States annually to address the negative consequences of social issues rather than to prevent them through systematic solutions.[82] Service strategies are engrained into annual budgets, with no room for innovation and improvement for more efficient outcomes. In addition, most of this government spending goes unmeasured through evidence-based evaluations, meaning inefficient services continue to be funded year after year.[83] This constitutes poor use of taxpayer dollars and paralyzes budgets with improper spending. In addition, philanthropies and charitable organizations largely remain woefully undercapitalized, limiting their social impact.[84] Governmental support for not-for-profit housing providers is neither systematic nor entirely comprehensive, lacking the financial and technical support needed by organizations. Support systems also vary in strength and comprehensiveness across America, leaving some cities and communities underserved.[85]

The Solution

Pay for Success contracts tackle lack of performance assessments by promoting evidence-based interventions to increase the accountability of service providers and government agencies. This focus on "extent" of provided services over "intent" allows governments to quickly determine what works—and scale up successful programs for further implementation. In addition to fiscal responsibility, PFS interventions encourage communities to partner with organizations who bring knowledge and expertise to deliver effective services where they are needed most.

Pay for Success also stresses proactive investment in preventive services aimed at tackling social problems at their roots early-on. The innovative financing and implementation model also enhances collaboration between governments and private service providers, and increases the impact of philanthropic and charitable capital through entrepreneurial solutions. Finally, PFS contracts

promote the "double-bottom" line of social good and profit by providing potentially lucrative investment opportunities for impact investors looking to bring positive change to communities.

The "Value-Added" Model of Social Service Financing

Pay for Success is not just a new financing mechanism for governments to fund affordable housing and support services. PFS is a leadership and collaborative tool for public-private partnerships to test innovative solutions with less risk to taxpayers and fiscal budgets. PFS arms governments for success by inviting private-sector partners into a promising new market to develop and implement efficient solutions that promote social benefit. Impact investors target evidence-based programs, which are least risky, meaning PFS projects are held accountable to higher standards.

PFS also opens the door for philanthropic and charitable organizations to extend their goals and create larger social impact by attracting new capital and involving philanthropic money in a more structured way.

Because governments reimburse successful projects, even small private loans and donations can be "recycled" to capitalize larger PFS projects. As George Overholser, CEO and co-founder of Third Sector Capital writes, the PFS funding model "offers a comparatively spectacular proposition to philanthropists."[86] Matched by private loans and replenished through government success payouts for further use in capitalizing more projects, philanthropic money truly becomes "the gift that keeps on giving."

Even PFS projects that fail to demonstrate monetary savings may prove to be beneficial. Governments prioritize tangible improvements in their citizens' lives over balancing the books. Thus, the value of the social services provided through Pay for Success contracts goes beyond monetary savings to provide positive benefits to communities and individuals. Furthermore, PFS projects that fail to provide significant results serve as an excellent (and less costly) learning tool for governments, service providers, and philanthropic partners. Unlike inefficient government services that continue, PFS projects naturally terminate at the end of a contract, but can be renewed.[87]

Challenges Ahead

Despite the promising and innovative nature of Pay for Success contracts, several hurdles remain to be overcome. First, due to the relatively new nature of PFS, contracts are legally complex and require significant expertise. Second, PFS involves coordinating many parties, which requires efficient communication and strategy. Third, correlating social impact to direct budgetary savings may be difficult in some cases, making evaluation and payout harder to calculate.[88] Finally, PFS contracts rely on political will to care about and spend more money on affordable housing, a sentiment that is not always shared from locality to locality.

Nonetheless, leaders, investors, and organizations across America are optimistic for the new opportunity PFS poses to create safer neighborhoods and communities.

Cost Savings vs. Cost Avoidance

Through the current PFS structure, governments rely on a "cost savings" model to determine the success and impact of a project. That means that Pay for Success projects are financially justified by the difference in the amount of money a government is currently spending and the amount it spends on the PFS project; the larger this difference, the greater the costs saved and thus the more successful the project.

While this system is a novel way of measuring efficiency, it inherently limits the scope of Pay for Success projects only to past problems that are being currently and actively addressed (less than efficiently) by the government. That means that current and impending problems that are not addressed by the government, but will have to be in the future, cannot demonstrate "cost savings" because there is no current cost spent and do not qualify for PFS financing. These kinds of projects provide a "cost avoidance" to the government; by proactively doing the right thing today, governments can spend less money on preventive solutions tomorrow. While this would not appear as a budgetary savings (because the current budget to solve this problem is $0), it would result in less spending in the future, thus promoting innovation and public sector responsibility. Future PFS contracts should consider "cost avoidance" projects instead of just "cost savings" projects, using complex financial modeling systems to project the anticipated savings to governments over a set period of time.

Current PFS Housing Contracts

Pay for Success contracts are currently being used in Massachusetts, Denver (CO), Cuyahoga County (OH), Santa Clara County (CA), and Salt Lake County (UT) to finance supportive housing for homeless individuals and at-risk families. The Corporation for Supportive Housing (CSH) is also conducting four feasibility studies to explore implementing PFS contracts in Richmond (VA), Clark County (NV), Philadelphia (PA), and Oklahoma.[89]

So far, these innovative projects target the most vulnerable and costly individuals and families who are housing insecure, proposing millions of dollars in savings to local governments from reduced ER hospital visits, overnight jail stays, and constant medical care.

