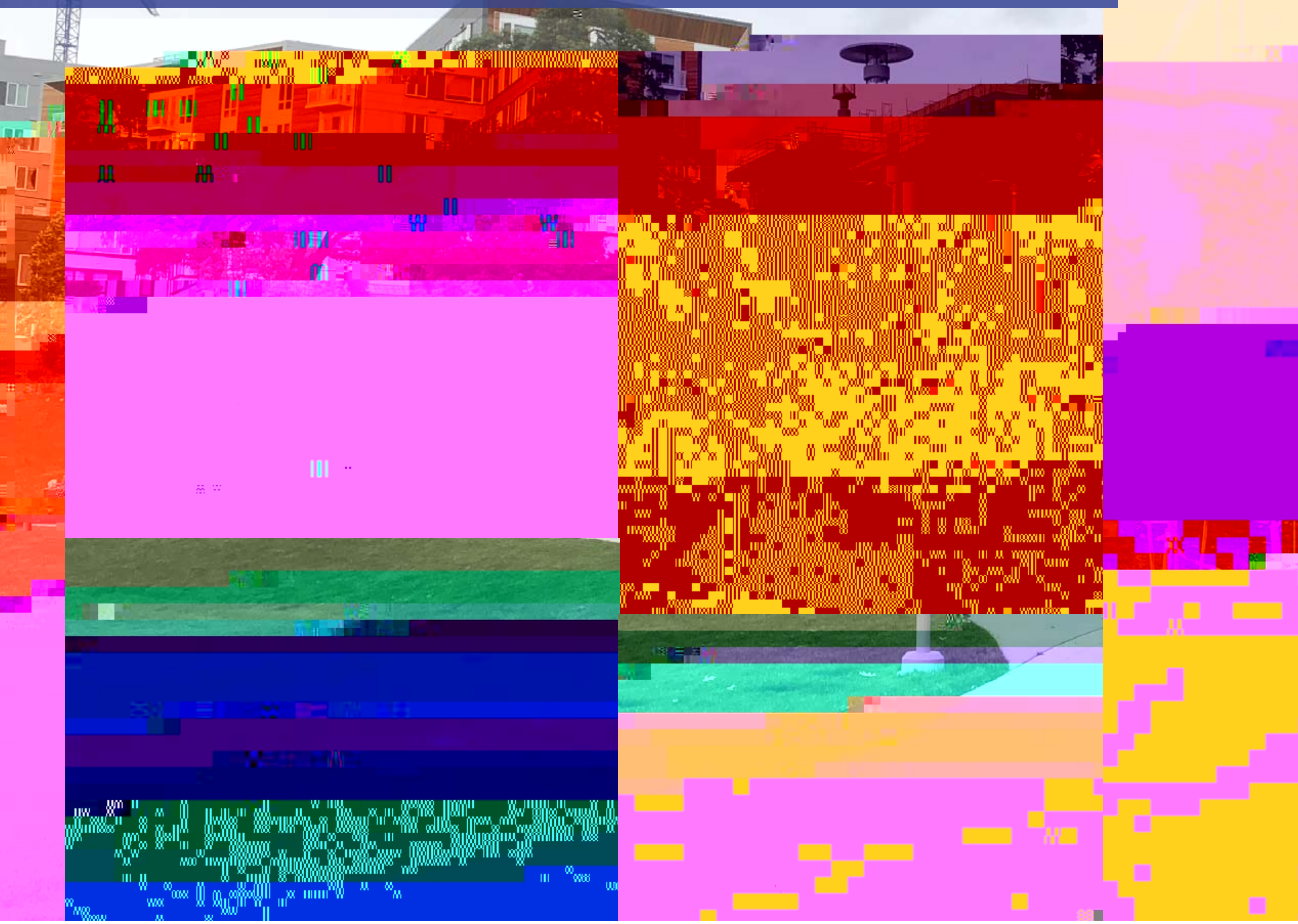
The Challenges and Opportunities of Financing the Social Mission of Mixed-Income Communities

Mixed-Income Strategic Alliance
January 2019



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Executive Summary

This report is an exploratory assessment of the opportunities and challenges of sustainably Þnancing human capital outcomes in

The Intersection of Mixed-Income Communities and the Social Determinants of Health

Stable, quality housing has been identi Þed as an important social determinant of health.[2] Mixed-income communities offer an opportunity to provide stable, quality housing while also addressing other important social factors that inßuence health. They are a type of development “with housing and other amenities, such as parks, schools and community centers that has the mixing of income groups as a funda-
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Challenges in Funding "People" Relative to "Place"

