

CASE STUDY

CommonSpirit Health Community Investment Program

Headquartered in Chicago, Illinois
and serving communities across 21 states

Key Strategies Employed

- Designate a portion of investable reserves for place-based investments
- Provide secured and unsecured direct loans to local nonprofits and businesses
- Allocate to financial intermediaries, including community development financial institutions (CDFIs) and other investment managers offering place-based private debt strategies
- Provide loan guarantees to local nonprofits and businesses
- Move cash and cash equivalent assets into local banks and credit unions, including US Treasury Department-certified CDFIs, using money market accounts, business checking and savings accounts, and certificates of deposit
- Purchase stock in community development banks and related economic enterprises
- Align community health and place-based investing strategies

Overview & Background

CommonSpirit Health's (CSH) Community Investment Program (CIP) is a core pillar of the health system's anchor mission strategy to promote the well-being of their patients and advance social equity by addressing the social and economic needs of their communities. CSH provides below market, risk-tolerant, social-facing financial products to organizations working to improve the health status and quality of life of their community members. CSH's offerings are used by nonprofit organizations and small local businesses for community economic development benefiting low-income underserved populations, including women and children, communities of color, people with disabilities, and other disenfranchised populations. As a patient capital lender, CSH has made direct and indirect loans to invest in projects that address community needs, such as housing, food insecurity, access to capital, environmental issues, job creation, and healthcare access.

CIP started in the 1990s with the formation of Catholic Healthcare West (which later became Dignity Health), uniting a number of hospitals that were run by various Catholic Sisters congregations. With its formation, the sisters secured an allocation of the investment portfolio for investing focused on projects in low-income communities within the health system's service area. Over time, support for the program from the board has increased, resulting in the program's formalization. Pablo Bravo, CSH's system vice president of community health, explained, "It's been an educational



2021 CIP PORTFOLIO

43%

Affordable & Transitional Housing

23%

Access to Capital

21%

Healthcare Facilities

5%

Food

3%

Arts and Education

3%

Small Business

2%

Environmental

journey for the board. [The board members] not only understand that the program generates a rate of return, but also a return in the form of impact in the community.”

In 2019, Dignity Health merged and aligned ministries with Catholic Health Initiatives to become CSH, and with the two system’s combined investment portfolios, CSH’s accessible capital for investment approximates \$400 million. Since CIP’s inception, CSH has invested \$270 million to support the economic development of low-income, underserved communities. CSH is also a signatory of the Healthcare Anchor Network’s (HAN) Place-based Investment Commitment, through which they have committed to allocate 3%—or \$400 million—of their investment portfolio to place-based impact investments, which will be deployed within four years to address the social determinants of health (SDOH) in the communities they serve.

Edward Salvador, the manager of CIP, emphasized the connection between CIP and CSH’s overall mission to “[make] the healing presence of God known in our world by improving the health of the people we serve, especially those who are vulnerable, while we advance social justice for all.” Salvador highlighted, “We continue to strive to align CIP to the organization’s mission of improving health, especially [of] those who are vulnerable.”

Program Design

According to Bravo, CSH’s investment program is “a three-legged stool.” One leg is the overall investment portfolio, which is managed by asset managers and overseen by the vice president chief investment officer, who works in the Treasury Department. The second leg is shareholder advocacy, and the third is CIP. In essence, “a dotted line exists between treasury and community health.” The Community Investment Subcommittee is part of CIP. The Subcommittee meets quarterly to evaluate new and existing community investments, and provides recommendations for Board approval.

Interest earned from CIP returns to the overall investment portfolio. Bravo stressed the importance of housing CIP within a department focused on improving community health.

Bravo oversees CIP, and has led its expansion over the 17 years that he has worked on the program. He explained that the goal of the program is to fill gaps in the marketplace around access to capital: “Organizations should first reach out to traditional lenders.

If they are not successful there, they should engage other financial intermediaries like community development financial institutions . . . When organizations come to us, they come to us because they have a project that requires gap-financing that we may be able to fill. We also engage organizations to let them know if they take on certain projects, we are willing to provide capital.”