Case Study: Denver, CO Supportive Housing Project

The Denver Supportive Housing PFS initiative began in February 2016 to target homeless individuals who are frequent and costly users of emergency medical services and cycle through the criminal system for low-level offenses. The Pay for

TABLE 3

Current PFS Housing-Related Projects

NAME	LOCATION	PROJECT LAUNCH DATE	CONTRACT DURATION (YEARS)	UPFRONT INVESTMENT (MILLIONS)	MAXIMUM PAYOUT (MILLIONS)
Cuyahoga Partnering for Family Success Program	Cuyahoga County, OH	Jan 15	6	$ 4.0	$ 5.0
Denver Social Impact Bond Program	Denver, CO	Feb 16	5	$ 8.7	$ 11.4
Massachusetts Chronic Initiative Homelessness Pay for Success	Massachusetts	Dec 14	6	$ 3.5	$ 6.0
Utah High Quality Preschool Program	Salt Lake County, UT	Sep 13	7	$ 7.0	$ N/A
Project Welcome Home	Santa Clara County, CA	Aug 15	6	$ 6.9	$ 8.0

Success contract finances preventive care that provides both housing and case management and access to healthcare and community resources for targeted individuals.[90]

Housing Type: The city of Denver will house 250 individuals in 210 newly-constructed single-site homes and 40 refurbished rental units scattered across the city. Units will be subsidized by the Colorado Division of Housing, the Denver Housing Authority, the Denver Continuum of Care, and flexible PFS subsidy dollars. Construction was financed by $2.7 million in Low Income Housing Tax Credits and $3.2 million in gap financing provided by the City of Denver and State of Colorado.

Cohort: To measure the impact of preventive services, Denver will conduct a randomized controlled trial (RCT) whereby of 500 eligible individuals, 250 are assigned to the PFS program and the other 250 given current care services.

Involved PFS Partners and Roles:

- Local government: City of Denver
- PFS Lenders: $8.63 million from Laura and John Arnold Foundation, Living Cities Blended Catalyst Fund, Nonprofit Finance Fund, The Ben and Lucy Ana Fund at the Walton Family Foundation, The Colorado Health Foundation, The Denver Foundation, The Northern Trust Company, and The Piton Foundation
- Intermediary: Denver PFS LLC
- Service Providers: Colorado Coalition for the Homeless, Mental Health Center of Denver

- Evaluator: Urban Institute, in conjunction with the Evaluation Center at the University of Colorado Denver, and the Burnes Institute

PFS Contract Outcome Goals:

- Housing Stability—Participants spend at least one year in housing
- Jail Reduction—Participants spend less overnight stays at jails

Payment Structure & Success Measures:

The following tables demonstrate how payment will be made based on successful interventions. Minimum payment is $0 (investors lose all invested money); maximum payment is $11.4 million (investors make $2.8 million).

TABLE 4-A
Housing Stability
Source: CSH

Stable housing days*	$ 15.12 per day
Minimum payment	$ 0
Maximum payment	$5,292,188

* Subtract any days spent in jail

TABLE 4-B
Jail Bed Reduction Payment

PERCENTAGE	PAYMENT PER PERCENTAGE POINT
< 20%	$ 0
20 to < 30%	$ 160,000
30 to < 6 5%	(30 x $ 160,000) + $ 38,000 per percentage point above 30%
≥ 65%	Maximum Payment ($6,130,00 total)

Beyond Supportive Housing: Pay for Success and Housing Construction

Pay for Success contracts have significant potential to facilitate construction of affordable housing stock in high opportunity communities. PFS can capitalize risky construction projects by mitigating the government's risk to zero on the public sector side and providing a formalized structure for philanthropic and impact capital to make risky interest-free or low-interest loans that traditional markets would not make or would otherwise make at prohibitively high interest rates. In addition, PFS financing can help save affordable housing construction deals that would have otherwise failed due to financial difficulty, which would result in lost time and money to housing providers and less affordable housing for the community. However, Pay for Success projects fundamentally rely on a government agency willing to provide reimbursements upon successful completion of projects; without a government partner able to capitalize affordable housing construction with its own money (through federal grants, affordable housing trust funds, bonds, or other financing mechanisms), PFS projects cannot solve the housing crisis.

Affordable housing projects today are primarily financed through two sources of capital: debt equity and gap funding. In order to cover the remaining costs after debt equity financing (and thus fill the "gap") developers often take out loans and mortgages, which accrue high interest. In order to pay back the

interest, property owners must raise rents, making it difficult to finance affordable housing units to be offered at low prices. PFS financing allows developers to use interest-free philanthropic and investor money, which keeps rents low and facilitates more construction projects. In addition, many not-for-profit affordable housing providers actively compete for land with for-profit developers who have many more financial resources and reserves available at their disposal. Oftentimes, not-for-profit developers spend too much time looking for ways to put together a viable capital stack, only to be quickly outbid by competitors who can build unaffordable housing hassle-free.

