FUNDING HOUSING SOLUTIONS TO REDUCE JAIL INCARCERATION

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SAFETY + JUSTICE CHALLENGE
Supported by the John D. and Catherine T. MacArthur Foundation

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This report was created with support from the John D. and Catherine T. MacArthur Foundation as part of the Safety and Justice Challenge, which seeks to reduce over-incarceration by changing the way America thinks about and uses jails. Core to the Challenge is a competition designed to support efforts to improve local criminal justice systems across the country that are working to safely reduce over-reliance on jails, with a particular focus on addressing disproportionate impact on low-income individuals and communities of color.

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Errata

The acknowledgement section of this report was corrected on December 20, 2021. The section mistakenly said that this report was funded by the John D. and Catherine T. MacArthur Foundation as part of the Safety and Justice Challenge Research Consortium. Instead, it is part of the MacArthur Foundation's Safety and Justice Challenge.

Funding Housing Solutions to Reduce Jail Incarceration

As counties across the United States search for ways to reduce the oversized and damaging footprint of our criminal justice system, many are looking upstream—to housing and the evidence that connects it to economic stability and overall well-being. In 2020, the Urban Institute set out to identify local housing programs and policies that had been evaluated for their ability to reduce jail incarceration. We held three private roundtables with practitioners, people with lived experience of jail incarceration, and subject matter experts across housing, behavioral health, and criminal justice sectors to better understand how gaps across service areas and lack of coordination are preventing large-scale systems change. We were specifically interested in learning how existing funding streams limit housing options for people with criminal justice involvement and how the role of impact investing and other financing models could help remove those limits. This report presents the learning from that work and elements of investment-ready housing strategies with the potential to reduce the use of local jails.

Introduction

The barriers to housing faced by people with criminal justice involvement are well documented. People detained or incarcerated, even for short periods of time, may experience job loss or other financial harms that threaten their existing housing. Limited access to housing vouchers, eligibility requirements, discriminatory screening practices, and high housing costs all present challenges for people in finding stable housing. Severe housing instability, in the form of chronic homelessness, can also increase the risk of becoming justice involved owing to the criminalization of many behaviors associated with homelessness, including sleeping, sitting, and asking for money or resources in public spaces (Cho 2004; Ford 2005; Metraux, Roman, and Cho 2007). Nationally, 1 in 4 people (26 percent) experiencing incarceration report periods of homelessness in the year before incarceration.[1]

Existing evidence is less clear on a causal link between other forms of housing instability (beyond homelessness) and jail use, however, increasing housing infrastructure—throughout the continuum of housing in a community—can help reduce the footprint of the criminal justice system. Many of our roundtable attendees argued that both a systemwide approach that increases affordable housing options and work to house people experiencing chronic homelessness are important. Promising housing models exist that demonstrate the ways housing can reduce the footprint of the criminal justice system in the US. Here, we present those housing models, discuss investment vehicles with the potential to fund them, and articulate the ways in which the models specifically address the structural causes of the racially disparate use of jail in the US.

The primary audience for this report is county-level stakeholders who control funding and power over the jail system and are consequently positioned to make structural change. However, our hope is that other audiences, including state housing authorities, investors, and philanthropy, will find the programmatic recommendations helpful and consider the ways in which they can use their spheres of influence to support and fund housing solutions targeted at jail-use reduction.

This report proceeds by first providing a background of the structural relationship between institutional racism, housing instability, and jail use to highlight some of the nuances of the problem at hand. We then provide specifics on the types of populations the proposed housing solutions might benefit, as people with criminal justice involvement are not a monolithic population. Finally, we present the elements of investment-ready housing solutions, discuss ways in which impact investing can help fill gaps in current funding streams for these solutions, and lay out some conditions for success for any solution.

Background

Structural and Institutional Racism Connects Housing and Criminal Justice Challenges

After the Civil War, as a method to uphold an economic system that relied on free labor from those held in bondage, localities implemented policies to criminalize poverty and unemployment. These policies targeted Black people who were systematically excluded from some jobs and housing after emancipation. Southern states enacted Black codes—laws that, among other things, prevented Black people from starting a job without the approval of a previous employer. Vagrancy statutes made it a crime to be unemployed. Convict leasing, the practice of counties and states "leasing" out incarcerated people as free laborers, replaced chattel slavery as the means of rebuilding the South's labor force and reconstructing the South after the damages of the Civil War. Black codes had the impact of forcing many Black people—and Black men specifically—into the criminal justice system. By the 1870s, almost all people under criminal custody of the Southern states—a full 95 percent—were Black (Adamson 1983). Fifteen years after emancipation, Black people were imprisoned at 12 times the rate of white people (Muller 2018).

