Key Strategies Employed

- Designate a portion of investable reserves for community investments
- Provide direct loans to local nonprofit and for-profit businesses
- Allocate to financial intermediaries, including community development financial institutions (CDFIs) and other investment managers offering place-based private debt strategies that focus on job creation, financial inclusion, and other social determinants of health (SDOH) for low- and moderate-income (LMI) communities
- Participate in place-based private equity funds addressing affordable housing, economic development, and other SDOH for the benefit of LMI communities
- Leverage investments to preserve existing and create new affordable housing

HEALTHCARE ANCHOR NETWORK

CASE STUDY

Intermountain Healthcare Local Impact Investing

Utah, Idaho, and Nevada

Overview & Background

Based in Salt Lake City, Utah, Intermountain Healthcare is a nonprofit health system with 24 hospitals in Utah, Idaho, and Nevada. Intermountain's local impact investing work is a crucial element of Intermountain's anchor mission strategy to improve health and well-being in local communities by addressing the social determinants of health (SDOH). Through its local impact investing, Intermountain seeks to address the root causes of poor health by investing in upstream, research-based interventions in a way that maximizes social and environmental impact. With the work of this program, Intermountain seeks to set an example of anchor mission strategy for others to emulate. Bert Zimmerli, executive vice president and CFO at Intermountain, highlighted the importance of not defining their impact investing work too narrowly and linking the work with Intermountain's overall mission to "[help] people live the healthiest lives possible."

Nicholas Fritz, the director of local impact investing at Intermountain, emphasized that Intermountain's impact investing work is distinct from their other philanthropy and grant-making initiatives. "It's a different tool in the toolbox," Fritz said. In contrast to their philanthropy and grant-making programs, Intermountain's local impact investing is able to deploy larger amounts of capital per transaction because of the likelihood of return of principal. Similarly, Zimmerli stated, "These are investments, not losses. We're

> *These are investments, not losses. We're investing in the communities we serve . . . doing the right thing often is the best business decision when viewed [in the long-term].*
>
> *— Nicholas Fritz, director of local impact investing at Intermountain*

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In signing the Healthcare Anchor Network's (HAN) Place-based Investment Commitment, Intermountain has committed to allocating up to 2% of their overall investment portfolio to local impact investing. As of 2021, they have deployed $23 million for local impact investing, and around 80% of their investments have been made in affordable housing.

Program Design

Intermountain's local impact investing began in mid-2018 and the work started in earnest in July 2019 when Fritz was hired to lead the program. Internally, there has been enthusiastic buy-in at all levels of the organization. "The number one thing internally [that has enabled the program's success] is the executive buy-in. My first week, I met with the CEO and he made it clear to the rest of the executive leadership team that this is a priority. That, and the buy-in at every level, has paved the way internally," Fritz stated. Zimmerli noted that the Finance and Community Health departments have collaborated closely on the program. "We absolutely have an aligned team on this," he stated.

In all of their work, "additionality" is a key guiding principle: the program strives to work in ways that bring about additional social and environmental outcomes that would not be possible without Intermountain's investment, given that many entities are not able or willing to make similar investments. To meet this objective, the program has used information from the Community Health Needs Assessment (CHNA) to understand community needs.[1]

The program has also done significant work to better understand the community needs in the context of impact investing to determine the focus areas for the program. Fritz spent six months meeting the stakeholders across Utah, which led him to choose affordable housing as the primary focus area for the program. Explosive population growth in the state had driven a large housing gap, and consequently it seemed that affordable housing could be an area in which the program could generate meaningful beneficial impact.

To align with broader economic development efforts, the program also decided to focus on financial wellness, which entails providing low- and medium-income (LMI) individuals and small businesses with the financial resources that they would not otherwise have access to. By supporting small businesses, the program endeavors to create and sustain quality jobs in the communities they serve. Fritz emphasized that income and employment are connected with many other social issues that affect health and well-being, and so by addressing them the program seeks to improve long-term health outcomes.

As of 2021, around 80% of their investments are related to affordable housing, and around 20% support small businesses and behavioral health nonprofits. While they plan to continue to support investments in affordable housing, the program is looking to increase their financial wellness strategy so that it comprises a larger portion of their portfolio. Fritz would also like to further develop investment opportunities targeted at rural communities, given that rural areas constitute a large portion of Utah and the communities Intermountain serves.