The PFS model also allows for recycling of philanthropic money. Because investors and charitable organizations receive their initial investment back plus interest (upon successful completion of the project), they can continue to capitalize development projects. This allows for extended coverage of philanthropic capital funds to invest in more affordable housing unit construction. In addition, philanthropic money boosts federal support to help finance construction of affordable housing in "high opportunity areas." These areas are proven to promote better life outcomes for their residents (as demonstrated through the Moving to Opportunity housing voucher program), but because land prices are often higher in desirable areas, developers cannot finance construction of affordable housing units in such areas.

PFS also provides a formal investment mechanism for impact investors to use capital to promote social benefits. Impact investors show a clear desire to capitalize projects that improve lives; without PFS contracts, impact investors may have a harder time getting involved in affordable housing construction. Because Pay for Success reimbursements provide interest at the end of a project, impact investors and even some traditional investors can turn a profit while promoting extensive social good.

Current popular government financing mechanisms for affordable housing construction, such as LIHTC, do not provide capital for the actual operation of affordable housing properties. The PFS system can help fund maintenance of newly-built affordable housing as well as accompanying services, leading to more successful affordable housing units that keep people housed and lower the local government's social service costs. [See the Resident Services section below for a more extensive discussion.]

PFS contracts protect from volatility in the LIHTC market. As recent market activity demonstrates, if the tax credit market tanks, construction becomes more difficult to finance. PFS also helps incorporate state and local money into affordable housing construction. Beyond federal LIHTC money, PFS provides a funding framework to apply non-allocated housing money that is currently unused by housing authorities in communities across the nation.

Finally, PFS financing provides governments with tools to keep affordable housing developers accountable. Because payment is made only after

successful completion of the project, affordable housing providers are incentivized to continue ensuring quality service throughout the duration of the project. Because PFS contract terms are negotiable, local governments have flexibility and bargaining power to ensure compliance with federal and local mandates to "affirmatively further affordable housing," even beyond the 15-year cutoff of LIHTC-financed units, keeping more affordable housing units on the market longer.

Pay for Success and Pre-Acquisition Financing

Another novel application of PFS contracts in promoting affordable housing construction is in funding pre-acquisition financing. Affordable housing providers often incur costs during the pre-acquisition phase of either a construction or preservation project that comes directly out of its operating budget. Though these costs are comparatively little per property, their impact is significant.

PFS financing can help smaller affordable housing providers and faith-based institutions be more competitive in the pre-acquisition phase. Local governments that are hesitant to capitalize full projects or do not have the funds to embark on large-scale construction projects can engage with many smaller PFS projects at a time and provide reimbursements only upon successful closing of an affordable housing deal. Such small-scale investments are very feasible, yet provide an essential source of funding to promote more development.

Pay for Success and Property Acquisition/Rehabilitation/Preservation

Many of the benefits of PFS financing for housing construction can be used to finance the preservation and rehabilitation of existing housing units for the affordable housing market. Because rehabilitation is often cheaper than new construction, governments are incentivized to preserve existing housing stock. However, because some units may be located in areas of low opportunity, in addition to a general deficit of affordable housing units today, governments should finance both the preservation of existing units at up-to-date standards as well as the construction of new affordable housing units in communities. Acquisition and preservation projects will become especially important in the coming years as many LIHTC-financed properties reach their 15-year maturity, meaning that many developers may seek to convert affordable housing units into market-rate housing, resulting in dangerous reductions to the already low affordable housing stock of many communities.

Pay for Success contracts can also boost the attractiveness of 4% LIHTC deals. Because 9% tax credits are finite and usually allocated to larger construction deals, affordable housing providers must rely on 4% tax credits and bonds to finance preservation projects. In addition, 4% tax credit deals require more soft money to operate; resulting in a larger gap in financing that must be covered through costly loans. Using Pay for Success contracts with 4% tax credits

means that developers receive soft money up front, so less soft money has to be raised during the deal. Buying preservation projects with PFS capital is also less risky during the "hold" stage before recapitalization because philanthropic partners provide a safety net for affordable housing providers just in case a deal falls through. Four percent tax credit financing is an excellent example of how Pay for Success can complement existing programs to make them more efficient and popular with developers.

Mark Twain Hotel, c. 1940

Case Study: Mark Twain Residences

NHPF recently began preservation of the historic Mark Twain Hotel in Chicago into an affordable housing property with 152 single-room occupancy units, combined with a mixed-use multifamily/retail structure. The property is located in a fast growing and revitalizing corner of the Gold Coast in Chicago where high-end luxury apartments are in high demand and being constructed. If Mark Twain were sold to a market buyer, property would be torn down and existing working poor residents would be displaced or become homeless. After loss of over 2,200 SRO units, the City of Chicago passed the SRO Preservation Ordinance in November 2014. The State (IHDA), City (DPD), and the Chicago Housing Authority (CHA) have set the SRO preservation projects as a high priority.

Government Goal: The city of Chicago prioritizes addressing significant homelessness/resident displacement prevention. In addition, the city underscores preservation of a scarce housing resource. Because most SRO occupants would likely end up homeless without affordable housing, the government saves money long-term by investing in preventive housing solutions that reduce social service costs and revitalize the surrounding area, raising property values and promoting increased tax revenues and investment into the neighborhood.

Government Risk: None; the government does not incur risk through PFS financing.

Government Finance: City saves $842,000 of highly competitive donation credits by using investor money to pay upfront costs instead. Donation credits can be used to finance more projects.