The Great Migration, Racial Covenants, and Redlining

In the early 20th century, millions of Black people fled the rural South to Northern and Midwestern cities because of heightened acts of racial violence, overcriminalization, and the continual use of the justice system as a tool of racialized control via the Black codes and Jim Crow laws. But in Northern and Midwestern cities, racially and legally restrictive covenants barred Black people from owning or renting homes in specific neighborhoods. By 1919, scholars estimated that 1 million Black people left the South for Northern cities such as New York, Chicago, Philadelphia, and Detroit.[2] For example, within New York City in the early to mid-20th century, Harlem transformed from a predominately white neighborhood to the home of 200,000 new Black residents. Not far away in Levittown, a community in Long Island established in 1947, homes came with racially restrictive covenants prohibiting white homeowners from reselling their homes to Black buyers (New York State Senate 2021).

As more cities grew exponentially, each experienced competition among residents. The influx of new immigrants from Europe competing for the same jobs and housing was used to justify labor and housing discrimination, based partly on the perception of the "criminality" of Black people (Muhammad

2010, 74). In the first half of the 20th century, racial disparities in prison populations roughly doubled in the Northern states most affected by the Great Migration (Muller 2012).

In 1934, the Federal Housing Administration (FHA), created to facilitate homeownership, began to administer redlining, a practice used to deny Black people federally protected mortgages, thus locking them out of the mass pathway to building wealth in the US. Redlining was used to legally divest in predominantly Black areas and sponsor residential segregation by law, and FHA insurance was sometimes tied to barriers between majority white and majority nonwhite neighborhoods.[3] In addition to barring people from specific neighborhoods, redlining also displaced people into underdeveloped neighborhoods with barriers to economic opportunity, resources, and transportation—all ingredients that improve a person's quality of life.

Decades of divestment and exclusionary zoning have stifled affordable housing production. Exclusionary zoning, the practice of prohibiting types of land use such as apartment buildings in any given community, was introduced in the early 20th century to keep people of color out of middle- to upper middle–class neighborhoods. To date, cities and counties, which have administrative levers for creating more affordable housing, have leaned into exclusionary zoning practices. This has suppressed affordable housing production—why we see concentrated poverty in some areas in major cities where predominately people of color also reside.[4] And even when affordable housing is created, public housing and other low-income housing units have historically ended up in distressed and underresourced areas.[5]

Racial Disparities in the 21st Century

Today, the disparate racial outcomes in our housing and criminal justice systems persist. People of color are disproportionately represented among people experiencing unsheltered homelessness and people in jail. According to the Bureau of Justice Statistics, Black people were incarcerated in jails at a rate three times higher than white people (600 versus 184 per 100,000) (Zeng and Minton 2021). Black people also represent 27.1 percent of people who experience unsheltered homelessness, though they represent 13 percent of the US population (Batko et al. 2020).

The COVID-19 pandemic created new risks associated with stays in jail. Close quarters have made social distancing nearly impossible, and jails lacked the personal protective equipment necessary to safeguard detainees. At the peak of the pandemic, prisons and jails represented 44 of the top 50 COVID-19 clusters in the United States (Deitch et al. 2020).

These disproportionate experiences are the result of policies and practices that have reinforced a racial hierarchy.[6] Formerly incarcerated people are 10 times more likely than the general public to become homeless. Further, for every 10,000 formerly incarcerated people, 570 are housing insecure, demonstrating that more needs to be done to leverage community resources for supportive services.[7] Any contact with the criminal justice system puts people at risk of housing instability.

Several Groups Are at Risk for the Justice System–Housing Instability Cycle

People at risk of being caught in a justice system–housing instability cycle are not a homogeneous population. Research shows that several specific, though overlapping, groups routinely face barriers to maintaining housing stability:

- **People experiencing unsheltered homelessness.** The overlap between jail populations and people experiencing homelessness or housing instability is well documented (Cho 2004; Culhane et al. 2007; Ford 2005). Nationally, 26 percent of the people experiencing incarceration report periods of homelessness in the year before incarceration.[8]
- **People with co-occurring disorders in custody or with past criminal justice involvement.** People with serious mental illness and substance use disorders are overrepresented in jails.[9] Even in the wake of jail populations being reduced because of COVID-19, people with serious mental illness and substance use disorders remain in and return to jail at higher rates than others.
- **People who have previously been incarcerated.** People who have been incarcerated more than once are 13 times more likely than the general public to experience homelessness, whereas people who have been incarcerated once are 7 times more likely.
- **People in overpoliced communities.** Research shows that families living in areas with concentrated poverty and patterns of residential segregation are more likely to experience enhanced surveillance and enforcement of minor crimes (Kirk 2008).
- **People facing destabilizing transitions.** Evidence suggests that moments of transition in people's lives—especially traumatic or abrupt transition—present moments of vulnerability (Naccarato and DeLorenzo 2008). Housing-related transitions, such as an eviction, can create a cascading effect that raises barriers to future stability. For this reason, communities have a vested interest in helping people avoid these moments of abrupt transition when possible and

providing services when not.[10] Transition moments can include people recently evicted, people fleeing intimate partner violence, veterans transitioning to civilian life, youth aging out of foster care, and youth expelled from their homes. This latter situation is especially destabilizing for LGBTQI+ youth facing rejection from their families.[11]

This list does not describe discrete siloed groups. All populations described above intersect to a degree. A person with a history of incarceration could have already experienced life in an overpoliced community and faced several destabilizing transitions. Solutions, and the efforts to measure the effectiveness of those solutions, should recognize how two or more of these experiences contribute to a person's risk of being caught in a justice system–housing instability cycle.

Four Elements of Investment-Ready Housing Solutions

This diversity of factors that contribute to housing instability calls for program and policy solutions that can minimize the risk of experiencing the justice system–housing instability cycle. Any effort to improve housing stability and reduce jail use must intentionally align the specific needs of the people being served and the activities pursued. This section presents four elements of investment-ready housing solutions for any county or local community setting out to prioritize housing stability on the path to reducing local jail use.

Both the housing and the criminal justice sectors have a shared interest in keeping people stably housed and out of jail, but the sectors have historically been siloed, lacking shared communication, data, terminology, and funding. Our roundtable participants noted that local siloed agencies and organizations have been unable to create a shared commitment to people with justice-system involvement, partially because experts in each sector have a limited capacity to diagnose needs in the other. Further, these sectors suffer from a wrong-pockets problem: costs that accrue to one sector (e.g., expansion of permanent supportive housing to reduce chronic homelessness) create benefits in the other (e.g., arrests of new permanent supportive housing tenants decrease).

At the local level, it is difficult to convert those societal benefits into cashable savings that could be reinvested into promising programs. If permanent supportive housing reduces arrests, then could criminal justice system savings be used to fund more permanent supportive housing? Not necessarily. Cashable savings are elusive until large amounts of step fixed costs—such as those found when jails close a pod or reduce labor—are realized and can be repurposed. In many places, local government is prohibited from increasing funding outright without a corresponding savings in funds elsewhere. Reinvestment alone cannot expand solutions to housing instability for people with justice involvement, and federal resources for affordable housing have historically been below the actual need. Investors can help fill this gap. Our roundtable participants identified several investment-ready solutions that should guide the use of new resources—public or private.

1. Provide Housing Without (or With Few) Conditions

The Housing First approach is an evidence-based concept grounded in the idea that people need housing before they can begin working on other challenges.[12] Housing is a stabilizing platform that helps people overcome challenges in other aspects of their lives (e.g., substance use disorders, lack of employment). Housing First recognizes this and therefore does not condition housing on the achievement of sobriety, treatment, employment, or other milestones.

Existing evidence shows that the Housing First approach is more effective in keeping people with criminal histories housed than other models that put barriers on housing placement (Malone 2009; Tsai and Rosenheck 2012; Tsemberis 2010) and helps reduce recidivism among people who were previously homeless and currently have a mental illness (Somers et al. 2013). Housing First can be implemented in two ways: rapid rehousing, which puts people into housing with no barriers or intensive care management, or permanent supportive housing, which pairs people with housing and provides intensive care management that supports the whole person and addresses underlying health issues such as mental health and substance use disorders. Permanent supportive housing is best suited for people with co-occurring disorders who are also chronically homeless. The following examples dive deeper into permanent supportive housing (National Alliance 2016).

With affordable housing dwindling, homelessness has increased nationwide. This is particularly true for the city and county of Denver, Colorado, where approximately 1,000 unsheltered people sleep on the street every night. About 300 had mental health and substance use disorders and cycled in and out of the city and county's costly emergency services, including detox centers, hospitals, and the jail. Denver found that it spent about $7.3 million a year serving chronically homeless residents in inpatient facilities and the local jail (Cunningham et al. 2021).

