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HOW TO LEVERAGE COMMUNITY INVESTMENT TO ACHIEVE HEALTH EQUITY

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A Ten-Year Vision

CCI was created in 2017 as a limited-time initiative with an ambitious goal:

To help ensure that people of color and people with low incomes have a fair chance to lead healthy lives.

We work to achieve this goal by changing the practice of community investment (CI) in the United States so it helps overcome structural inequities and better supports the realization of community priorities.
Place Matters for Health Equity

Source: Google Images
Spending vs. Investment

- Let’s define some terms:
  - **Spending**: payment for goods and services without the expectation that the money will be repaid
  - **Investment**: payment for goods and services that will have value over time, with the expectation of some form of monetary return

- “Poetic” vs. “financial” use of the word investment: We may “invest in the future of our children” by paying for public schools. Valuable, but not specifically monetized. When we take out a student loan to pay for college, there is an expectation that the loan will be repaid
Investing Upstream Is a Pathway to Scale

- Communities need access to good jobs, affordable homes, safe places to gather and play, healthy food options, and opportunities to shape the decisions that affect them
- Decades of structural racism and disinvestment have resulted in places of concentrated poverty and significant health inequity
- **The well-being of our communities is tied to how we invest in them**
- Investments in the conventional financing system take the path of least resistance and seek to maximize return
- **Community investment specializes in improving social, economic, and environmental conditions in disadvantaged communities** while producing some economic return for investors
- Institutions like hospitals and health systems have an array of assets—financial resources, land, and expertise—that can be harnessed to create healthier communities through community investment
Why Use Investment to Achieve Social Ends?

Man does not live by grants alone...

Tapping investment capital means:
- More dollars can flow to making the changes we want to see
- Precious grant dollars can be saved for things that cannot be funded in other ways
- More strategies can be used to solve the problems we care about

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Financing Tools to Leverage Community Investment
Making Money Flow Uphill

- Conventional financing flows to the easiest and most profitable opportunities – think of it as “rolling downhill”
- Community investment is designed to get capital to underserved communities; it makes money “flow uphill”
- Community investment works by recognizing that different kinds of investors have different risk/return expectations
  - “Finance first” vs. “impact first”
  - Impact investors may trade off some financial return for the promise of social or environmental returns

Spectrum of Financial Return

- Grant
- Forgivable loan
- Repay principal only
- Sub-market return
- Full market rate
- Risk-adjusted market rate
Capital Stack

A capital stack is a structure that layers together capital from investors with different risk and return expectations to finance a particular project or group of projects.
Credit Enhancement

Any financial tool that reduces risk to third party investment, used to encourage or secure that investment.

- Examples: Loss reserves, Subordinated debt, Guarantees, or Collateral
- Organizations may need credit enhancement when:
  - the organization has a limited repayment track record
  - there is uncertainty about whether the business/venture will generate sufficient revenue
  - there is appropriation or subsidy risk
  - they are exploring a new investment area, program or approach
  - a program or project is otherwise too risky to gain investment
Grants Can Pave the Way to Investment

Thoughtful use of grants can lay the groundwork for much larger amounts of investment capital to flow

- **Outside the capital stack, pay for:**
  - Market/demand studies
  - Inventories of vacant/underutilized properties
  - Business plans for users of capital

- **Inside the capital stack, provide:**
  - Risk reduction: through loss reserves, subordination, equity for an intermediary like a CDFI
  - Increased return: allow financial investors to achieve their targeted return by reducing the “blended cost of capital”
  - Gap filling: extra dollars that make a transaction feasible
The Capital Absorption Framework
Focusing on the **community investment system**—examining who is or could be involved, pooling resources and batching deals to create efficiencies—can reduce transaction costs and increase the scale and impact of investment.
Shared Priorities

Ensure there is a shared, community-endorsed vision **broad enough to matter** and **specific enough to shape decisions**.

**Guidelines**

1. Legitimate and widely embraced
2. Appropriately specific
3. Straightforward
4. Focused on the system
5. Timely
Why is a Pipeline Important?

