



LOCAL INITIATIVES SUPPORT CORPORATION (LISC)
TESTIMONY TO THE UNITED STATES SENATE COMMITTEE ON FINANCE
FULL COMMITTEE HEARING:
CAN EVIDENCE BASED PRACTICES IMPROVE OUTCOMES FOR VULNERABLE
INDIVIDUALS AND FAMILIES?

SUBMITTED BY:
MATTHEW JOSEPHS, SENIOR VICE PRESIDENT, POLICY

Tuesday, May 10, 2016

Chairman Hatch, Ranking Member Wyden and Distinguished Members of the Senate Committee on Finance:

The Local Initiatives Support Corporation (LISC) appreciates the opportunity to submit testimony for the record on how evidence-based practices improve outcomes for vulnerable families. We especially appreciate the opportunity to highlight how the Pay for Success (PFS) model, also known as Social Impact Bonds, is supporting evidence-based practices in local communities. Thank you Senators Hatch and Wyden for initiating a discussion around a relatively new alternative funding mechanism that will benefit low-income families and economically challenged communities plagued by disinvestment.

ABOUT LISC:

Established in 1979, LISC is a national non-profit Community Development Financial Institution (CDFI) dedicated to helping community residents transform distressed neighborhoods into healthy and sustainable communities of choice and opportunity — good places to work, do business and raise children. LISC mobilizes corporate, government and philanthropic support to provide local community development organizations with loans, grants and equity investments; as well as technical and management assistance.

LISC has local programs in over 30 offices nationwide and partners with over 70 rural community organizations. For more than three decades, LISC has developed programs and raised investment capital to help local groups revive their neighborhoods. We deliver tailored support for community-based organizations to meet specific needs in the areas of housing, economic development, education, healthcare, community safety, and building family financial stability.

In recent years, LISC has been at the forefront of developing model initiatives that, in addition to providing tremendous benefits for low-income families, have the potential to result in considerable cost savings for federal, state and local governments. Our work attempts to meet the comprehensive needs of communities, spanning multiple categories – from improving the long term financial wellbeing for families, to reducing crime in communities through targeted interventions, to investing in supportive housing that mitigates the societal cost of emergency responses for the chronically homeless.

In early May 2016, the Corporation for National and Community Service (CNCS) announced LISC as a Social Innovation Fund (SIF) PFS grant recipient. Over two years, a \$1.3 million award will be used by LISC to provide transaction structuring support to three to four PFS projects. LISC's program will connect government funding to preventative programs in the health, youth and employment arena in an effort to demonstrate positive outcomes for people who access these services. By helping social service providers design programs, raise private capital and produce the metrics needed to demonstrate results, we will be continuing our work in revitalizing neighborhoods and improving outcomes for its low-income families.

IMPROVING COMMUNITIES VIA PAY FOR SUCCESS:

Evidence-based practices and policies are a way to build a culture of continuous improvement and accountability through the use of administrative data to monitor ongoing program performance. As Senator Wyden conveyed during the hearing, “This is a great opportunity to dig into an issue that really should be an underpinning of the work Congress does every day: that is to say, we should be constantly asking whether the laws we write are working as they ought to be.” With evaluation built into the PFS model, there are clear metrics of success. Below are several examples of our work that we believe will to help enrich the field of Pay For Success.

LISC NYC Two Shades of Green

LISC New York City's Two Shades of Green (TSG) program is a housing preservation strategy that incorporates green and healthy practices into the buildings. LISC received a \$15 million Weatherization Assistance Program (WAP) contract from New York State to fund the installation of energy-efficiency retrofits in 2,226 apartments in 95 buildings. LISC used this opportunity to expand the program scope beyond energy outcomes to capture other health, environmental and economic benefits.

TSG has two primary goals. First: Increase the health and wellness of building residents and staff by integrating green, healthy and cost-effective measures into existing affordable housing rehabilitation and property maintenance. Measures include: safe and green pest control to reduce exposure to toxic pesticides, aperture sealants to prevent pests from entering and heat from escaping, smoke-free housing to reduce resident exposure to secondhand tobacco smoke and fire risk as well as decrease the cost of unit turnover, active design through low-cost modifications and add-ons to increase the physical activity of residents, and use of green cleaning products to reduce exposure to harmful chemicals.

Second: Help property managers and owners consume less energy and water and realize cost savings through more efficient operations. As such, TSG also provides a comprehensive set of services to advance energy and water conservation measures, including: benchmarking to measure project performance pre- and post-retrofit, project design assistance for energy and water retrofits, coordination with available rebate or incentive programs, preparation of financing packages to support retrofit work, and staff training and preparation of operation and maintenance plans.

Since 2013, LISC and our partners have helped implement TSG energy, water and health upgrades on 600 units. Baseline measures have been established to hone TSG outcomes and assess changes to asthma triggers, costs, and complaints over time, and the program conducts ongoing evaluation of both the health and utility outcomes. Preliminary evidence shows a reduction in the number of asthma attacks and other health complaints for building residents along with reduced utility costs for property managers.

