

**TO:** House Chairman William Lacy Clay (D-MO); House Ranking Member Sean Duffy (R-WI); Senate Chairman Tim Scott (R-SC); Senate Ranking Member Robert Menendez (D-NJ)

**FROM:** Affordable Housing Compromise Committee

**RE:** Increasing the supply of affordable housing - policy

**DATE:** 05/17/2019

**Introduction:** America is in the grips of a severe housing crisis. Since 1960, median gross rent in the U.S. has increased by 61.2%, while the median income has only increased by 5.1%.<sup>1</sup> Rent has increased disproportionately to income. Much of this price increase is due to a lack of affordable housing units: for every 100 low-income households in the United States, there are only 46 adequate and affordable units for rent.<sup>2</sup> We present three actions that policymakers can take to resolve this shortage: first, guaranteeing LIHTC tax refunds for responsible private real-estate developers who construct new housing units; second, increasing the number of Section 8 vouchers available by adjusting income eligibility requirements while prioritizing LIHTC housing developments for high-need renters; and third, reducing opportunities for discrimination that prevent minority renters from escaping poverty. These proposals give renters more choice in the free market while holding landlords accountable for providing safe and fair living conditions.

**Background:** The status quo for affordable housing does not fully quantify and target the issue on a national scale. There are many different avenues and programs provided by the federal government that attempt to fix this problem. While some are considered more successful than others, there hasn't yet been one that can meet the demand of people and families within the United States who qualify for the affordable housing programs. Recent news regarding this issue includes the 28 million dollar award in Low Income Housing Tax Credits (LIHTC) given to Ohio for the development and restoration of 34 different affordable housing units.<sup>3</sup>

The development in Ohio is a positive step in alleviating the gap between affordable housing units available and tenants who need them. While new positive steps are occurring in the United States, we are nowhere near where we, as a committee, would like to see the Housing and Urban Development progress. Given this, the many programs, such as the Housing Choice Vouchers Program under Section 8 and the Low Income Housing Tax Credit, lack significant accountability factors and stipulations we hold to be a determining factor towards the success of increasing the amount of affordable housing. On top of this, the political landscape has drastically changed from the original implementation of the Voucher Program in the 1960s and 70s. We now live in a politically polarized country where compromise and discussions, as well as friendships, across the aisle seem to be less and less a reality. The polarization puts the political powers within the federal government in a progression gridlock, where neither the

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<sup>1</sup> "The State of the Nation's Housing, 2018." Joint Center for Housing Studies of Harvard University, 2018, 5. Accessed May 17, 2019.

<sup>2</sup> Poething, Erika. "Three Ways to Strengthen the Affordable Rental Housing Supply." Urban Institute. September 6, 2018. Accessed May 17, 2019.

<https://www.urban.org/urban-wire/three-ways-strengthen-affordable-rental-housing-supply>.

<sup>3</sup> Serlin, Christine. "Ohio Awards Over \$28 Million in LIHTCs." Housingfinance.com. May 16, 2019. Accessed May 17, 2019.

[https://www.housingfinance.com/finance/ohio-awards-over-28-million-in-lihtcs\\_o](https://www.housingfinance.com/finance/ohio-awards-over-28-million-in-lihtcs_o)

conservative nor the liberal side is willing to compromise and push forward new legislation on controversial topics. Such gridlock has generated significant barriers for communication, access, and success; especially when compared to the time-frame in which many of the current programs we use to give those who cannot afford to live in the United States a chance to do so.

**Problem Definition:** There is a public, pressing local demand for affordable housing. However, the high costs to construct, operate, and maintain building complexes provide a little financial incentive for developers to build affordable housing developments. Consequently, there are only 46 affordable housing units for every 100 extremely low-income households.<sup>4</sup> There is thus a pressing need to address this gross mismatch of supply and demand for affordable housing through a mixture of government- and market-based solutions.