Decision-Making Process for Impact Investing

In making investment decisions, Fritz works closely with the Impact Investment Committee (which consists of representatives from the Finance and Community Health departments) and the Local Impact Advisory Council (which consists of the Impact Investment Committee and other community members). The Impact Investment Committee meets monthly to make investment decisions. The Advisory Council meets quarterly to inform general program direction.

For a project to be considered for Intermountain's impact investment program, the investment must be diversified across risk types and geography, and must provide both social return (reflected in measurable impact on community indicators) and financial return. The project must also meet all three of the following investment criteria:

- The project impacts one or more of the CHNA priority areas;
- The investment targets improvements in SDOH (specifically interpersonal violence, food insecurity, utility needs, housing instability, transportation, education, family and social support, income and employment, and health behaviors); and
- The investment works in communities with low employment rates and low-income populations, as well as in Intermountain's Alliance for the Social Determinants of Health project areas.

Investment Methods

Although the program makes both direct and indirect investments, the majority of the investments to date have been through direct lending because of limited options for intermediary investments. Although they will continue with direct lending, over time Intermountain intends to expand their impact investment portfolio with intermediaries such as CDFIs, investment funds, and other investment managers that align with their geographic and impact priorities.

Intermountain has used direct investing for affordable housing. For these investments, the program provides gap financing with less expensive, interest-only or long amortization loans for LMI communities that banks typically are not able or willing to provide.

Intermountain has used indirect lending for financial wellness projects. Indirect investments are made through intermediaries, such as CDFIs, that are aligned with the program's objectives. Intermountain relies on these financial intermediaries to identify investment opportunities and sourcing pipelines; perform appropriate due diligence on opportunities, capital sources, and borrowers; and monitor and report on financial performance and social impact.

The program plans to expand their indirect lending in the financial wellness space by forming partnerships with CDFIs already working in the financial inclusion space. One barrier to forming these partnerships is the limited number of CDFIs in Utah, with only three in the state as of 2021. The program is seeking partners that offer products like mortgages, down payment assistance, and other consumer products that might not otherwise be available to the LMI community.

To date, the impact investing program's primary investment vehicle is low-interest rate lending. In special circumstances, equity investments can be offered through private capital funds which invest in local, private enterprises that address health needs and SDOH for disadvantaged populations in local communities.

To meet the need for patient capital in the community, the majority of investments have a maximum duration of seven years. However, a portion of the impact investing portfolio may be used for longer-term investments where there are compelling cases for social impact.

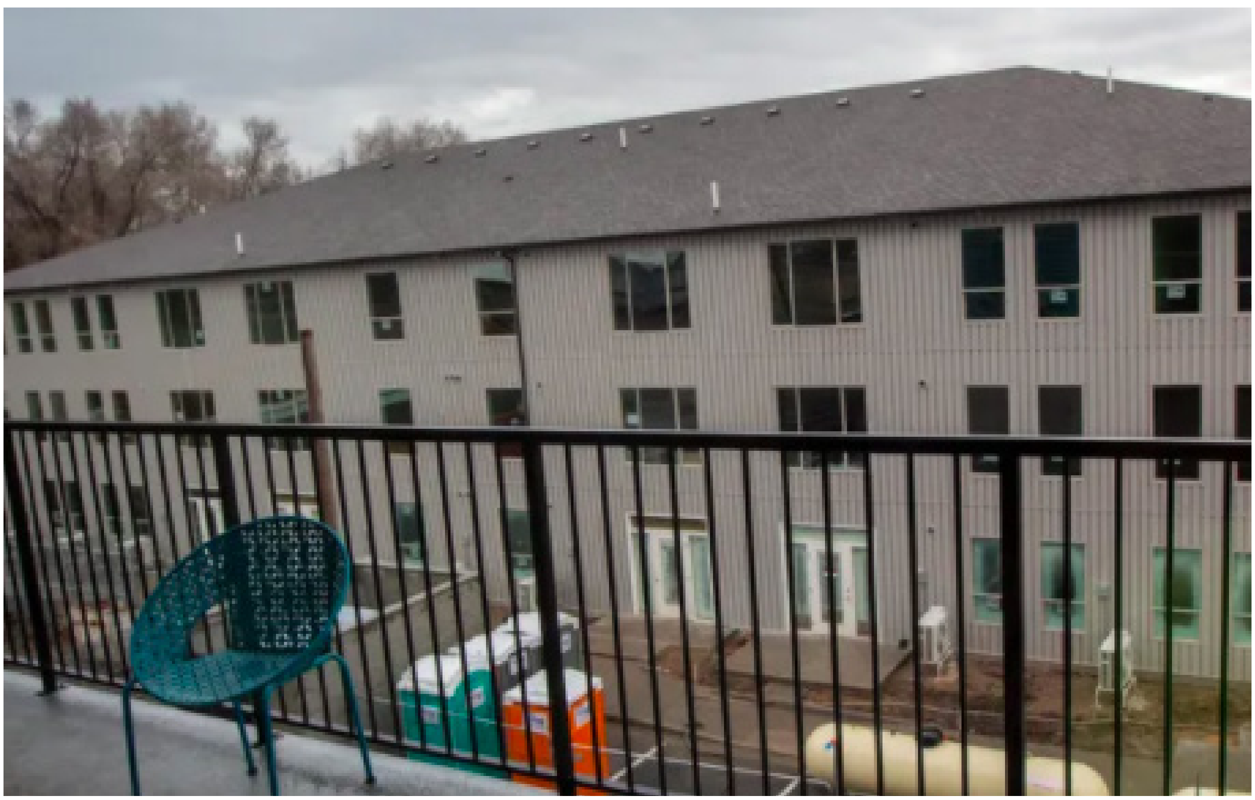
The assets allocated to impact investing target a rate of return of between 2% and 4% in order to preserve the real value of the impact investing portfolio. The return of principal is expected for all investments. The portfolio in aggregate is expected to meet or exceed inflation, as measured by average change over the most recent three years of the blended Consumer Price Index published by the US Bureau of Labor Statistics.