To address homelessness in the region, in 2016, Denver launched its Denver Supportive Housing Social Impact Bond Initiative (Denver SIB). Denver SIB followed a Housing First permanent supportive housing model that aimed to connect chronically homeless individuals with supportive services to treat their underlying health issues, while also trying to reduce jail stays and connect people to housing with no preconditions or barriers. Urban, in collaboration with the Evaluation Center at the University of Colorado Denver, tracked implementation of the Denver SIB and evaluated its effectiveness between 2016 and 2020. The evaluation consisted of 724 people: 363 people in the treatment group, also known as SIB participants (i.e., those randomly referred to the supportive housing program), and 361 people in the control group (i.e., those receiving services as usual in the community) (Cunningham et al. 2021).

The results from the evaluation determined that after three years in a Housing First supportive housing program, 77 percent of participants remained in stable housing. SIB participants experienced a 34 percent reduction in police contacts and 40 percent fewer arrests. Moreover, participants collectively spent less time in jail, with a 30 percent reduction in individuals experiencing a jail stay and a 27 percent reduction in total jail stays. SIB participants also saw a 40 percent reduction in costly emergency department visits (Cunningham et al. 2021).

Denver SIB was paid through a blend of private and public funding. Denver financed $8.6 million upfront from private investors through a social impact bond. Other funding avenues included federal Medicaid resources, which paid for supportive services, and federal low-income housing tax credits, which paid for new construction of supportive housing. This structure allowed Denver to shift the financial risk to investors and pay them back only if the program achieved positive outcomes; it also allowed return on investment if certain outcomes were achieved. The average annual cost per SIB participant through two supportive housing service providers was $12,078 and $15,484, with costs spread across multiple levels of government. Approximately half ($6,876) of costs was offset by reductions in the costs of other public services, including $2,386 in fewer jail days. Among the government funding sources, Denver avoided the most costs ($3,733 per person annually) in shelter, jail, courts, police, and public safety, offsetting 75 percent of its investment. The federal government avoided $2,196 in emergency health care use billed to Medicaid, and the State of Colorado avoided $947 in prison days and housing assistance provided outside the Denver SIB program (Gillespie et al. 2021).

Though Housing First, the approach used in Denver's efforts, is associated with improved housing stability and reduced jail stays for people experiencing chronic homelessness, rapid rehousing, which offers low-barrier housing, may also be appropriate for people experiencing less severe housing instability. Roundtable attendees emphasized that community housing programs should house with as few conditions as possible.

2. Support the Whole Person to Achieve Housing Stability

Housing stability is not just about housing. As the Denver example above illustrates, supportive services linked to housing can help improve outcomes for people with mental health and substance use disorders, both of which can contribute to and be exacerbated by jail stays. Each year 2 million people with mental illness are booked into jails. Of those 2 million, 75 percent have substance use disorders.[13] In many cases, people receive their first mental illness diagnosis in a correctional facility (Kaba et al. 2015). Jails should not be substitutes for robust community-based behavioral health services. Instead, counties can shift resources to create housing solutions that provide holistic approaches and services to address underlying challenges such as mental illness and homelessness. Our roundtable participants emphasized that supporting the whole person and recognizing that needs change over time is essential to best position people for better outcomes and stability.

For example, McLean County, Illinois, has advanced practices in data, diversion, and enhancing community-based services for people with mental illnesses at risk of being arrested or jailed. In 2015, McLean County began to map out the gaps in their behavioral health service delivery and identified opportunities to innovate solutions through their Mental Health Action Plan. The action plan, a collective effort by stakeholders in criminal justice, behavioral health, and human service, was inspired by reducing the prevalence of people with mental illness in the county jail (McLean County 2015).

McLean County implemented a FUSE, or frequent user system engagement, model to best serve their hard-to-reach residents who experience chronic homelessness and have mental health disorders. The county partnered with the Corporation for Supportive Housing and the University of Chicago to create a data tool that identifies people who frequently interact with the criminal justice and homeless systems. After the county identifies people who qualify for FUSE, outreach specialists contact them to build trust and engage them into housing and services. Together, county agencies help frequent users gain a pathway to a functional quality of life before their problems become more severe.[14]

In Montgomery County, Pennsylvania, county government uses the state's HealthChoices Behavioral Health Housing Re-Investment Capital Funds Program to fund new affordable housing units for people with mental health issues. Housing Re-Investment is a program in which the state administers capitated funding to counties to support behavioral health programming and services. When the cost of behavioral health services is less than the capitated amount for the year, the additional money goes to funding new permanent supportive housing units for households whose income is at or below 20 percent of the area median income.

