Enterprise

LISC
Helping neighbors build communities

December 20, 2013

Office of Domestic Finance
U.S. Department of the Treasury
Room 1325
1500 Pennsylvania Avenue NW
Washington, DC 20220

Re: Docket No. TREAS–DO–2013–0006 Strategies To Accelerate the Testing and Adoption of Pay for Success (PFS) Financing Models

Enterprise Community Partners, Inc. (Enterprise) and the Local Initiatives Support Corporation (LISC), national financial intermediaries operating in the affordable housing and community development space for over 30 years, are pleased to present our perspective on the potential role of the proposed Pay-For-Success Incentive Fund.

For more than two years, Enterprise has dedicated extensive resources to advising and structuring pay-for-success transactions. It has explored with states and localities high-level concepts and has modeled explicit scenarios. In every single one of these explorations, Enterprise has encountered the "wrong-pocket" problem whereby a significant portion of the savings being generated were accruing to the federal government, yet there was no a way to capture those savings, in large part because of the complexity of bringing the relevant federal agency to the table to engage in the transaction.

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. For example, LISC's Financial Opportunity Centers initiative, which provides integrated services (financial education, workforce development and benefits counseling) in a single site, has enabled participants to find jobs and retain employment, thus potentially limiting the need for unemployment payments and other forms of government assistance. Similarly, LISC's Community Safety Initiative, which focuses on reducing crime through targeted community interventions, can result in savings in the form of decreased criminal processing and trial expenses, as well as decreased incarceration rates. And, as described further below, LISC's investments in supportive housing result in tremendous savings by mitigating the need for more costly emergency interventions for people who are chronically homeless.

Through this comment, Enterprise and LISC would like to introduce three examples of pay-for-success structuring that could benefit from the Incentive Fund. We believe that once a number of transactions have been completed and demonstrate the viability of the pay-for-success model, that the wrong-pocket problem will dissipate because many agencies will be positioned to engage in these sorts of transactions. Until such time, the assistance of a pot of money and a streamlined process to access that money would greatly assist those in the field to produce public good outcomes using private capital that only gets repaid once success has been demonstrated.

Example 1: Enterprise constructed a model working with a senior housing provider to generate savings to Medicaid and Medicare by providing services to frail seniors living independently, but at grave risk of an adverse event occurring that would send them to the hospital or even more costly, a nursing home. Both outcomes are extremely expensive and the value proposition being offered is that the service provider could provide home health assistance, along with some physical improvements to the senior's living space that would prevent those adverse events from occurring. Providing those preventions costs less than one-tenth the cost annually of a nursing home. The transaction was designed for the "payer" to be the state. But with the state only bearing 40% of the Medicaid portion of the nursing home costs, 60% of the savings were "leaking" from the transaction.

Example 2: Enterprise constructed a model working with a city agency to generate savings by preventing families at risk of homelessness from entering shelters. By offering an array of services as well as direct payments, families likely to end up in shelters could be kept in non-shelter living situations for 10% of the cost of shelter payments. In this case, the bulk of the savings -- in the form of 95% of certain costs paid by Temporary Assistance to Needy Families (TANF) funds and 68% of certain costs paid by Emergency Assistance to Families (EAF) funds -- were coming from the federal government with no way for the transaction to capture a portion of the savings.

Example 3: LISC, through its affiliate the National Equity Fund, 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 intuitional 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.

The three transactions described above have clear metrics of success using administrative data and services providers with a track record of success for delivering similar programs. These are ideal candidates for pay-for-success, yet the transactions yield too thin a margin without capturing the federal component of the savings to offer risk-adjusted returns that would attract market-oriented investors (including so-called “impact investors”). The newness alone of these transactions adds inherent risk, and currently the examples detailed above could only support single digit returns. Reflecting back on other product developments in the social capital space may give guidance as to the expected returns that newer investment products are likely to command.

Through the Incentive Fund, we would like to see a streamlined process where transactions such as the ones outlined above could apply to capture a certain amount of savings that are generated. To keep transaction costs to a minimum, we would recommend that the Incentive Fund contribute the federal portion of savings pari passu with the savings being realized and paid for by another government entity, such as a state or locality. Pay-for-success transactions are complicated enough when there is one payer involved – while the Incentive Fund’s cash is needed to make these potential transactions become a reality, additional requirements and procedures should be limited so as not to add additional costs to the transaction.

With regard to the role for intermediaries, we see many similarities between the need for intermediation in pay-for-success transactions and in Housing Credit transactions. Enterprise, LISC and several other entities have been fulfilling the Housing Credit intermediation role for decades, bringing parties together to match private capital with public needs, asset and fund managing those transactions, and providing problem resolution services during deal construction and throughout the life of the transaction. Entities with a strong track record of intermediation should be used to manage the flow of Incentive Fund payments in order to provide a layer of security and integrity to the investment of Federal dollars in the pay-for-success transactions.

Sincerely,

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