Program Impact

To measure the program's impact, the financial and social performance results of impact investments are measured and reported on annually. Investees are required to submit an annual report containing information on outputs and outcomes. Impact metrics are agreed upon prior to making the investment and are determined on an individual basis with input from the investee. These metrics reflect both Intermountain's priorities and the investee's theory of change, and when possible, align with the Global Impact Investing Initiative's IRIS metric bank. Impact reporting follows the framework developed by the Impact Management Project.[2]

One investment project of the program is the Utah Housing Preservation Fund, which aims to address Utah's housing crisis by spending $100 million to prevent subsidized and naturally occurring affordable housing from being converted to market-rate rentals. The Preservation Fund was created in March 2020 by the Utah Non-Profit Housing Corporation alongside a group of private institutions, which in addition to Intermountain Healthcare include the Clark and Christine Ivory Foundation and Zions Bank. These financial partners provided $20 million in total, $4 million of which was provided by Intermountain. The funds are to be used to purchase properties that are at-risk of being converted to market rate, which the Utah Non-Profit Housing Corporation will continue to operate as affordable properties into perpetuity. Fritz emphasized proudly, "We love [this project] because by their charter, the Utah Non-Profit Housing Corporation is always going to operate these [properties] as affordable, and we have two really experienced financiers of housing as partners." Having partners with a long track record of doing affordable housing financing is particularly appealing to Intermountain because their expertise allows Intermountain to have confidence that their investments will be impactful.

In 2020, the Preservation Fund purchased 23 duplexes, a small apartment building, and a large apartment building (amounting to 278 units in total), which will be rehabbed and rented at a level affordable for people earning 50% of Area Median Income (AMI) on average, with some units being targeted for Housing Choice Voucher holders earning less than 30% AMI. The 23 duplexes were sold by Housing Connect (the housing authority of Salt Lake County), which will use the proceeds from the sale to build more affordable housing. The Preservation Fund intends to measure the success of investments through community health outcomes, which will be measured by a survey of residents being developed by Intermountain with questions about perceived well-being, financial security, and feelings of hope.



An affordable housing building under construction in January 2020 in Salt Lake City that is supported by the Utah Housing Preservation Fund. The three-story building will feature 21 units with three and four bedrooms. Source: Deseret News

PROGRAM IMPACT QUICK NUMBERS

- Commitment to deploy 2% of investable assets to impact investing by 2024
- $23 million deployed for local impact investing as of 2021
- Around 80%, or about $18.4 million, of deployed investments in affordable housing as of 2021
- $4 million deployed with the Utah Housing Preservation Fund as of 2021
- Around 20%, or about $9 million, of deployed investments in financial wellness projects, including small business development, as of 2021
- 491 housing units constructed or preserved as of 2020, 82 of which are located in rural areas, 206 of which are for residents earning below 50% AMI, and 142 of which are for residents earning below 30% AMI
- 103 employees of small businesses supported as of 2020

Staffing & Budget

Fritz was hired as the director of local impact investing in July 2019. In this role, Fritz works collaboratively across departments and with members of the Board, Treasury Services, and community leaders to ensure representation and get diverse input on investment decisions. He also communicates with financial intermediaries and other parties involved in the sourcing and management of the investments. Fritz's full-time role in directing the program has enabled Intermountain to gain important traction in establishing and expanding its local impact investing work.