3. Fund Multiple Pathways to Promote Housing Stability

Just as there is no single cause of housing instability, there is no single housing solution that can meet all residents' needs. Counties should pair structured, clearly defined programs, such as permanent supportive housing, with flexible funds that can be used to solve a wider variety of challenges.

Flexible funding can empower providers to give funds needed to keep people housed. The Connecticut Coalition to End Homelessness uses a blended pool of state and philanthropic money to help cover rent, security deposits, and other costs for people at risk of homelessness.[15] Leveraging flexible funding can ensure that a person facing eviction or inability to pay rent has the best chance to stay sheltered.

Flexible funding can also be a tool to help people with a history of criminal justice involvement overcome stigma. Our roundtable participants highlighted that landlords are often reluctant to rent to people with criminal records because they fear challenges such as inability to pay rent in a timely manner, crime, and damage to their property (Clark 2007).

Mitigating the stigma against people with justice involvement is a crucial step and can be done by financially protecting landlords and potential tenants alike.

Landlords hesitant to house people with criminal records can be incentivized with safeguards to ensure they receive payment from tenants struggling to pay rent and they optimize the current housing supply. Alaska offers tenant-based rental assistance for people returning to the community and prioritizes rental assistance for people on probation and parole.[16] Alameda County, California, created a landlord incentive program to respond to the growing number of people experiencing homelessness in the region. During the COVID-19 pandemic the county has experienced an increase in empty rental units. As a response, the county created the program to support landlords by filling empty units with people experiencing homelessness. The county has partnered with a local nonprofit to offer incentives that include a risk mitigation fund and a single point of contact for property owners experiencing tenant issues.[17]

In tighter housing markets, counties can look for ways to reinvest existing criminal justice system resources to create more housing, additional community services, or both. Because of recent racial justice movements and calls to defund the police, some counties have responded by reevaluating their local budgets. The Cook County, Illinois, board passed a resolution in the summer of 2020 to decrease its jail budget and invest in more community services, with a $25.9 million reduction in the sheriff's office budget. Cook County has directed approximately $20 million of those funds toward creating reentry services over the course of two years and another tranche of $20 million to fund economic development and housing assistance.[18]

4. Plan for Release before Release

Deflection from the criminal justice system should be the guiding principle for local policymakers, however, no community has eliminated the use of jails. The millions of people released from jail every year, many more than once, face unique challenges and require supports that promote housing stability upon release (Jannetta, Dodd, and Elderbroom 2011).[19] Landlords and property owners discriminate against applicants who were formerly incarcerated.[20] Public housing authorities may temporarily or permanently exclude people with some types of criminal histories, using their broad discretion when crafting screening and eviction policies (Walsh 2018). Where deflection and diversion are not successful, counties and local criminal justice and housing actors can embed housing planning at intake or other points before release for those with the highest needs.

In 2019, Pima County, Arizona, established a partnership between its Criminal Justice Reform Unit and a community-based housing provider, Old Pueblo Community Services (OPCS). Through this collaboration, OPCS worked closely with the Pima County criminal justice sector during the jail intake process to identify people at risk of experiencing housing instability and connect them with Housing First options. OPCS embedded a criminal justice advocate at jail discharge to help program participants navigate the justice system and keep court dates, parole hearings, and appointments with defenders. Advocates also coordinate an outreach specialist who assists with case management and finding long-term housing solutions.

With a goal of providing vouchers to 150 clients, in its first year, Pima County successfully served 30 people who had been identified as homeless, diagnosed with a mental health or substance use condition, and booked into the Pima County Adult Detention Center at least twice in the previous 12 months. Four people were able to move out of OPCS housing options and into new apartments on their own. Fourteen others moved into new apartments after receiving vouchers from the City of Tucson. To maximize the number of people kept out of jail, the county also has OPCS staff working with adult probation, public defense services, and pretrial services.[21]

In Durham County, North Carolina, through a program called Coming Home, the county works with local landlords and the Durham Housing Authority to assist people who have behavioral health and mental health needs, are involved with the justice system, and are homeless or unsheltered in finding living space and signing their own lease for permanent long-term housing. In its first year (July 2019 through June 2020), 80 percent of people housed in the first 6 months of the program were stably housed at the 12-month mark. Further, the program appears to have contributed to reduced arrests among participants. Before enrolling in Coming Home, one program cohort had a collective total of 85 arrests in the 60 months before program entry. After enrolling, the same cohort had 3 arrests.[22]