**Policy Goal and Criteria:** This policy aims to increase the supply of affordable housing available in local communities to match its demand among low-income earners. A supply-side approach will put downward pressure on rising housing prices within the U.S. and provide accommodation for a segment of the population most in need of it. Also, the government should make sure that those who are most in need of housing, and in particular historically underserved communities, can receive housing.

**Policy Recommendations:** The following seven reforms are proposed to expand affordable housing policy in the U.S. best:

- I. In cases where landowners who receive federal assistance through the Low Income Housing Tax Credit (LIHTC) fail three inspections, and for every subsequent year until the offending landowner submits proof to the relevant inspection agency of meeting the applicable inspection standards, Congress should levy a federal fine on the violating landlord equivalent to 50% of the tax credit. *The relevant local inspection agency will collect the fine, and it may use the funds for education and/or community revitalization.*
  - A. This policy recommendation targets local developers who supply affordable housing in their communities through assistance from the LIHTC, yet fail to keep their housing complexes up to acceptable standards consistently. The fine levied incentivizes housing developers to pay equal attention to the upkeep of complexes that house low-income earners and thus prevent affordable housing communities from falling into dilapidated states. The incentivization will encourage more business activity, less crime, and therefore, more economic opportunity within these LIHTC communities.
- II. Congress should pass legislation guaranteeing developers who rehabilitate buildings for affordable housing a refundable 4% per annum tax credit on a project's qualified basis. Also, Congress should pass legislation guaranteeing developers of new affordable housing units a refundable 9% per annum tax credit on a project's qualified basis. Congress should define a project's qualified basis as the developer's cost of construction.
  - A. This policy recommendation aims to incentivize developers to invest their resources into building new affordable housing units by guaranteeing them a benefit. We chose a tax

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<sup>4</sup> "The Cost of Affordable Housing: Does It Pencil Out?" Urban Institute. Accessed May 17, 2019. <https://apps.urban.org/features/cost-of-affordable-housing/>

break because it does not require any direct spending. Non-direct spending will be more effective than the current standard because it uses the word change "guarantee" to ensure higher tax breaks contingent upon existing rules that are already present.

- III. Congress should pass legislation restricting the Low-Income Housing Tax Credit (henceforth "LIHTC") to developers building units for persons qualifying as extremely low-income (persons with income equivalent to 30% and less of the area median income (AMI) of their area). Also, Congress will amend Section 8 of the U.S. Housing Act of 1937 to restrict the Section 8 voucher program to persons qualifying as very low-income (persons who earn between 30% and 50% of the AMI of their area).
  - A. By restricting the number of people that are eligible for Section 8 vouchers and low-income housing, the demand decreases, thus increasing supply. This increase in amount will create a higher likelihood that the people most in need will be able to receive affordable housing. By explicitly distinguishing between those who qualify as extremely low income (30% and below) and very low income (30-50%), we believe that we will be better able to provide physical housing to the tenants who need it the most. We will further be able to allow those who have the potential to move up on the income scale quicker, the option for housing. Our recommendation will lower the number of people who require immediate, affordable housing, shrinking the waitlists, and effectively improving on the current rates of acceptance.
- IV. Congress should pass legislation granting the Department of Housing and Urban Development (HUD) the authority to increase the percentage that low-income tenants in the 30% - 50% range below of the area median income of their area in the Housing Choice Voucher Program, public housing, and project-based rental assistance pay from 30% to 35% by the year 2024, increasing by 1% per annum. Congress should mandate that any revenues gained from the reduction in voucher amount paid are put towards increasing the number of vouchers available for persons who qualify as above. This policy recommendation, to be implemented between 2019 to 2024, will provide HUD with an additional \$22.9 billion.<sup>5</sup>
  - A. The goal is that by increasing the payments from tenants in the 30%-50% of AMI range that HUD can provide a more significant number of vouchers. Considering that public housing, the Housing Choice Voucher Program, and project-based assistance programs cost HUD \$8,000 per household recipient, this rise in tenant payment will increase the number of possible vouchers by approximately 2.8 million. This projection comes from an idea to reduce the debt-deficit with housing influences, where we manipulate the new saved money to create a revolving door of increased vouchers and no increase in the debt level.
- V. Congress should pass legislation granting the Department of Housing and Urban Development the authority to require that tenants eligible for affordable housing programs, and able to work, work at least part-time. Local public housing authorities determine the definition of part-time employment.