Supportive Housing Services to Vulnerable Populations

Senate Finance Committee members emphasized a desire to see federal funds used more effectively to address social issues. We believe that providing supportive housing services to vulnerable populations represents an opportunity to recognize cost savings to society.

LISC, through its affiliate the National Equity Fund (NEF), financed a mixed-income housing property in Brooklyn, NY which includes 60 supportive housing units: 20 designated for referrals from the New York State Office of Mental Health and 40 for referrals from the New York City Department of Homeless Services. All of the referrals for these 60 units are persons living with a diagnosed mental illness, and nearly all (more than 90%) spent at least one year prior to their arrival in an expensive publically funded institutional setting (either a city emergency shelter or a state psychiatric center). The development opened in the spring of 2012; by November of that year, all 60 units were occupied. 18 months later (November, 2013), 90% of the original occupants (55 out of 60) remained housed at the development. Services include medication monitoring and education, entitlements counseling, access to mental health and primary health care and supported employment programs.

The resultant cost savings are significant: Residents at the development are maintained in housing in the community at a fraction of the cost associated with the institutional alternatives they resided in before. The annual cost to maintain a patient in a New York State funded psychiatric center is \$292,730; the annual cost to permanently house a former OMH psychiatric center patient at this development is less than 15% of that amount, or roughly \$32,000 per year.

Financial Transaction Structuring

There are many high-performing social programs operating throughout the country, but little capacity or capital available to such programs in order to bring them to scale. Transactions yield too thin a margin without capturing the federal component of the savings to offer risk-adjusted

returns that would attract market-oriented “impact investors.” LISC is well positioned to determine whether a project is a best practice that can and should be replicated. We have the capacity to examine an evidence-based strategy, its social value in the targeted low-income communities, the magnitude of the organizational capacity to implement the project, its attractiveness to funders and other providers of capital, and its riskiness in terms of repayment of capital and achievement of social outcomes.

Financial intermediaries like LISC and other CDFIs have much to offer the field of social impact investing. In a recent report by MDRC, Learning From Experience: A Guide to Social Impact Bond Investing, Gordon Berlin points out, “Community development finance institutions have the infrastructure and the know-how needed to make social investing deals, making them the ‘go-to’ organizations for SIBs.”

We hope to help build the body of knowledge around PFS best practices and transaction structuring and contribute to the ongoing conversations about the strengths and limitations of the Pay for Success model. LISC is committed to helping to shape the future of social impact investing in terms of program implementation, deal structuring and evaluation. As we share our insights with CNCS and the Social Impact Investing field, we hope to identify and bridge existing gaps in services needed to close PFS transactions. To this end, in February 2016, LISC hosted a webinar on underwriting PFS investments targeting private investors. LISC will build on these knowledge sharing activities by through a series of trainings on PFS structuring and investments, risk analysis and contracting. These activities are intended for a wide audiences including investors, underwriters, service providers, government entities and evaluators. We intend for our work to contribute to a rich pool of knowledge with PFS practitioners across the country, driving up the number of executed high-quality PFS transactions.

PAY FOR SUCCESS SHIFTS RISK, SPURS INNOVATION:

Pay for Success investments shift the risk for government entities attempting innovative solutions. When there is evidence of significant cost savings, as demonstrated above, federal, state and local governments can partner with philanthropies and private investors to leverage financial resources. Governments pay only for outcomes achieved. Private investors assume the risk by initially funding the intervention and are repaid upon success of the program.

We applaud Congress for recognizing the utility of cross-sector partnerships and encouraging data-driven social investments. Social Impact Partnership legislation introduced by Senators Hatch and Bennet (S. 1089) and Representatives Young and Delaney (H.R. 5170) support measurable, clearly defined outcomes that result in social benefit, with independent evaluation as a clear indicator of program success. These innovative proposals encourage social service programs to have evidence of effectiveness in PFS projects and require rigorous evaluation. The bills also seek to spur innovation in the PFS arena by allocating \$100 million in funding for projects and compensating state and local governments for savings that accrue at the federal level.

As Senator Hatch pointed out during this hearing, “Social impact financings gives local leaders the flexibility to design and adjust programs to fit local needs in order to ensure that they have the desired impact.” By structuring payments around measurable outcomes, PFS’s flexibility allows implementation of evidence-based programs, careful testing of innovative projects, and scalability of successful programs.

We applaud Congress’s bipartisan and bicameral efforts to investigate evidence-based practices. We are hopeful that Pay For Success will encourage the implementation of better programs and effective policies through the more responsible use of taxpayer dollars. If LISC can be a resource to you or your staff, please contact Abigail Santos, Assistant Policy Officer, at (202)739-9288 or asantos@lisc.org with any questions.

Sincerely,

A handwritten signature in dark ink, appearing to read "Matt d. Josephs", with a long horizontal flourish extending to the right.

Matt Josephs

Senior Vice President for Policy

Local Initiatives Support Corporation