Government Efficiency: Stabilized properties and improvement in residents' health and safety reduces burden on government resources and helps revitalize areas without gentrification.

Project Efficiency: The project was financed through a single mortgage with no government underwriting; the streamlined process leads to shorter closing timeframe and reduced transaction costs. A complete upfront capitalization through PFS financing would streamline the process further.

Neighborhood Impact: Repositioning of property will positively impact the surrounding neighborhood and add to its appeal without the negative impact of gentrification.

Social Service Provision: Through Operation Pathways, NHPF provides a wide array of educational, health, and resident enrichment programming, resident engagement and empowerment, as well as resident service coordination.

Recapitalization Project Finance: PFS acquisition financing with no payment requirement at the recapitalization phase reduces the uses of funds by approximately $6.8 million. This allows for the next phase to become financially feasible without the need for scarce soft funds.

Financial Leverage: PFS funds will leverage public and private funds such as tax-exempt bonds, Sec 8 Rental Subsidy, $31 million of FHA insured hard debt, $11 million of LIHTC and Historic tax credits.

Job Creation: Rehab projects are labor intensive and given that at least half of the labor hours for this project need to come from residents in the City of Chicago, this will boost the employment rate and contributions to the tax base in the City of Chicago. The repositioning of both residential and retail space will create new long term jobs at those businesses, as they expand their operations in this part of Chicago.

Funding: Table 5 on the next page shows funding through traditional and PFS contract funding mechanisms.

Pay for Success and Resident Services

Providing safe and adequate physical shelter is only half the battle of ensuring access to affordable housing. Without comprehensive resident services to assist in the maintenance of properties, communities risk high vacancies and resident turnover. Resident services help occupants keep their housing and provide important social services such as counseling and afterschool care. A report by the National Resident Services Collaborative finds the most common issues that wraparound service and referral programs can address include problem tenants, economic hardship, crime and safety, childcare, workforce development, and addressing family crises.[91] In addition to assisting residents, services make

TABLE 5

Mark Twain Funding

USES	ACTUAL TRANSACTION	PAY FOR SUCCESS
Acquisition		
Acquisition	$ 21,000,000	$ 21,000,000
Transaction Costs		
Immediate Repairs	$ 290,000	$ 290,000
Capital Needs Assess	$ 11,000	$ 11,000
Environmental/Phase I	$ 4,000	$ 4,000
Appraisal	$ 16,300	$ 16,300
Survey	$ 6,000	$ 6,000
Historic Consultant	$ 15,000	$ 15,000
Legal	$ 75,000	$ 75,000
Recording and Transfer Tax	$ 100,000	$ 100,000
Title Insurance	$ 35,000	$ 35,000
1st Loan-Lender Origination Fees	$ 163,875	$ 112,125
1st Loan-Lender Other Fees	$ 90,000	$ 90,000
2nd Loan-Lender Origination Fees	$ 78,750	$ 0
Debt Service Reserve (1st & 2nd)	$ 900,000	$ 0
Donation TC Fee	$ 30,000	$ 0
Advisor's Fees	$ 109,250	$ 109,250
Soft Cost Contingency	$ 25,825	$ 25,825
Total Uses	$ 22,950,000	$21,889,500
SOURCES		
Debt		
1st Mortgage Loan	$ 16,600,000	$14,950,00
2nd Mortgage Loan	$ 5,250,000	$ 0
Sponsor Equity	$ 200,725	$ 200,725
IL Donation Tax Credit Equity	$749,275	$ 0
Seller Donation	$150,000	$150,000
Pay for Success Funds		**$ 6,588,775**
Total Sources	$ 22,950,000	$ 21,889,500
Surplus (GAP)		$ 0

affordable housing properties more financially viable by reducing turnover and maintenance costs. NHPF finds that investing in these onsite services reduces losses due to vacancy, bad debt, and legal fees by over $300 per unit, meaning that more affordable housing properties can stay affordable.

Resident service programs generally cost around $300–$400 per unit. Currently, most government financing programs do not fund resident services for affordable housing units or do so in a limited capacity, leaving housing providers severely undercapitalized and pressed to deliver comprehensive services through charitable donations and not-for-profit partnerships. Affordable housing providers need front-end capitalization to provide these valuable services, making them perfect candidates for Pay for Success projects. As mentioned previously, resident services are crucial to maintaining a higher standard of living at affordable housing units, as well as ensuring their continued financial viability. In addition, resident services reduce the costs of social services to local governments, such as child welfare, law enforcement, and education programs. In addition, resident services programs reduce turnover, keeping families off the streets and in stable housing.

Pay for Success projects have huge future potential to fund quality onsite services for affordable housing properties. Because of the tangible reductions in social service costs associated with resident services, local and state governments should invest in promoting and funding such programs. Internal NHPF studies demonstrate that comprehensive resident services and on-site coordinators have tangible benefits to local communities. Properties report fewer 911 phone calls, reduced crime rates, and higher self-reported satisfaction with living conditions. Because resident services are a preventive measure that reduces the need for social and law enforcement services, which constitute a large taxpayer burden, local governments and communities have a vested interest in capitalizing on-site services efficiently provided by the private sector.