One challenge of addressing the social determinants in pursuit of "people" outcomes (in contrast to securing investments in "place") stems from the different time horizons. In

Challenges Posed by Policy Barriers

The instruments for using healthcare resources, such as Medicaid, for housing and community development priorities are tough to manage with perceived and actual administrative and regulatory barriers at the federal, state, and local levels. The most hopeful signs of Þnanc-
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Future Directions

There are future possibilities for finding new revenue sources to sustain efforts to address the non-physical social determinants of health. These ideas emerge from kernels of existing efforts to navigate the funding challenge, and they often spring from practitioners themselves who see untapped opportunities in their work. These leaders may be hamstrung by regulations and obligations that do not provide flexibility to blend and braid across sources, but they know that existing funding arrangements are not sufficient to achieve the results they seek. These ideas are intended to spark creativity and imagination among partners who—while steeped in the status quo of scarcity and fiscal constraints in all types of affordable housing communities—believe that more is possible. In advancing them, we invite policymakers, funders, and practitioners to break out of traditional ways of working. Honing and testing these and other ideas would be a natural next step.

Maximizing Mixed-Income Transactions

One of the [illegible] mixed-income community development—particularly from outside observers—is that the presence of market-rate tenants and investments should produce additional revenue upon which to capitalize. People perceive that there should be resources that could be redistributed to other priorities, and they often look first at the developer. Moreover, if that mixed-income developer is a for-profit organization, then hardwiring supports for services and programs aligned to the social determinants into the development deal itself seems particularly feasible. In informal conversations, several developers, whether nonprofit or for-profit, state that the margins of profit on mixed-income deals are quite slim and that there is little room to "throw off" resources that could support programs and services. That analysis seems to have been accepted by many as true.

However, it is unclear what the development deal can actually bear. There are many claims on the developer fee (e.g., staff and partners who must be paid), but without an objective view into the profit and loss statements of developers, it is difficult to know if and how the deal could be maximized differently. We also do not know whether there are savings in construction costs, operations budgets, procurements, or other large cost items that could yield resources from mixed-income transactions, as suggested by one expert's reflection.[8] This lack of knowledge presents an opportunity. Social investors in mixed-income deals (including foundations) could push the envelope of what should be borne by the deal itself.

Lastly, mixed-income development transactions do present the opportunity to see whether cross-subsidization from rental income can be maximized in such a way that the costs of

Next Generation Public-Private Partnerships

Mixed-income communities are built on public-private partnerships. As with most affordable housing development, the scarcity of public subsidies in mixed-income communities requires that developers Þnd other partners. Those partners cover the gamut of activities and bring a host of resources to sustain the community, ranging from direct Þnancial outlays, to volunteer commitments (e.g., volunteer tutors for students), to in-kind donations (e.g., conservation organizations donating and planting trees).[9] Some mixed-income developers see public-private partnerships as the way to help address the Þnancing innovation challenge. They believe that the developer can seed efforts with their own resources and leverage other commitments.

While public-private partnerships will always be part of the solution, they require capacity to create and sustain them. They also may not always deliver the desired impact, requiring lead organizations in mixed-income communities to recalibrate those partnerships to insure quality. Some leaders wholeheartedly believe that the answer to funding and Þnance challenges lies with partnerships, and they encourage thinking about the incentives that create the right conditions for action and the results that organize everyone’s efforts.

Exploring Social Impact Bonds

Performance-based contracting is not a new tool for Þ

Leveraging Insurers

There is early evidence of health stakeholders engaging with mixed-income housing developers. One prominent example involves the insurer UnitedHealthcare (UHC). In Phoenix, UnitedHealthcare, a for-proÞt healthcare company, teamed up with Chicanos Por La Causa, a community development corporation and social service provider, to Þnance the purchase of two multi-family buildings.[11] As many as 100 of the units were reserved for UnitedHealthcare clients, with the company prioritizing individuals who have a history of homelessness or high utilization of emergency departments. The balance of the apartment units are available for rent at market rates. UHC clients living in the set-aside units receive assistance from healthcare navigators, but all residents can access health services at the Maryvale Community Service Center, located a few miles from the apartment buildings. Additional services, such as delivery of packages of food from a food bank and employment navigation, are also available to residents. This effort was at project-scale, was targeted to homeless or other high-need individuals, and did not involve a broader, planned mixed-income community revitalization, but it does reveal how insurers are investing in mixed-income housing with supportive services.