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<sup>5</sup> "Increase Payments by Tenants in Federally Assisted Housing." Congressional Budget Office. Last modified December 13, 2018.

<https://www.cbo.gov/budget-options/2018/54780>

- A. This policy recommendation is an optimal solution given our chosen criteria because it targets the stigmas associated with the tenants of affordable housing. Common stigmas surrounding these tenants include the tendency to be violent criminals or lazy persons who do not work but take "free-handouts" from the government. By requiring at least a part-time job, respectively defined by the states and territories of the U.S., we believe that this will influence more positive labels and stigmas towards the qualified tenants and change the common misperceptions about them from people who make enough income to afford their housing. Also, it will ensure that those who can work are getting a consistent form of income to remain eligible for the Section 8 voucher program.
- VI. Congress should prohibit landlords who receive any federal housing incentives or funding from discriminating against renters based on renters' source of income. Local authorities will bring legal action against landlords found to discriminate against renters based on the source of income, disseminate information to voucher recipients on tenant protections, and create a hotline for voucher recipients to report such discrimination.
  - A. Persons eligible for housing vouchers often receive vouchers but are unable to use them due to a source of income discrimination, or voucher discrimination--when landlords refuse to accept housing vouchers. While some federal protections exist to stop voucher discrimination under specific circumstances, these protections are largely unenforced. Most voucher discrimination legislation is enacted at a state level, and only a third of households now are protected under such state laws in the status quo.<sup>6</sup> Our proposal would create federal legislation to prohibit voucher discrimination in all developments where the developer has received federal funding. The project also provides an enforcement mechanism, as well as methods for renters to report instances of the source of income discrimination.
- VII. Congress should require that the U.S. states and territories create regulations requiring that landlords who apply to receive state, federal, or territorial housing development incentives affirmatively market development projects to locally underrepresented communities. Many eligible renters often are unaware of the units on the market, even when housing developments are built. In particular, developments in low-poverty or high-opportunity areas often fly under the radar in underserved communities.<sup>7</sup>
  - A. For instance, an affordable housing development in a suburban neighborhood might not be adequately marketed to communities composed primarily of ethnic minorities.<sup>8</sup> Our proposal requires states to build a process to require landlords who apply to receive

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<sup>6</sup> Bell, Alison, Barbara Sard, and Becky Koepnick. "Prohibiting Discrimination Against Renters Using Housing Vouchers Improves Results." Center on Budget and Policy Priorities. December 20, 2018. Accessed May 17, 2019. <https://www.cbpp.org/research/housing/prohibiting-discrimination-against-renters-using-housing-vouchers-improve-s-results>.

<sup>7</sup> Fischer, Will. "Low-Income Housing Tax Credit Could Do More to Expand Opportunity for Poor Families." Center on Budget and Policy Priorities. September 19, 2018. Accessed May 17, 2019. <https://www.cbpp.org/research/housing/low-income-housing-tax-credit-could-do-more-to-expand-opportunity-for-poor-families>.

<sup>8</sup> Capps, Kriston. "Where Landlords Discriminate." CityLab. January 15, 2019. Accessed May 17, 2019. <https://www.citylab.com/equity/2019/01/section-8-housing-government-low-income-vouchers-renters/579496/>.

funding to actively market units to underserved communities to create mixed-income and desegregated units.

**Conclusion:** By enacting changes to the housing voucher and LIHTC programs, such as offering tax incentives and redefining who is eligible for vouchers, Congress has an opportunity to make up the shortfall of affordable housing faced by low-income families nationwide. Additionally, affirmative marketing and anti-voucher discrimination policies will ensure that those who need accommodation the most receive it.