Housing supports in a jail setting can provide an additional opportunity to identify people at risk of experiencing homelessness or housing instability and pair them with resources to help them secure stable housing.[23] However, even with robust housing navigation programming, systemic challenges persist. Limited housing supply can inhibit the effectiveness of advocate and navigator programs. Jail stays are often long enough to disrupt housing and employment but too short to coordinate housing supports (e.g., two to five days). This is particularly the case for people jailed for the low-level charges prevalent among those experiencing housing instability, though some efforts to identify frequent users with data and to dedicate staff for discharge service connection have been able to coordinate housing supports (Jannetta and Reginal 2021). Jail-community collaboration can improve the resiliency of service delivery despite the unpredictability of jail releases, but jail-based housing planning is not enough on its own to support housing stability.

Impact Investing to Fund Housing Solutions

A Focus on Funding Strategies

Pandemic response has unlocked flexible funding and forced the criminal justice system to come up with creative solutions and alternatives to jail, including long-term and extended stays in hotels, and to more efficiently and equitably utilize public funding. For counties, investing in housing solutions–and the support services that help promote housing stability–creates the potential for downstream funding to be reallocated in ways that better meet health care needs and build community well-being.

The 2020 police killings of George Floyd and Breonna Taylor sparked increased public scrutiny of racist police brutality and the large proportion of local government budgets–including county budgets–devoted to law enforcement and jails. Local governments spend $25 billion annually to operate 3,000 jails nationwide. Since 2011, jail budgets have increased 13 percent accounting for inflation, however, jail populations have declined by 28 percent. Despite the decrease in population, jail spending has increased because jails have not downsized their workforce, which accounts for 73 percent of its budget. A recent Vera Institute study on jail budgets found that if jails rightsized their workforce, they could save $2.2 billion annually and dedicate that money to much-needed community-based services.[24] Further, the pandemic created shortfalls in state and local budgets, amplifying pressures to justify high spending on jails and public safety.

Jails are also costly because they have become the de facto primary provider of behavioral and mental health services in many counties (Huh et al. 2018). Counties and other local entities bear the financial responsibility for supporting the cost of health care for those held in local jails. Understanding the financial implications for local government can help drive priorities to best support this complex population.

Advantages to Impact Investing

To date, housing as jail diversion has attracted limited attention and investment. This is caused partly by the siloed nature of existing traditional funding streams and the inherent risks of experimental and innovative solutions. Strained state and local budgets present another significant barrier to addressing housing as jail diversion entirely within the traditional funding paradigm. However, the pandemic-spurred urgency to reduce jail populations, new federal funding streams, and continued growth and maturity in the innovative funding marketplace have created an opportunity to invest in solutions.

Impact investments—those "made with the intention to generate a positive, measurable social and environmental impact alongside a financial return"—can help advance solutions, particularly when strategically paired with other funding streams that unlock their potential and complement their focus.[25] Impact investments (and investors) exist along a spectrum, with some focusing primarily on impact, while others focus primarily on return and still others somewhere in between.

Impact investors can bring new resources to bear, particularly financing for innovative programs that test new approaches and work across sectors and partners. Impact investing dollars have several benefits: they can be deployed quickly, they can enable implementation flexibility, and they can be conducive to real-time learning, facilitating the rapid scaling of promising solutions. Complemented by public and philanthropic funding streams, impact investments can focus on addressing gaps less suited to traditional funding programs but critical to advancing housing as jail diversion.

While few impact investments currently focus explicitly on homelessness or housing as jail diversion (with the exception of those like the Denver SIB), impact investors fund numerous projects addressing affordable housing more broadly.[26] This interest is attributable to the large size and stability of demand, a mature housing finance market, the ability to easily track and report impact-related outputs, and sufficient potential for revenue driven primarily by public programs and tax credits (e.g., the Low Income Housing Tax Credit). In short, affordable housing impact investments offer a compelling risk-adjusted return.