Lessons Learned & Takeaways

Support from executive leadership has enabled the program's success.

Buy-in from executive leadership, combined with buy-in across the organization, has helped program staff figure out how to successfully implement an impact investing program. Fritz emphasized, "There's no real playbook for place-based investing at health systems . . . and Intermountain had never done anything like this. Staff were engaged in creating a set of guiding principles that set the playing field, [and] then [given] the latitude to set priorities and develop a strategy within those limits. Throughout this process, senior leaders encouraged staff to have a bias for action and to fail forward . . . [T]hat permission is critical to creating something new."

Leverage state resources for mentorship and guidance.

Fritz highlighted that the collaborative nature of Utah played a crucial role in helping the program be successful. Fritz received support from financing experts from across the state, such as Community Reinvestment Act (CRA) officers who provided valuable mentorship and guidance on the program.

Ensure a shared understanding of impact investing, particularly when collaborating with diverse stakeholders.

Managing internal expectations around Intermountain's impact investing work has been a challenge for the program. A major contributing factor is the variety of stakeholder backgrounds (namely finance and community health), and subsequently, different conceptions of what impact investing is, and different prioritizations of financial versus social return. “Everyone has a different concept of what [impact investing] means . . . For it to be an impact investment, it *has* to do both [financial and social impact],” underscored Fritz.

Utilize the SDOH framework to effectively communicate impact investing and generate widespread support for it.

One effective tool that Intermountain has used to communicate impact investing and generate widespread support for it is the SDOH framework. Using this framework reduced internal skepticism around impact investing, and also built a high level of trust from the community.

Establish a guiding framework to ensure the program’s integrity.

Zimmerli emphasized the importance of having guiding principles to refer to and ensure that projects are aligned with, in order to prevent conflicts of interest and harmful rationalizations that could jeopardize the program’s performance and credibility.

Use metrics to ensure program integrity, financial return, and social impact.

Zimmerli underscored the role of using metrics to measure both financial return and social impact in order to ensure the program’s effectiveness in achieving planned financial return and delivering intended benefits to the community.

Work with partners that have subject matter expertise and excellent track records in impact investing.

Working with experienced partners has been an important part of Intermountain’s local impact investing program, particularly because Intermountain is relatively new to the field of impact investing. “As we’re looking for these partnerships, we want to find people who are not only experts in this space, but also have a track record of doing this well,” Fritz emphasized. With the Utah Housing Preservation Fund, Intermountain partnered with financiers and a non-profit developer that specialized in affordable housing and had a history of success in this area. By providing subject matter expertise, these partners gave Intermountain the assurance that their funding would achieve social impact.

Scale up investments by shifting towards indirect lending options.

The program intends to expand its work with CDFIs and other intermediaries in order to scale up their investments. Given the limited number of CDFIs in Utah and the challenge of finding partners that meet their investment thesis and geographic criteria, the program has used direct lending for many of their investments to date. However, this direct lending is very laborious and limits the size of investments that Intermountain can make. This poses a challenge to Intermountain meeting its commitment to deploy the 2% of their overall investment portfolio allocated for place-based investments by 2024. “To meet [this goal], we need to scale up . . . we’re trying to find opportunities to partner with folks where we can do [larger investments], and they can take some of the underwriting and the origination burden off of us,” said Fritz.

ENDNOTES

1 Intermountain's 2019 CHNA reports can be found here: https://intermountainhealthcare.org/about/who-we-are/chna-reports/

2 The topics of the Impact Management Project's framework include what outcomes are experienced, who experiences the outcomes, how much of the outcomes occur, what degree of change stakeholders experience, the contribution that enterprises and investors made to the outcomes, and the risk that the impact will be different than expected. This framework can be found here: https://impactmanagementproject.com/impact-management/impact-management-norms/#anchor2

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Convene powerful organizations across the country when establishing partnerships.

In establishing partnerships, Fritz hopes to further explore Intermountain's role in convening large and powerful organizations, as they did in establishing the Utah Housing Preservation Fund to address Utah's housing crisis. "Our dollars are big enough and our reputation is big enough that we think we can bring people to the table," stated Fritz.

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