KAMALA HARRIS'S HOUSING POLICY

Rent Relief Act

S.3250 Full Bill Text

First proposed - July, 2018

DATA FOR ***PROGRESS***

Data for Progress is keeping a running tab of housing policy proposals for announced or likely 2020 Presidential contenders. This play-by-play policy analysis, ideological context, and suggestions to improve candidates' policies are intended to help both campaigns and voters get to the best American housing policy.

OVERVIEW

Harris's bill focuses exclusively on easing rent burdens by allowing taxpayers who make less than $100,000 per year (or $125,000 in high-cost areas) to claim a refundable tax credit for the rent and utilities they pay over 30% of their income. The proposal would allow individuals living in government-subsidized housing (including public housing) to receive the tax benefit as well.

Key Points:

- Gives a **refundable tax credit to recoup rent costs** (including utilities) **above 30% of gross income** for people making under $100,000 annually (or $125,000 in high-cost areas).
  - **The tax credit is more generous for people making less money**
    - 100% of excess rent costs for people making under $25k
    - 75% of excess rent costs for people making $25k-$50k
    - 50% of excess rent costs for people making $50k-$75k
    - 25% excess rent costs for people making $75k-$100k

  The cap for this level rises to $125k in high-cost areas (as set by HUD)

  The tax credit is only for people living in housing that costs less than 150% of Fair Market Rent (HUD supplemental standards based on individual metro area averages)

WHAT IT REVEALS ABOUT HARRIS:

This proposal reflects Harris's background as a California politician hesitant to tackle the state's treacherous housing politics and her campaign's focus on redistributive cash transfers as a salve for the worst ravages of capitalism.

California housing is defined by its multi-million unit home shortage and runaway rents, and by its stubborn resistance to change.[1,2] Incumbent landlords and affluent homeowners constantly block movement to build more homes and real estate interests smother rent control efforts under mountains of cash.[3,4] Housing tensions regularly divide the left.[5] That Harris's proposal ignores the main drivers of the problem in California suggests a fundamental skittishness about transformative change. It also fits her larger economic vision, which keeps the fundamentals of capitalism in place while pulling people back from the edge of poverty and lifting them into a higher standard of living through infusions of cash to meet their basic needs (similar to the LIFT Act, which currently serves as the centerpiece of her campaign).

WHAT'S GOOD:

- **Harris merits kudos for being the first potential 2020 candidate to put out a housing proposal**, which may have helped prompt her colleagues/competitors to do the same.
- **Provides direct relief relief to cost-burdened renters**, which would make a meaningful impact in the lives of millions of Americans struggling to make rent.
- **Likely politically easier to enact than more systemic solutions** and may be more durable to boot, since taking away direct financial benefits from voters is a quick path to bitter backlash.
- **By using the tax code, the plan can be administered simply and quickly.** Reforms that more fundamentally change the housing system would take longer to enact and would more significantly depend on a sound bureaucracy.

WHAT NEEDS WORK:

- **An annual tax refund poorly aligns with monthly rent obligations.** By making the subsidy a refundable tax credit, renters would get the credit in one lump sum after tax filing. Since rent is paid monthly, an annual tax refund creates a potentially perilous disconnect for beneficiaries – save your refund and dole it out bit-by-bit every month (often tremendously difficult for struggling people juggling debts and other major obligations) or spend most months continuing to worry about making rent.
    - **A better solution might be a direct monthly payment**, like Social Security or unemployment benefits, matching the cadence of the subsidy with rent coming due.
- **The proposal does not address the root causes of soaring rents (lack of homes and greedy landlords),** instead it serves as something of a bandaid, helping tenants recoup lost rent while leaving the broken system untouched.
- **By not changing the underlying dynamics of the housing crisis,** there would be no serious constraints on the costs of the program. The rent subsidies would simply keep increasing as tenants continue to endure cutthroat competition for available homes and greedy landlords extract more and more rent. Renters already under a lease would see immediate benefits, with the federal government picking up excess expenses. However, since Harris's bill makes no effort to address the home shortage or rent prices, renters looking to move would be left in the cold, landlords would be empowered to raise rents without constraint, and the federal budget would strain under a program with no mechanism to prevent this or for controlling costs overall.
- **Landlords may have a perverse incentive to increase rents,** because the tax credit will increase infinitely and without rent stabilization and/or increased renter leverage from a larger supply of available homes, there would be nothing constraining the ability of landlords to gouge tenants and the state.
- **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, Harris included, 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 bills rely on this concept, which has been the foundation of federal housing assistance for 50 years.[6] 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.[7] 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 in to 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 SF-Metro for a 1-bedroom is $1822, but the average 1-bedroom in San Francisco is $3,609).[8] 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.
- **Could prompt political problems stemming from regional cost -- and thus regional subsidy -- disparities.** Since many rapidly growing, largely coastal cities are vastly more expensive than areas of the heartland, renters in upscale areas would draw far more money than those in more economically struggling regions. The political risks inherent in that dynamic are presumably obvious.

WHAT WE WOULD ADD:

For Harris's proposal to be more than a band-aid, it needs to deal with the fundamental issues impacting the housing crisis: a deep deficit of adequate shelter and a housing market designed to favor rent-extracting property owners over tenants. Harris's campaign has, so far, shown itself uncomfortable with the notion of slaying giants to fix the economy. By leaning into the most intractable challenges of the housing crisis, she could address this shortcoming head-on.

Rent subsidies should indeed play a role in a housing reform package but without more systemic changes, Harris's tax credits risk perpetuating or even accelerating the challenges of runaway rent costs – and could make the program untenably expensive. To abate that risk, Harris should add:

- **Carrot-and-stick incentives for states and cities to abolish apartment bans** that block affordably-sized, clustered housing from being built and keep the stock of homes artificially low. If cities and suburbs get more duplexes, fourplexes, cottage communities, and apartments, renters gain an upper-hand over landlords and can resist the rent increases that might otherwise accompany the policy. (Indeed, even the UC Berkeley proposal upon which the Rent Relief Act is based notes that it is meant to "serve as an important complement to supply-side solutions which are also needed to lower overall rental burdens."[9]

- **Invest heavily in affordable home options outside the private market, be that public housing or public-private social housing, or ideally both.** 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.

- **Support local rent control efforts -** Federal support for local rent control measures, which are gaining steam across the country, could complement rental assistance.[10] If rental assistance is made available only by enacting rent control measures, it would create an incentive for municipalities to pass strong tenant protections while removing the perverse incentive for landlords to inflate rents if they receive guaranteed payments.

- **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.

Endnotes

[1] Elijah Chiland, "Can LA build its way out of its housing crisis?" Curbed, 06/14/2018

[2] Mac Taylor, "California's High Housing Costs - Causes and Consequences," California Legislative Analyst's Office, 03/17/2015

[3] Paavo Monkkonen and Will Livesley-O'Neill, "Overcoming Opposition to New Housing," UCLA Lewis Center for Regional Policy Studies, accessed 02/04/2019

[4] Darwin Bond Graham and Daniel Lempres, "Wall Street is Spending Tens of Millions Against Rent Control," East Bay Express, 10/24/2018

[5] James Rainey, "California's housing crunch has turned liberals against one another," NBC News, 02/28/2018

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

[7] 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

[8] U.S. Department of Housing & Urban Development. FY 2019 Fair Market Rent Documentation System, accessed 02/05/2019

[9] Carol Galante, Carolina Reid, and Nathaniel Decker, "Balancing the Burden: Proposing a Fair Tax Credit for Renters Facing Affordability Challenges," UC Berkley Terner Center for Housing Innovation, 07/03/2016.

[10] Peter Harrison, "Tenants are forcing the Democratic Party to wake up to rent control," Data for Progress, 01/28/19