CIP’s primary focus areas for investing include affordable housing, access to capital, healthcare access, food access, arts and education, renewable energy, and alternatives to predatory lending. These investments include providing below market rate housing loans at favorable terms, funding community development financial institutions (CDFIs) to extend their reach, supporting the creation and expansion of federally qualified health centers (FQHCs), and providing small business loans in underserved communities of color.

A related program is the CSH Homeless Health Initiative (HHI), which works to co-locate, coordinate, and integrate healthcare, behavioral health, safety, and wellness services with housing and other social services. Across California, HHI has committed to invest a minimum of \$20 million through 2024 in programs that address two focus areas: (1) housing insecurities and homeless prevention for individuals and families who are at-risk of experiencing homelessness; and (2) coordinating care, services, and resources for populations experiencing homelessness with local community partners and government agencies. CIP refers organizations to HHI for grant funding opportunities, and HHI also refers organizations to CIP for potential investment support.

CIP uses a variety of investment vehicles, including secured and unsecured loans, intermediary investments (through CDFIs), loan guarantees, linked deposits (through credit unions and community banks), and equity. As Bravo explains, CSH prefers to use a variety of investment strategies rather than just partner with financial intermediaries or invest in funds. “I think the best strategy is to really keep the dollars as flexible as possible and with reasonable expectation of return. I think a lot of projects could not go forward if it wasn’t for the flexibility we provide with our program,” Bravo stated.

For a project to be considered by CIP, it has to be able to meet certain legal, financial, and management requirements (see figure below). Generally, CSH will first meet with the organization to learn more about the project and—if it is a viable opportunity—ask them to submit an application. Bravo explained, “You want to get a sense of the organization. How long have they been around? Have they had any financial difficulties in the past? You start looking at their financial track record and then you look at their ability to finance the project.” Bravo and Salvador complete due diligence for potential projects.

COMMUNITY INVESTMENT REQUIREMENTS

Legal Information

IRS Nonprofit Determination Letter, Articles of Incorporation, Corporate Bylaws, and Board Resolution to Borrow

Financial Information

Audited financials, Business plan

Management Information

Demonstrated level of board and management expertise

After the initial due diligence, the Community Investment Subcommittee reviews recommended projects and then provides its recommendations to the Board of Directors' Investment Committee, which meets four times per year.

Interest rates on loans provided by CSH range from 0% to 5%, depending on the investment. Loan terms range from one to seven years and the minimum loan amount is \$50,000. Loan terms for affordable housing projects can be considered for up to 15 years, depending on the overall longer term capital need for the project. As of 2021, the rate of return on the community investment portfolio is about 3% and the rate of return on the loans is indexed to a three-year blended consumer price index (CPI). It has exceeded this index for more than ten years. Bravo shared:

“As far as returns, we don't expect to get the return that the market provides, but sometimes the community investment allocation outperforms the overall market...During the Great Recession banking meltdown, we did outperform almost that entire year, especially if you measure the positive social, economic, and/or environmental outcomes, like savings to the system as far as providing appropriate access to care or keeping people healthy. If you quantify that in dollars, we outperform any market on a year-by-year basis.”

Bravo ensures that local CSH facilities are involved in any funded projects in their communities. This ensures that the local facility, rather than the national system office, gets acknowledged for making the investment. It also ensures that a local staff person is engaged with the loan recipient and can keep Bravo informed if the organization experiences any challenges.

In the case of borrowers who are struggling to pay back the loan, Bravo will meet with the organization to discuss how to resolve the issue. If that proves unsuccessful, the next step is to consider restructuring the loan with more favorable terms, with CSH acting as a “patient” lender. For example, during the COVID-19 pandemic, “We understood right away the potential financial strain on our direct borrowers due to COVID-19,” said Salvador. To address this challenge, the program conducted a survey to capture borrower challenges, and provided loan accommodations as needed. Out of the handful of borrowers that needed loan accommodations, many were able to resume making payments within a year of the start of the pandemic.

CSH's CIP has made over 350 loans since the inception of the program over three decades ago. As of 2021, the total loan losses over that time are less than 1%.