NHPF provides resident services at its properties through Operation Pathways, a subsidiary organization composed of service coordinators who work with each individual property to address occupants' needs. Operation Pathways has provided millions of dollars' worth of social services to thousands of residents, such as:

- Free afterschool and summer school programs for families with young children to assist working parents, resulting in significant decreases in summer learning loss
- Financial literacy workshops and savings account programs. Residents in participating properties are given the opportunity to open Individual Development Accounts where the program matches each $1 deposited by the resident with $4 for those saving to purchase a home or start a business, and $8 for those

saving to further their education. This program helps residents increase their assets for increased financial stability.

- On-site resident counseling services to assist occupants facing financial trouble or health and wellness concerns
- Physical fitness and health programs to encourage better eating and a more active lifestyle

Case Study: Cleme Manor

TABLE 6

2014 vs. 2016 Calls for Service Comparison

COMPLAINT	NUMBER OF CALLS 2014	NUMBER OF CALLS 2016
Aggravated Assaults and/or Assaults	37	6
Deadly Weapons/Assaults (i.e. shootings)	3	0
Property Crimes (i.e. Burglary of a Habitation/Burglary of a Motor Vehicle/Criminal Mischief)	14	0
Drug Complaints and/or Suspicious Events	15	3
Total Calls for Service	**206**	**82**

The Cleme Manor Apartment Complex is a 284-unit affordable housing property in Houston, TX. After acquisition in 2014, NHPF performed millions of dollars in rehabilitation, such as a complete overhaul of buildings and introduction of various services to help make the lives of residents easier.

A recent study found that between a two-year period in 2014 and 2016, calls for service to local law enforcement dropped significantly after the introduction of on-site resident services (see Table 6 above). Across the board, law enforcement intervention dropped significantly 27%, demonstrating the tangible increases in safety to affordable housing properties that resident services provide.

Implementing a Pay for Success Program

Communities who have identified and prioritized the need for affordable housing in their neighborhoods may want to consider the potential for Pay for Success contracts to finance the construction or rehabilitation of affordable housing units, as well as resident services to assist low-income individuals and families. However, before a PFS project can be implemented, communities must consider if a viable opportunity exists.

Preconditions

Certain preconditions must exist before communities can seriously consider construction of affordable housing units.

- **Sources of funding—**Communities must examine how PFS contracts can be reimbursed. Funding can come from allocated federal LIHTC, housing trust funds, as well as other state grants. Communities can also consider approaching philanthropic institutions and charitable organizations for grants. Because PFS contracts are relatively new and many not-for-profit organizations are highly interested in its success, communities may be able to find foundations and organizations willing to invest significant time and money into implementing a PFS project.

- **Target population—**Communities must also consider who their housing intervention will affect. Do communities want to prioritize Permanent Supportive Housing for the homeless? Others may wish to provide workforce housing to assist local workers with transportation and housing affordability issues. Some may choose to use PFS projects to provide resident services to currently housed low income families, or otherwise upgrade standards of living in public housing and private affordable housing properties.

- **Institutional access—**Communities will need support from an Intermediary organization familiar with the PFS model to put together project contracts and methodologies for evaluating successful outcomes. The University of Virginia PFS is one of a

handful of labs across the country with the expertise to facilitate local Pay for Success project development tailored to a community's needs.

- **Community support—**Communities and local governments interested in promoting construction of affordable housing may face opposition from neighborhoods who are wary of the consequences of promoting low-income housing near their homes. Some worry that property values may depreciate, while other worry about increases in crime and drug use rates. Most of the concerns around affordable housing are unfounded and fail to acknowledge the benefits of having affordably priced, new, and well-built units—occupied by diverse and friendly neighbors—in their communities. Leaders should promote a "yes in my backyard" approach to affordable housing that champions acceptance and compassion for all community's members.

- **Land availability—**Communities must decide where to physically build affordable housing units. Despite the financial logic of building properties in the cheapest neighborhoods, studies underscore the importance of placing affordable housing in high-opportunity locations so that inhabitants have greater access to economic and social opportunity, such as jobs, schools, and welcoming communities. PFS financing can help lower the cost of construction and incorporate philanthropic capital to assist developers in choosing a prime location. Local housing authorities and governments, as well as private individuals may consider donating a parcel of land to lower construction costs and keep rents even lower and more affordable.

Feasibility Study—The Urban Institute Project Assessment Tool

To assist communities interested in using PFS contracts, the Urban Institute has developed a Project Assessment Tool (PAT) to help evaluate the strength of a potential project. This PAT can be used anytime during a PFS project's implementation to evaluate strengths and weaknesses. The assessment tool is organized into the following components:

- Problem definition: understanding the issue
- Program strength: is this the best solution?
- Provider capacity: evaluating the role of a service provider
- Public system partners and political landscape: feasibility of financing and implementing a PFS project

- Project alignment: how much sense does this project make?
- Project evaluability: how clear is the evaluation plan?

Though this tool is not a comprehensive and definitive evaluation of PFS projects, it provides communities and interested stakeholders with a valuable guideline to understanding how PFS fits into their communities. [See Appendix C for a user-friendly PAT provided by the University of Virginia Pay for Success Lab, based on the Urban Institute PAT.