Beyond the established investment market for affordable housing, impact capital can be leveraged for housing stability solutions through a variety of mechanisms:

- **Outcomes-based contracts**, such as pay for success models, link improvements in individual-level outcomes with investor repayment. This requires an end payer, such as government, that wants to transfer risk to an investor and is willing to pay a premium for positive outcomes.[27]
- **Bonds**, such as Atlanta's $26 million Homeless Opportunity Bond, issued by governments or quasi-government entities such as development authorities to fund capital investments (e.g., acquiring or building housing units), can offer modest but low-risk returns that fund housing solutions.[28]

- **Blended property funds** can use impact capital to acquire and refurbish properties then lease the properties to service providers, who will then lease units to clients for rent subsidized by government. The Women in Safe Homes Fund (UK) is an illustrative example. The world's first gender-lens property fund is a 10-year fund with a targeted annualized return of 5 to 7 percent.[29]
- **Debt or equity investments** in social enterprises can provide jobs or services for people experiencing homelessness, involved with the justice system, or at risk of either. Social enterprises can help stabilize the population while generating revenue.
- **Investment through community development financial institutions, or CDFIs,** provides risk-tolerant loans to underserved or traditionally excluded borrowers. These loans can help borrowers purchase housing or manage shocks that could otherwise drive people into homelessness (e.g., medical debt).

Two main interrelated barriers prevent the flow of impact capital for housing as jail diversion. First, unlike grants, impact investments require a revenue stream to repay their investors. As their definition alludes, impact investments seek both a return and social or environmental impact. This revenue usually comes entirely through either organic income (e.g., selling an environmentally friendly product to consumers) or organic income subsidized by public policies that incentivize investments with positive societal externalities (e.g., tax credits). The second challenge is that projects serving high-needs populations, such as people experiencing chronic homelessness, and interventions that have limited evidence, including some proposed for housing as jail diversion, are higher risk.

The key concept is not necessarily the level of risk or the level of potential income but rather the relation between the two. Investors will seek projects with a compelling risk-return profile. Projects with high risk and low return potential are unlikely to attract investors, while projects that have higher risk but also higher potential returns may.

When we keep risk-return profile in mind, we see essentially three categories of projects in relation to impact investing:

1. Projects that are not appropriate for impact investing (e.g., projects that have little to no revenue potential or have more appropriate funding sources already identified)
2. Projects that are strong candidates for impact investing (i.e., projects with sufficient potential revenue to attract investors and a clear need for impact capital)

3. Projects that could be candidates for impact investing but do not currently offer sufficient risk-adjusted returns to attract investors

This last type presents opportunities for the strategic use of catalytic capital to make projects financially feasible, therefore unlocking impact investment. Catalytic capital—capital that is patient, risk tolerant, concessionary, and flexible—can leverage significant sums of impact capital by improving risk-adjusted returns for impact investors, thereby enabling projects. This capital is *catalytic* because it unlocks impact and investment that otherwise would not be possible.[30]

Strategic Opportunities for Catalytic Capital

Public and philanthropic providers of catalytic capital can partner with local governments to unlock impact investments and enable housing solutions as jail diversion in several ways:

- **as concessionary investors,** accepting below-market returns to crowd in private capital or to ensure a rigorous evaluation of impact
- **as providers of recoverable grants** for predevelopment activities to increase the pipeline of bankable projects or to defray some startup costs associated with new projects
- **as providers of guarantees** to attract other investors by reducing risk
- **as funders of pilots** to build evidence and provide test cases of innovative solutions

When considering the use of impact investing as a funding solution for housing as jail diversion interventions, counties and their partners, including communities and philanthropies, should keep four principles in mind:

- **Start with the population, need, and intervention, not the funding model.** Too often, funding models (especially innovative ones) are identified, then places design projects around them. To ensure energy is directed toward addressing the greatest needs, counties should start by examining local data to determine the highest priority and then identify an appropriate, evidence-based intervention.
- **Carefully weigh all funding options.** Once needs and interventions are identified with data, multiple funding options, which may or may not include impact investing, could emerge. Just because impact investing is a potentially appropriate model for a specific intervention may not mean it is the most appropriate or cost-effective solution for government or society. The cost of

impact investing capital may be more expensive for investees than direct grants, although several trade-offs (e.g., speed, efficiency, availability, flexibility) need to be considered.

- **Remember that impact investments need a feasible financial model.** Impact investments need to offer a reasonable risk-adjusted return to entice investors. Projects with high risks and little to no revenue potential are not good candidates. While catalytic capital can unlock impact capital by helping alleviate risk from investments, thus making them attractive to impact investors, projects with little to no revenue potential are unlikely to be attractive to most impact investors, even with limited risk.
- **Consider the best use of catalytic capital.** Catalytic capital is a scarce resource and should be deployed strategically. Partners should carefully consider the potential leverage ratio of catalytic capital to determine best use. For instance, is catalytic capital critical to leveraging a large amount of needed private investment? Is it driving a deeper focus on impact by enabling a project to reach a riskier, higher-need population? Is it encouraging innovation? Is it ensuring strong impact evaluation?