Education about the program is an important aspect of Bravo's job. Information on the program is reported in the system's annual mission report. In addition, he meets with other board committees and visits local facilities frequently. Bravo remarked, “The program is now well-known throughout our system. Whenever I run into a hospital president, they want to know when we are doing something in their service area. It's a different day, but it has taken us a while to get here.”

Budget & Staffing

From the early 1990s until 2002, CIP did not have a full-time staff person. Then, starting in 2002, Bravo oversaw the community investment portfolio as his primary responsibility until his promotion to vice president for community health. In early 2019, Salvador was hired as a program manager for the program. Although Bravo now oversees other departments, such as community health, he still considers community investment to be “100%” his responsibility: “If I’m meeting with our community health person out in Santa Cruz, the tool is still with me. If I’m sitting in a room having a conversation with an organization that mentions they are looking to expand, I ask if they are familiar with our CIP.”

Salvador’s responsibilities include partnering with new and existing borrowers for potential community investment opportunities, drafting loan agreements, and sharing them with the Community Investment Subcommittee. He also works with the Legal Department, preparing memos, handling much of the due diligence, providing financial information, and ensuring that borrowers submit monitoring reports.

Other departments provide important services as well: legal prepares loan agreements, treasury handles the wires, and finance ensures that they are capturing the financial data. Community Health Department staff also contribute by suggesting potential investment opportunities. As Bravo described the team-oriented process, “Even though there are two people fully focused on the program, we’re surrounded by others who support us to execute.”

Program Impact

CSH’s CIP is valued across the organization for its impact, breadth, leveraging ability, and positive impacts on community relationships.

When asked what type of investment strategy or area is the most important to the program, Bravo reflected:

“The fact that we have made it possible for two clinics to become FQHCs [Federally Qualified Health Centers], that’s meaningful. The fact that we have invested in supportive housing and expanding affordable housing, and provided difficult-to-access pre-development loans, is important. That

PROGRAM IMPACT QUICK NUMBERS

As of 2021:

- Commitment to allocate at least 3%—\$400 million—of their investment portfolio for place-based impact investments over four years
- \$270 million deployed to support the economic development of low-income, underserved communities
- \$20 million through 2024 to be invested in the Homeless Health Initiative
- More than \$300,000 of CSH’s community investment allocation is invested in community credit unions
- Owns preferred common stock in two community banks
- \$500,000 invested with California FarmLink
- \$5 million invested in the Hill Country Community Clinic to support the development of a 36,000 square foot clinical facility and 5,000 square feet of supportive housing for 16 youth transitioning out of homelessness
- Provided working capital necessary for two health clinics to become FQHCs
- \$1 million approved for investment with Stocktonians Taking Action to Neutralize Drugs

we have reduced the frequency of unnecessary use of the emergency room by homeless individuals is impactful. I could not choose one over the other, they're all key.”

One project did stand out as particularly meaningful for Bravo: Stocktonians Taking Action to Neutralize Drugs (STAND) in Stockton, California. The organization was founded in 1993 to create positive change in southeast Stockton communities that had been devastated by gang and drug activity. STAND established a variety of programs designed to reduce or eliminate drug activity by focusing on the needs of low-income communities, such as promoting affordable housing, providing job training, working with at-risk youth, and empowering citizens to “take back” their neighborhoods.

In 2000, STAND came to CSH requesting funding to purchase tax-default lots and blighted homes for rehabilitation and provide permanent housing for low-income families and individuals experiencing homelessness. Since this time, CSH has been able to provide seven loans with funds used to support STAND’s affordable housing program and strengthen the Stockton community. CSH has stayed in close partnership with the organization, especially during the 2000 recession and 2008 financial crisis, which were challenging times for Community Housing Development Organizations (CHDOs). The most recent loan approved for STAND is a three-year \$1 million secured loan for the development of affordable housing for seniors and single-family homes for low-income families.

Another example of the program’s impact is a clinic and transitional housing project with the Hill Country Community Clinic in Redding, California. With a \$5 million participation investment from CSH’s CIP, the 36,000 square foot clinic will contain 14 medical exam suites, 12 dental exam suites, and 10 behavioral health suites. When fully operational, the clinical facility is expected to serve over 9,000 patients. In addition, the project will include 5,000 square feet of supported housing for 16 youth who are transitioning out of homelessness.