A Pay for Success Action Plan for America

Promoting access to safe and affordable housing for every American has never been a more pressing issue. As wages stagnate and costs of living soar, more and more Americans across all age groups are finding it increasingly difficult to afford housing costs and have leftover income for nutrition, healthcare, and other necessities. The affordable housing crisis in the United States and across the world, especially in rapidly developing and expanding urban centers, poses a serious and overlooked barrier to equality and opportunity. The spatial boundary an individual lives in determines the opportunities and choices available in a lifetime. The 21st century global capitalist economic system not only accepts, but actively embraces housing disparities as a natural function of the free market. Decades of neglect and willful ignorance as the housing market became increasingly inaccessible to more and more individuals and families has nurtured an endemic human rights crisis that threatens to undermine centuries of progress to a free and just society. Affordable housing now threatens the working and lower middle class, hastening the steady erosion of the middle class and the decline of social mobility in the United States. This is discounting the American poor who have been pushed further and further behind under the burden of generations of housing unaffordability.

The leaders of tomorrow cannot view the affordable housing crisis as a market failure or the accumulated result of individual incompetence. They cannot view it as anything less than what it is—a fundamental human rights violation.

There is also a growing consensus that the current system of charitable giving is broken. Money is often inefficiently used, providing aid that is unsustainable and largely addresses the superficial negative effects of systemic social issues, instead of tackling inequality at its root. Luckily, the 21st century has given rise to impact investors and third sector approaches to social issues, which champion public-private partnerships and market-oriented solutions that are self-sustaining and use philanthropic and investor capital more efficiently. Pay for Success contracts are one such movement.

Local governments must step up the fight against housing burdens in their communities. Federal programs like LIHTC have been incomparably

phenomenal in generating many thousands of units in communities across the United States. However, reliance on federal subsidies has left local communities toothless. Cities have become increasingly powerless to build new affordable housing units and maintain existing units on their own, instead waiting complacently for federal allocations and HUD representatives to tell them what their community needs. The past decades have seen an almost complete decline in locally issued housing bonds and other local efforts to finance affordable housing construction. It is inexcusable that cities and counties do not prioritize housing issues and commit funds to increasing their stock of affordable housing.

Governments must also begin focusing on preventive solutions to social issues, instead of reparatory aid. Government interventions must be innovative and responsive to feedback from projects in progress and incorporate diverse and unique funding mechanisms to more efficiently spend taxpayer money. Governments must also constantly learn from past mistakes and work with private service providers to incorporate ever-improving social services into their communities.

The responsibilities that local governments face are daunting. The concerns that these communities raise are valid. Government administrations are influenced by budgetary constraints, the wants of their constituents, and concerns over financing, regulation, and NIMBYism (Not In My Backyard opposition by residents to affordable housing units. Pay for Success contracts are the best innovative financing tool today that can help local governments overcome their skepticism and hesitation. PFS acts as a much-needed buffer to allow communities to experiment in innovative ways to promote housing affordability in their communities, risk-free. PFS also promotes the viability of local service providers to best make a positive impact in their communities. As the PFS model evolves over the next decade to better suit the needs of communities, we believe that Pay for Success is the best and most promising solution for local communities to address their issues.

NHPF supports innovation and entrepreneurship in the not-for-profit sector. We are constantly searching for new and better ways to promote affordable housing across the United States, including Pay for Success contracts. We welcome further dialogue to explore the potential of Pay for Success in the affordable housing industry.

We believe that PFS is among the mechanisms we can use to finance affordable housing construction more cheaply, quickly, and efficiently, leading to more low-cost units in areas of high opportunity. Pay for Success can also be used to promote housing preservation, uplift communities, revitalize neighborhoods, and finance crucial resident services to turn housing units into homes and affordable housing projects in to communities. Ultimately, PFS projects can provide tangible benefits for everyone involved. This is especially true for housing providers who are given upfront capital to begin development, thus solving a

fundamental construction logistic that has dominated the industry. The impact investor market has many individuals looking to make a difference through third sector partnerships, and we encourage you to seek out these opportunities. Finally, we are confident that there are many communities across the United States that are committed to helping their residents find a place to call home, and we intend to use tools like Pay for Success contracts to make that commitment feasible.

We call upon all housing providers, charities and philanthropies, governments, and communities and challenge you to prioritize affordable housing as a fundamental and necessary human right. We hope to see innovative mechanisms like Pay for Success be incorporated into neighborhoods all over America to tackle issues like homelessness, housing cost burdens, improved social services, and economic mobility, just to name a few. We believe that a fulfilling life begins with a safe and welcoming home, and we pledge to never stop fighting until every American has access to a house they can call their home and a neighborhood they can call their family.

We hope you will join us in forming an Action plan for America.

Appendix A: Pay for Success Background

Pay for Success 101

Prepared by the University of Virginia's Pay for Success Lab

Pay for Success (PFS) is an innovative framework where a private investor pays for a program upfront while another party, such as a state or local government, agrees to repay the investor with the possibility of interest if the program meets specific predetermined outcome measures. PFS provides a means for expanding effective community organizations that measurably improve lives of vulnerable and at-risk members of our communities. In addition, the framework shifts the risk of a program not meeting its intended outcomes away from limited government resources.

