

HOUSING, OPPORTUNITY, MOBILITY, AND EQUITY ACT OF 2018 (HOME ACT)

American Housing and Economic Mobility Act

S.3342 Full Bill Text

First proposed - August 1, 2018

DATA FOR **PROGRESS**

Data for Progress is keeping a running tab of housing policy proposals for announced or likely 2020 Presidential contenders. This is not a horse race, process-story exercise - we'll be providing play-by-play policy analysis, ideological context, and suggestions to improve candidates' policies, to help both campaigns and voters get to the best American housing policy.

We will roll out analyses in order of when the candidates announce and as they provide more detailed proposals, beginning with Elizabeth Warren's housing policy. During the early stages of the race, before the candidates have shared policy proposals from their official presidential campaigns, we will analyze high profile housing legislation from the candidates.

OVERVIEW

Booker's bill is best viewed as a hybrid between Warren's and Harris's. Like Warren, it attempts to combat local restrictive zoning measures. Like Harris's, it calls for federal rental assistance through tax credits. It stands out from both with a unique addition intended to improve renters' ability to build savings.

Key Points:

- ▶ **Creates a tax credit for every renter paying over 30% of their gross income in rent.**
 - ▶ The maximum payout of the credit is the difference between 30% of income and average Fair Market Rent (FMR) for the area. If somebody is paying over Fair Market Rent, the credit is capped at the gap between 30% of their income and FMR.
- ▶ **Requires municipalities receiving Community Development Block Grants (CDBG) to report efforts that relax restrictive zoning laws** with a goal of getting every city to have 20% of housing stock be considered affordable housing
- ▶ **Allows eligible renters to defer 20% of received tax credit into a savings fund managed by HUD** by setting up a "Rainy Day Fund"

WHAT IT REVEALS ABOUT BOOKER

As a former mayor of Newark, New Jersey, Booker is perhaps the most qualified candidate to speak about housing, but this bill speaks to his strengths and weaknesses as a legislator. The strengths are apparent in how this bill recognizes three core crises facing poor renters that need national attention: They pay too much of their income to housing, they have no ability to build savings, and they don't have access to many communities that restrict affordable housing construction. The weaknesses are apparent in the bill's follow-through, which gives few details about how this policy would actually work. Booker is a gifted communicator in general with some good ideas on housing specifically, but he does not have a strong record of legislative achievement as a senator and has been guilty of making grand pronouncements without following up on solid policy details as mayor.¹

WHAT'S GOOD:

- ▶ **Brings immediate relief to all renters paying more than 30% of income to rent.** This bill would immediately impact the lives of millions of renters, regardless of their individual income level. Direct rental assistance is the fastest way to bring relief from the housing crisis and it has the added benefit of being politically popular because of its reach and immediacy.
- ▶ **Rewards municipalities that receive CDBGs with more incentives for relaxing strict zoning practices.** Like Warren's bill, this bill correctly identifies restrictive zoning as a major problem in

the housing crisis. It outlines a number of very clear and very positive steps that cities and towns can take to qualify for additional funding that would create more housing, with a goal of 20% being affordable. In the long-run, more housing options give tenants more power to walk-away from badly performing landlords.

- ▶ **Forces municipalities to report on their zoning practices even if they don't change them.** By injecting more transparency into how local cities and towns handle zoning, this bill would bring greater national attention to how impactful zoning is on the housing crisis. This may not change a city's behavior right away, but it changes the conversation for the public by connecting the dots.
- ▶ **Creates opportunity to defer up to 20% of the tax credit into savings accounts.** This is where Booker's bill differs from Harris and Warren the most. In addition to providing direct rental assistance, it also creates a "Rainy Day Fund" which is a voluntary program to put some of the tax credit into a savings account managed by the Treasury Department. This is a rare opportunity for low-income households to have a simple path to building short-term savings.
- ▶ **Connects dots between high rents and short supply.** Unlike Harris's bill, which only addresses rental assistance, Booker's includes reforms intended to build more housing. This is a critical connection as far as policy goes, but a particularly important one politically. Even within the Democratic Party, there has been historical resistance to directly assisting renters, so tying a large plan like Booker's to market-based solutions to increase the housing supply will help sell the plan

to skeptical elements within the party and expand the national conversation to include more supply along with more relief.

- ▶ **Creates a universal program for all cost-burdened renters.** Unlike Harris's means-tested program (where higher-income renters get less help than lower-income renters), Booker's bill applies equally to all tenants burdened by rent. This likely increases the cross-cutting political appeal of the program and makes it more durable over the long-term (with universal programs historically proving more enduring and resistant to attack than means-tested ones).