A third project of note is California FarmLink, a nonprofit public benefit corporation supporting farmers and ranchers through providing education and connecting them with land and financing resources in Central Coast, Sacramento, San Joaquin, and North Coast, California. The organization focuses on empowering low-income farmers and ranchers to create, manage, and own enterprises that are often impacted by continued consolidation in agricultural finance and that have very few local lending options. As of 2021, CSH has invested \$500,000 in this project.

Key Strategies

Provide secured and unsecured direct loans to local nonprofits and businesses.

By providing secured and unsecured direct loans directly to nonprofit organizations and businesses, CSH targets its investments more strategically and minimizes costs for the borrower. This approach also allows the institution to make investments in communities where there are no active financial intermediaries.

Allocate to financial intermediaries, including CDFIs and other investment managers offering place-based private debt strategies.

About a quarter of CSH’s community investment portfolio is invested in partnership with CDFIs. These strategic partnerships are beneficial for a number of reasons: 1) they allow CSH to leverage its investment funds; 2) as CIP expands its scope, CDFIs offer an efficient pathway to learn about the needs

of the local community; 3) both CSH and the CDFI share financial risk; and 4) the CDFI may be able to assist CSH with monitoring and back office support. Borrowers also benefit, as they can access capital at a lower rate and with fewer fees from a CDFI.

Provide loan guarantees to local nonprofits and businesses.

Community investments may include providing guarantees. As of 2021, CSH is a co-guarantor in the Community Investment Guarantee Pool managed by LOCUS Impact Investing.¹ Their first guarantee was issued to Mercy Housing for affordable housing construction. This investment vehicle expands CSH's ability to best allocate resources to address needs in the community.

Move cash and cash equivalent assets into local banks and credit unions.

By opening a certificate of deposit (CD) in community credit unions, and supporting these financial institutions that prioritize low-income communities, CSH helps increase local access to capital for homeownership and small businesses.

Purchase stock in community development banks or other types of alternative economic enterprises.

CSH also owns preferred common stock in two community banks, allowing those banks to more effectively provide services in low-income communities, where larger banks do not offer these same services.

Align community health with place-based investing strategies.

As system vice president of community health, Bravo oversees both the Community Health Department and CIP, allowing him to strategically align these two areas of overlapping work. CSH hospitals contribute 0.05% of prior year audited expenses (approximately \$6 million) for community grants that align with priorities identified in the local facilities' Community Health Needs Assessment (CHNA). Grants range from \$5,000 to \$100,000.

Lessons Learned & Takeaways

The success of CIP would not have been possible without the belief and support from the Catholic Sisters, leadership, and the Community Investment Subcommittee. All have provided strategic direction and a continuous stream of constructive feedback. It has been a journey for all involved to understand the importance of not only the financial return on the investments based on interest rates, but also the return of impact in the community. Salvador stated:

“We are humbled at the opportunity to continue to manage CIP for CSH, and excited for the potential of CIP [to serve] CSH's 21-state territory. The program has fostered wonderful relationships, which is key to understanding community need and leveraging capital.”

Additional Tools & Templates

Financial Monitoring Templates: Analyses tools or “metrics” to evaluate a potential borrower’s current financial condition and future repayment projections based on cash flow. Examples for [cash flow projection](#) and [financial summaries](#).

Credit Memo [Template](#): Internal document for preparing the narrative rationale for a loan.

Community Investment [Brochure](#): Document that provides information to interested borrowers.

CIP highlights from [Sacramento](#) and [Los Angeles](#), California.

Sources

Bravo, Pablo & Edward Salvador. “Spring 2020 Virtual Convening: Place-based Investing Breakout Session,” Healthcare Anchor Network. June 8-10, 2020.

CommonSpirit Health. “Building healthier communities.” <https://commonspirit.org/a-healthier-future/building-healthier-communities/>

ENDNOTES

- 1 For more information on LOCUS Impact Investing and their Community Investment Guarantee Pool, visit their website here: <https://locusimpactinvesting.org/>