Benefits of Pay for Success

Some of the most important benefits of Pay for Success are:

- Focuses government resources on evidence-based programs that measurably improve lives
- Transfers the risk of a program not meeting its intended outcomes to non-governmental funders
- Shifts government spending towards paying for valuable outcomes instead of inputs or outputs
- Builds a culture of evidence and accountability into government spending decisions
- Provides service providers long-term funding so that they can properly plan ahead
- More closely aligns the timing of when the government spends and social outcomes occur
- Provides a framework for multiple government payor agencies to contribute to outcomes of their particular importance

Challenges of Pay for Success

There are several challenges to implementing Pay for Success (PFS) project. These include:

- PFS projects to date have taken up to three years to develop, incurring significant amounts of consulting fees and in-kind government and social sector resources.

- Most state government procurement regulations make it difficult to implement multi-year contracting obligations. In addition, investors may be weary of providing upfront funding considering that future administrations may reverse an earlier funding commitment.
- Siloed government agencies at all levels and their respective laws and regulations make it difficult to pay for outcomes outside of their issue area. For example, federal regulation may limit the ability of a state social service agency to pay for medical outcomes.
- In most issue areas, there is a limited evidence base on effective interventions. Therefore, investors may face substantial risk when investing in projects. Moreover, government and political leaders may be unwilling to compensate them sufficiently with a high interest rate.
- PFS Projects involve managing the needs and expectations of diverse set of stakeholders.

Stakeholders Involved

Although Pay for Success (PFS) projects can take many forms, they generally involve these stakeholders:

Stakeholder and Role(s):

Outcome Funders

To-date in the United States, these stakeholders have mostly been local and state governments but could be a foundation or other organization that agrees to pay for the outcomes achieved by the intervention

- Such funders often initiate the project development process

Service Providers

Examples are nonprofit or governmental social service providers

- Organizations that undertake the intervention as agreed to by all parties during the project development process

Service Recipients

Are generally at-risk or otherwise vulnerable individuals who are likely to measurably benefit from the service provider intervention

- Individuals who are at the receiving end of the intervention provided by the service provider(s)

Intermediaries

Examples include an impact investing firm, a government agency, a nonprofit with financial management experience, or a commercial bank

- Organizations that manage PFS projects including the collection and distribution of funds, certifying the program evaluation, etc.

Senior Investors

Examples include individuals, community development financial institution (CDFI), trusts, foundations, commercial bank, or a public or nonprofit entity

- Investors who provide the upfront capital to provide an intervention
- They are generally first to receive any profit and last to take a loss

Subordinate Investors

Examples could include any of the entities listed under Senior Investors

- Investors who provide the upfront capital to provide an intervention
- Because they have a lower ranking than senior investors, they generally receive profit after the senior investor(s) and are first to take any losses

Grant Makers & Guarantors

Examples could include any of the entities listed under Senior Investors

- Investors who do not receive repayment regardless of outcomes
- They may also provide capital for project development, project evaluation, or other purposes

Evaluators

Examples include a university, government agency, or an evaluation firm

- Assist during program design with determining the project outcomes
- Evaluate PFS projects to determine the extent that the intervention met its intended outcomes
- Some projects have secondary evaluators, commonly called validators, that certify the primary evaluator's results

Technical Assistance Providers

Examples include a university, or a for-profit or nonprofit organization

- Assist outcome funders and service providers with the design and implementation of a PFS project

Stakeholder Motivations

The Brookings Institution surveyed the stakeholders involved in a Pay for Success (PFS) project about their motivations for pursuing a project. Outcome funders have a balanced variety of motivations. Intermediaries strongly value testing

innovative financial models to address social problems and social return/outcome achievement. Service providers are most interested in scaling up interventions that work and social return/outcome achievement. Finally, senior investors are attracted to testing innovative financial models to address social problems and combining social and financial returns. Overall, most stakeholders have a variety of motivations and put little focus on financial returns and savings.

Project Development Process

The development, implementation, and evaluation of PFS projects typically involve three stages: feasibility study; transaction structuring; and agreement implementation.

The first stage, feasibility study, includes the following activities:

- Identification of outcome(s) sought
- Assessment of community needs, assets, and capacity
- Identification of a challenge(s) or barrier(s) for serving a particular population or addressing a social issue and determination of the total costs associated with the lack of intervention
- Identification of interventions that can achieve the desired outcome(s)
- Projection of the potential public value, including any savings, to be achieved through potential interventions
- Determination of the willingness and capacity of stakeholders to implement a PFS project
- Development of Rigorous Evaluation methodology to determine if Outcome Measures have been achieved

The second stage, transaction structuring, includes, but is not limited to, the following activities:

- Providing overall PFS coordination and support
- Raising capital and developing capital structure
- Mediating and facilitating agreements between each of the parties to the project
- Aligning project design and evaluation
- Tracking the impact of achieving the Outcome Measures on government funding streams in terms of cost savings and avoidance
- Finalizing the PFS project and preparing for post-closing activities and allowing for transition of critical information to those implementing the third stage
- Supporting ramp-up activities

The third stage, contract implementation, involves the implementation of the PFS project, whereby the intervention is delivered by the service provider, an evaluation is conducted, and performance is monitored. If the third-party evaluator confirms that outcome milestones have been reached, the outcomes payor makes outcomes payments to PFS Investors.