In California, Dignity Health invested in the Arrowhead Grove Neighborhood Revitalization plan that will result in turning a distressed 252-unit public housing complex into a 38 acre, 400-unit mixed-income revitalization project. Through its Community Investment Program, Dignity Health gave a $1.2 million bridge loan to National CORE, a nonproÞt mixed-income developer, in order to Þll a funding gap in the project. While these funds do not come from the operating side of Dignity Health, they show that hospitals and insurers are engaging in housing and mixed-income communities.[12] In addition, this effort prioritizes affordable housing production and not defraying the costs of community and supportive services; however, as in the UHC example above, service provision may follow if cost savings are accrued.

While serving as a promising example of what is possible when health and housing stakeholders work together, continuing to apply such lessons to the mixed-income community context will face additional challenges, especially if narrowly tailored government funds get used. For example, by their very nature, mixed-income communities will include residents with lower incomes who receive access to health services through Medicaid as well as residents with higher incomes who receive care covered through multiple private insurers. Such complexity can reduce the likelihood that a given stakeholder, such as an insurance company, would be willing to invest in preventative measures that potentially would yield savings for other parties, including competitors. On the other hand, insurers are accustomed to cross-subsidization and understand the need to serve the costly medically complicated patients as well as the healthy at the same time.

In addition, as in the UHC example, mixed-income community development must go beyond the actual project/building to include amenities and strategies in the neighborhood, a scale that would expand who is beneÞting. This closed-system (i.e., the multi-family building itself) versus open-system (i.e., neighborhood scale) should be addressed for sustainable Þnancing of mixed-income communities with non-housing dollars to be leveraged. It is the broader neighborhood scale that provides a larger platform for partners to invest, whether it is public health with a Federally QualiÞed

Housing Acquisitions and Inclusionary Housing

While planned mixed-income communities are the focus of this analysis, there are other pathways toward creating mixed-income housing. Housing mobility programs and inclusionary housing efforts are two such examples. In contrast to large scale public housing revitalization, these mixed-income housing strategies are smaller in scope and scale, often linked to singular multi-family projects (inclusionary housing) or helping individual families secure a housing unit (mobility programs). Each strategy puts a priority on quality housing units being available in high opportunity, amenity-rich neighborhoods for low-income families.

Building off the recent Moving to Opportunity research Þndings on the importance of place and the effectiveness of regional housing mobility strategies, [13] the MTO Fund, a real estate investment social enterprise, seeks to do an end-around on the normal challenges faced in producing affordable housing units in high-opportunity neighborhoods. The Fund is aggregating and investing private market capital to acquire high-end, multi-family properties in high-opportunity neighborhoods in order to set aside a percentage of units for families with a Housing Choice Voucher. The buildings will be mixed-income. The low-income residents will have access to community building, supportive services, case management, and high-performing schools. Moreover, the model is Þnancially self-sustaining because it is built as a social enterprise, where project expenses and return on investment payouts do not require ongoing fund raising to make the deals work. Albeit in its infancy, the MTO Fund model contemplates Þnancial sustainability and may portend of public and private models that can support mixed-income communities.

Promoting Taxing Schemes

As a place-based strategy focused on creating equitable, inclusive, prosperous neighborhoods, mixed-income community development should lend itself to the taxing and Þnancing schemes that are often used for place. Where there is a mixture of uses (residential and commercial), one could surmise that special improvement districts (SIDs) or business improvement districts (BIDs) could apply. These entities are given the ability to levy fees or taxes on organizations and businesses that lie within the district. Seemingly, every locality has a neighborhood where a SID or BID is operating, but that practice has not come to planned mixed-income communities. Perhaps it is the level of distress in the neighborhood or the lack of businesses that disqualify it. However, where signiÞcant anchor institutions or businesses are present that could bring political and Þnancial heft, investigating the feasibility of SIDs or BIDs that could generate revenue to support key programs and services of the mixed-in-

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Acknowledgments

Support for this report was provided by the Robert Wood Johnson Foundation. The views expressed here do not necessarily reßect the views of the Foundation.

The lead authors of report are Salin Geevarghese and Anand Sharma with support from the Mixed-Income Strategic Alliance team. We thank all the experts who provided insights into sustainable Þnancing in mixed-income communities and who gave us leads to follow in our research. Further thanks to Giridhar Mallya and Amy Gillman for feedback on early drafts of this report.