WHAT NEEDS WORK:

- ▶ **No cost estimate or funding source.** It's not unusual or fatal to leave out funding sources in a bill proposal and increasingly there are strong arguments against outlining these types of details within the Democratic Party when setting the policy agenda (considering Republicans never do, and never pay a political cost for it). However, a large scale national rental assistance program will cost a lot of money. Given that Warren has included both in her bill, this puts the pressure on other candidates, Booker especially given his mixed-bag record, to show that they are equally as serious about their proposals.
- ▶ **Doesn't challenge the flawed 30% income-to-rent ratio that currently defines cost burden.** Both Booker's and Harris's bill reply on this concept, which has been the foundation of federal housing assistance for 50 years.² However, it is essentially arbitrary and doesn't factor in key indicators such as neighborhood

conditions, trade-offs within household incomes, and the labor market.³ Think of two households earning the same income, both paying 40% on rent. If one is a family with three kids and one is a single adult, are they equally burdened? If both choose to pay higher rents by living closer to a job center, they may be saving money on transportation costs and have better job prospects (and higher income). None of these are factored into the ratio, which means this bill may not provide meaningful relief to households that need it the most, while potentially providing relief for households that need it less. A new standard is necessary to avoid this.

- ▶ **Uses the Fair Market Rent standard that doesn't reflect disparities within cities.** HUD calculates Fair Market Rent at a regional level, which masks major differences and inequalities within parts of cities (ex: the FMR for NYC-Metro for a 1-bedroom is \$1559, but the average 1-bedroom in Manhattan is \$3,757).⁴ In 2016, HUD adopted Small Area FMR measurements that set standards to address this by zip code. It would only make sense to include Small Area FMR in any rental assistance program to make sure it is reaching rent-burdened households where they are most impacted.
- ▶ **Helps renters in expensive cities more than other geographies.** Though the bill broadly covers the difference between the 30% income ratio of a household and the Fair Market Rent of the area, it is undeniable that households living in more expensive cities will get more proportional benefits than households in less expensive cities or towns. If the intention is to encourage mobility to these economically growing cities (it is in the title of the bill), then this has to be

a clear part of the messaging, which is not the case currently. Either way, this difference could fuel already potent regional resentments that undermine its political appeal as a national program.

- ▶ **The CDBG incentives might not be strong enough to change a city's behavior.** Booker has already been clear that this carrot doesn't have much of a stick.⁴ If this was just a symbolic gesture to raise awareness of restrictive zoning, it represents a missed opportunity to think creatively about applying real pressure. Tying zoning reforms to transportation funding, like Gavin Newsom is proposing in California, could give this effort more teeth.⁵
- ▶ One annual tax rebate does not align with how tenants pay rent. Because rent is paid monthly, and because cost-burdened renters often have other pressing financial needs, a single annual tax refund will likely go to a number of expenses unrelated to rent and could leave tenants struggling to make rent most months. The bill's intention here might not be to help pay rent, but it may be better targeted if it builds up a reserve specifically for future rent.
- ▶ **It's unclear where the 20% cap on deferred savings came from.** It's certainly true that other federal tax programs encourage savings, but this number warrants explanation from the Booker team. Asking stressed households to defer some of their money into a savings account may be a good idea, but it also could come off as paternalistic if there isn't a clear rationale for the target or readily available evidence that a large number of households would be able to participate.

WHAT WE WOULD ADD:

- ▶ **Index rent burdens to household makeup and local conditions.** Replacing the broad 30% income-to-rent ratio standard with a more targeted standard that factors in the housing and labor conditions of specific regions along with writing formulas accounting for household makeup will mean this subsidy reaches more low-income households, particularly families, in a wider geographical range.
- ▶ **Tie rental assistance to rent stabilization policies.** The tax credit keeps this money out of landlord's pockets directly, but there are obvious risks that this would inflate rents across the country. Tying rental assistance to cities that adopt strong rent control measures would be a clear way to prevent this.
- ▶ **Adopt Small Area Fair Market Rate standard.** Using this standard would help rent-burdened households in

extremely expensive neighborhoods, which goes along with much of HUD's mission to move low-income tenants into "Opportunity Neighborhoods" that typically have better services and job opportunities. However, it would be wise to include language that sets the FMR as the baseline in any instances where households are located in zip codes that would have lower Small Area FMRs than the broader FMR.

- ▶ **Major investment in affordable home options outside the private market, be that public housing or public-private social housing, or ideally both.** This suggestion applies equally to Booker's plan as Harris's, and to some degree to Warren's as well. Much like abolishing apartment bans, creating housing options fully outside the capitalist market gives tenants more power to walk out on a landlord, which in turn makes that landlord less likely to hike rent to juice profits from the tax credit policy.

Endnotes

¹ Dale Russakoff, *The Prize*. 2015

² U.S. Department of Housing & Urban Development. PD&R Edge, "Rental Burdens: Rethinking Affordability Measures," accessed 02/04/2019

³ Eric S. Belsky, Jack Goodman, and Rachel Drew. "Measuring the Nation's Rental Housing Affordability Problems." Joint Center for Housing Studies, Harvard University, accessed 02/04/2019

⁴ Richard Kahlenberg, "Taking on Class and Racial Discrimination in Housing," *The American Prospect*, 08/02/2018

⁵ Henry Kraemer, "What Democratic Presidential Candidates Can Learn From Gavin Newsom's Housing Hardball," *Data for Progress*, 01/29/19