By working on a pipeline of deals, a community can:

1. See all the potential opportunities
2. Ensure deals address shared priorities
3. Reduce costs and increase efficiencies
4. Identify where the system is stuck
5. Expand the community investment system
How Does the Pipeline Get Executed?

Spot the opportunity
- All deals start with an idea
- Identify how an unmet community need could be addressed through an investment

Frame the project
- Determine how the resource should be used in the context of the shared priorities

Package the deal
- Gain site control
- Select key project participants
- Apply for public resources
- Assemble required capital

Overcome barriers
- Obtain needed zoning variances or other approvals
- Address funding gaps

Negotiate tradeoffs
Balance:
- What is feasible and what is desired
- Investor demands and community priorities
- What can be accomplished now and what would involve delay

Structure & underwrite
- Develop approach that meets investor risk/return expectations
- Finalize terms and conditions
- Obtain investment committee approvals
Assessing the Enabling Environment

Six elements shape the context to facilitate realization of the shared priorities:

1. Influencing and implementing policies and regulations
2. Identifying and aligning resources and funding flows
3. Ensuring the availability of needed skills and capacities
4. Fostering formal and informal relationships
5. Building forums and platforms for ongoing collaboration
6. Generating and providing data
Community Investment Actors

Priorities
- Residents and local businesses
- Neighborhood organizations
- Local elected officials
- City agencies
- Advocacy groups

Pipeline
- Capital sources
  - Banks
  - Insurance companies
  - Pension funds
  - Foundations
  - Anchors
  - Federal, state, local governments

- Intermediaries
  - Community Development Financial Institutions (CDFIs)
  - Development Finance Agencies (DFAs)
  - Banks and credit unions
  - Small business intermediaries

- Deal generators/Capital users
  - Community Development Corporations (CDCs)
  - Affordable housing developers
  - Small businesses

Enabling Environment
- Set and enforce policies and regulations
  - State and local agencies
  - Elected officials

- Determine and align resource flows
  - State and local agencies
  - Philanthropy
  - Anchor institutions
  - Investors
  - Intermediaries
  - Civic/nonprofit organizations

- Establish and sustain platforms for collaboration
  - Philanthropy
  - Civic leaders

- Generate/provide data
  - Universities
  - Nonprofit organizations
  - Government agencies
Accelerating Investments for Healthy Communities
Participating Institutions & Focus Regions

| Bon Secours Mercy Health System | Baltimore, MD  
| Cincinnatii, OH  
| Boston, MA  
| Dignity Health  
| San Bernardino, CA  
| Kaiser Permanente  
| Purple Line Corridor, Prince George's/Montgomery Counties in MD  
| Nationwide Children's Hospital  
| Columbus, OH  
| UPMC  
| Pittsburgh, PA  

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AIHC Goals & Results

**Goals:**

- Help communities articulate and meet their affordable housing priorities
- Deepen and accelerate investment by health systems in affordable housing
- Help hospitals and health systems achieve their full potential as actors in the community investment system

**Targeted Results:**

- Build partnerships with a diverse array of stakeholders
- Identify/develop and execute a pipeline of affordable housing projects that address community priorities
- Improve the enabling environment in which deals and projects take place
- Ensure pipeline and enabling environment efforts advance priorities shared by those most affected by health inequities
- Share experiences to promote progress at the field level
Emerging Insights for Investing Upstream
Health System Approaches to Upstream Investment

Narrower Population

“What would it take to reduce the cost of care for high utilizers?”

Broader Community

“The neighborhood is our patient”

“Make our community the healthiest”

Housing emphasis: Supportive and transitional housing rather than a broader affordable housing strategy

Housing emphasis: Mixture of affordable and supportive housing or on the continuum as a whole

Seek ROI/quantify savings
Drivers and Inhibitors of Upstream Investment by Health Systems

**Drivers**

1. Senior leadership
2. Campus expansion
3. Tragedy or community pressure
4. Competitive imperative
5. Irresistible ask
6. Systemwide rollout
7. M&A
8. Specific regulatory requirement
9. Managing capitated risk

**Inhibitors**

**Not my job**

1. Mission defined as health care, not health
2. Free rider problem (no incentive)
3. No minimum threshold for community benefit or investment (no stick)