Pay for Success Project Development

From January 2012 to the present, 15 PFS projects have launched in the United States. The projects have been across a diversity of social issue areas including early childhood development, foster care, substance abuse, homelessness, asthma management, child and maternal health, homelessness, criminal and juvenile justice, and the environment. Contract durations have ranged from two to seven years with upfront investments ranging from $3.5 to $30 million. Various federal, state, and local government entities, and a nonprofit have served as end payors. Investors have included institutional investors, foundations, the federal government, and other community organizations. Of the 15 launched, two projects have reported outcomes: 1.) the NYC ABLE Project for Incarcerated Youth at the Rikers Island Jail in New York, NY ended prematurely because the project was not meeting outcome targets, and 2.) the Utah High Quality Preschool Program, which continues to operate, reported results that triggered outcome payments.

See Table 7 on the following page: Launched Pay for Success Projects in the United States.

TABLE 7

Launched Pay for Success Projects in the United States

NAME	LOCATION	SOCIAL ISSUE	PROJECT LAUNCH DATE	CONTRACT DURATION (YEARS)	UPFRONT INVESTMENT (MILLIONS)	MAXIMUM PAYMENT (MILLIONS)	PROJECT STATUS
Child-Parent Center Pay for Success Initiative	Chicago, IL	Early Childhood Development	Oct 2014	4.0	$ 16.9	$ 34.5	Ongoing
Connecticut Family Stability Project	CT	Family Stability, Substance Abuse	Feb 2016	4.5	$ 12.5		Ongoing
Cuyahoga Partnering for Family Success Program	Cuyahoga County, OH	Housing & Child Welfare	Jan 2015	6.0	$ 4.0	$ 5.0	Ongoing
Denver Social Impact Bond Program	Denver, CO	Homelessness	Feb 2016	5.0	$ 8.7	$ 11.4	Ongoing
Asthma Management Demonstration Project	Fresno, CA	Asthma Management	March 2013	2.0		$ 1.1	Ongoing
Michigan Strong Beginnings Program	Kent County, MI	Child & Maternal Health	Aug 2016				Ongoing
Massachusetts Chronic Homelessness Pay for Success Initiative	MA	Homelessness	Dec 2014	6.0	$ 3.5	$ 6.0	Ongoing
Massachusetts Juvenile Justice Pay for Success Initiative	MA	Juvenile Justice	Oct 2014	7.0	$ 18.0	$ 27.0	Ongoing
The NYC ABLE Project for Incarcerated Youth	New York City, NY	Juvenile Justice	Jan 2012	3.0	$ 9.6	$ 11.7	Complete
NYS Recidivism & Workforce Development Project	NY	Criminal Justice	Dec 2013	5.5	$ 13.5	$ 21.5	Ongoing
Utah High Quality Preschool Program	Salt Lake County, UT	Early Childhood Development	Sept 2013	7.0	$ 7.0	Undisclosed	Reported Partial Outcomes
Project Welcome Home	Santa Clara County, CA	Homelessness	Aug 2015	6.0	$ 6.9	$ 8.0	Ongoing
South Carolina Nurse-Family Partnership Project	SC	Child & Maternal Health	Feb 2016	4.0	$ 30.0	$ 7.5	Ongoing
DC Water Environmental Impact Bond	Washington, DC	Environment	Sept 2016	4.0	$ 25.0	N/A	Ongoing

Appendix B: The PFS Process—Brief Step by Step

BEFORE

1. **Government** selects desired intervention and contracts with Service Provider and Intermediary

DURING

2. **Impact Investors** (institutional and philanthropic) provide upfront capital
3. **Intermediary** gives **Service Providers** working capital
4. **Service Providers** deliver contracted intervention
5. **Evaluator** tracks and measures outcomes and costs

AFTER

6. **Evaluator** determines success
7. **Government** pays out contracted amount plus interest to **Intermediary** in event of success
8. **Intermediary** pays return on investment to **Impact Investors** (and sometimes) **Service Providers**

Appendix C: PFS Rapid Feasibility Quick Assessment Tool

Prepared by the University of Virginia using the Urban Institute's Pay for Success Project Assessment Tool.

The University of Virginia Pay for Success Lab created this data collection form based upon the Urban Institute Pay for Success Project Assessment Tool. Below are brief instructions about how to use it:

1. **Before beginning the interview**
   a. Thoroughly review the original Urban Institute Pay for Success Project Assessment Tool to ensure you understand its intended purpose and all of the questions
   b. Fill in the "Background Information" fields below
2. **Explain to the stakeholder(s) present that you will be**
   a. Asking a series of questions to analyze the readiness of their PFS project idea
      i. The entire interview should take about two hours
   b. You will score their responses following the interview according to an established metric and complete a write-up for the stakeholder(s) explaining the assessment
3. **During the interview**
   a. As you begin each section, verbally read the title of the section and the brief description
   b. Then, verbally read the Key Area and the Question to the interviewee
      i. You can read the Scoring Guide to model the interviewee's responses but make sure the interviewee provides context for why they chose with a certain score.
   c. To provide context, you may want to verbally read the "Why is this Important?" box
   d. Take thorough notes in the "Written Summary" box as the interviewee responds
      i. To give full attention to the interviewee, only take notes during the interview
4. **After the interview**
   a. Within a few hours, score the interviewee's responses.
   b. Within a week, provide a 3–4 page report of your assessment to the stakeholder(s) and schedule a time to present your findings with them.

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