Neither philanthropy nor the private sector can or should replace governments as end payers for critical services. Public funding streams will remain central in addressing many components of housing as jail diversion (as well as other up- and downstream services), however, impact investing may bridge gaps by tapping new funding that is faster, more flexible, and potentially more conducive to testing and scaling innovative solutions. Catalytic capital can unlock and direct these impact investments by helping mitigate risk, thereby crowding in capital for worthwhile projects.

Conditions for Success

Roundtable participants emphasized that disconnect persists between the housing and criminal justice sectors. In particular, the housing sector fails to understand the heterogeneity of the population experiencing chronic homelessness and perceives people with justice involvement as high risk. The justice system fails to recognize its role in creating housing instability. Stigma from both sectors creates unnecessary barriers to needed supports.

When asked to reflect on solutions, participants from both sectors recognized that we should seek opportunities to collaborate, expand funding, pinpoint areas for deflection and diversion, and make programs that serve people at risk of entering or leaving the criminal justice system effective, sustainable, and accessible.

Unified systems of care and housing can either deflect or prevent people from cycling through or entering the criminal justice system altogether. Doing so requires coordination across partners (probation, parole, local police, court systems and jails, housing agencies, homeless assistance providers, and health care providers) and data systems. In practice, this could involve taking a variety of actions:

- **Connect siloed justice and housing data to better understand the drivers of jail populations and to match the right person to the right resources.** Providers should rely on multiple systems (e.g., homeless management information systems and data systems from jails, behavioral health providers, the Veterans Administration, and hospitals) to identify people at risk of housing insecurity or homelessness and link people already involved in the justice system to more supportive services. Strong local collaborations between local justice and housing stakeholders can help facilitate this silo busting and shed light on new populations in need of support.
- **Create partnerships between service providers and law enforcement to shift response from policing homelessness to preventing homelessness.** Alternative crisis response strategies can include responses that do not involve police at all, co-responder models that pair police with social workers or other clinical professionals, and specialized police units that respond to people experiencing homelessness. If implemented well, these practices can help communities manage homelessness without arresting people or punishing them for being forced to sleep outside.
- **Develop and expand prearrest and prebooking diversion programs,** using decentralized, cross-functional teams to coordinate behavioral health assessments and connections to community-based systems of care, for people whose justice system involvement is driven by unmet behavioral health needs, in coordination with law enforcement and community providers.
- **Invest in a variety of tools and housing options** because solutions depend on the community and each person's specific needs. The housing and criminal justice sectors should acknowledge that people leaving jail might require housing with specific services or flexibilities that put them on the best course for reentry to society. Communities need a range of housing options so that people can be connected to housing that meets their needs and scarce housing resources can be targeted efficiently.
- **Allocate resources intentionally to address structural issues and past harm.** Communities dealing with limited housing supply and resources such as vouchers and emergency rental

assistance should prioritize those with the highest needs and those most affected by structural racism and local policies that perpetuate inequities. Intentional allocation will require that communities have local data disaggregated by race and ethnicity and institutionalized processes for prioritization.

Conclusion

The justice and housing sectors continue to engage with how best to serve people who are homeless and housing unstable, but the status quo is uncoordinated and therefore ineffective. This perpetuates the link between housing instability and jail use and sustains the harms that accrue from police contact and jail incarceration. Actionable strategies are needed to improve coordination across the sectors, increase housing options at the point of diversion and reentry, and leverage the investments to make this happen. Counties and cities can help the housing and justice sectors to help people avoid justice system involvement in the first place, improve reintegration, and target resources toward housing stability.

The COVID-19 pandemic has inspired people to ask, what if the criminal justice system prioritized the health and safety of people detained in jails and strove to reduce the nation's reliance on jails? Examples in this report from places including Illinois, Pennsylvania, and Arizona illustrate that models around the country have been grounded in a vision of a more coordinated approach and are delivering on that aspiration. Counties operate most local jails, therefore, counties are well positioned to lead the charge for systematic jail-use reform. From the housing side, though counties do not operate all resources along the continuum, they can find ways to leverage their own existing resources and federal resources (including rental assistance from stimulus bills), partner with community-based organizations to deliver services, and gather strategic investment from philanthropy and other funders who can invest in the infrastructure needed to reduce housing instability.

Notes

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More information is available at **www.SafetyandJusticeChallenge.org.**

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