**Too hard**

1. Margin pressure
2. Concerns about fiduciary duty
3. No staff capacity; internal silos
4. Lack of familiarity with CI
5. Lack of capacity in the ecosystem (not sure where to turn)
Unlocking capital and expanding footprint
Steward investment in a second neighborhood

Catalyzing a community investment ecosystem in a low-capacity place
Multi-sector convening resulted in $20M state investment

Amplifying a call to action
Shift frame from “house the homeless” to “catalyze robust housing systems to provide healthy, stable, affordable homes for all”

Extending CI practices system-wide
Cross-disciplinary CI effort across the merged footprint

Influencing peers
Convening CFOs and Treasurers from 5 local hospitals and health plans

Leveraging assets to drive community investment
Deploy equity and land as well as grants and debt to reengage with community
Roles for Hospitals and Health Systems

- Making a difference at a scale requires combining programs with policies, system change and capital investment

- Hospitals and health systems can:

  1. **Convene stakeholders** and engage new partners
  2. **Make grants strategically** to build community capacity and unlock capital investment from sources such as foundations and banks
  3. **Invest directly or through intermediaries** in deals, projects or enterprises that advance community priorities
  4. Use excess **land** strategically to advance community priorities
  5. Contribute to **advocacy efforts** related to social determinants
  6. **Create demand** by:
      a. Making real estate developments financially feasible through **master leases, guarantees, or strategic off-campus location of offices and facilities**
      b. **Targeting purchasing** to local businesses (“buy local”)
      c. Strengthening residential neighborhoods through **“live local” incentives** for employees
What It Takes for Health Systems to Invest Upstream Successfully

Upstream investment by health systems requires not only action by systems themselves, but also the existence (or creation) of threshold conditions in the community.

**Health System**

**Champion:** Respected leader takes on the issue

**Leadership buy-in:** Institutional leadership (board, CEO) recognizes value and authorizes staffing and resources

**Goals:** System formulates coherent enough goals to explore/prioritize options

**Partners:** System identifies and builds trust with partners that can develop, finance and manage deals that advance impact and avoid unintended consequences

**Capacity:** Health system needs capacity to review/act on investments

**Community**

**Shared priorities:** Channels for expression of community voice exist

**Pipeline:** Investable deals already exist or health system helps to create initial batch

**Platform:** Stakeholders advocate for supportive policies and practices, including funding sources
South Side Affordable Rental Properties Fund Capital Stack Structure

**Pool:** Investors make a 10-year commitment to the fund. 100% of the principal and interest will be repaid in year 10 from the sale of rehabilitated units or by refinancing the outstanding debt.

**Lending:** Loan funds will cover 75% of the development cost of each unit. The remaining 25% comes from grant funds from the United Way of Central Ohio, the Franklin County Land Bank, HOME funds, or JPMorgan Chase and Lead-Safe grant funds.

**Interest rate:** Borrowers will pay an anticipated blended rate of 3.0%.

**Repayment:** 95% of all unit rental income will be applied to the payment of accrued interest and principal. The remaining 5% will be held in as a replacement reserve managed by Healthy Homes, a joint entity of CD4AP and Healthy Homes.
Case: Dignity Health

- Dignity has long allocated a portion of its assets to community investment, with a portfolio of $100+ million
- As part of AIHC, Dignity has committed to helping to catalyze a community investment ecosystem in San Bernardino, which is recovering from bankruptcy
- Dignity Health invested $1.2 million in an affordable housing project in San Bernardino, and convened stakeholders, including municipal leaders, philanthropy, banks, CDFIs, developers, and community-based organizations to think about how to invest in San Bernardino
- The California Strategic Growth Council (SGC) was one of the stakeholders invited to the convening. The SGC recently awarded San Bernardino $20 million for a 38-acre, five-phase, mixed-income housing project, called Arrowhead Grove

Arrowhead Grove in San Bernardino, CA
For more information, please visit: www.centerforcommunityinvestment.org

Or contact Alyia Gaskins at: agaskins@centerforcommunityinvestment.org
Questions?