



July 1, 2016

The Honorable Debbie Wasserman Schultz  
Chair of the Democratic National Committee  
430 South Capitol Street SE  
Washington, DC 20003

The Honorable Elijah Cummings  
Chair of the DNC Platform Drafting Committee  
2230 Rayburn House Office Building  
Washington, DC 20515

**Re: Proposals to Address America's Rental Housing Crisis for the Democratic National Committee's 2016 Policy Platform**

Dear Rep. Schultz, Rep. Cummings and Members of the Platform Drafting Committee:

On behalf of Enterprise Community Partners, thank you for the opportunity to provide input on the Democratic National Committee's 2016 Policy Platform.

Enterprise is a national organization that helps to finance, build and advocate for affordable housing for low- and moderate-income families. We believe that an affordable home in a thriving community is the first rung on the ladder of opportunity – an essential first step to give families a fair shot at success. Over the past 32 years, Enterprise has helped build or preserve more than 340,000 affordable homes across all 50 states, invested \$18.6 billion into communities and touched millions of lives.<sup>1</sup>

The DNC's 2016 Platform will be delivered at a crucial moment. In communities across the country, wages have stagnated for most workers while rents have steadily risen, resulting in an unprecedented affordable housing crisis. Today more than one in four families who rent their homes – 11.4 million households in total – are "housing insecure," meaning they pay at least half of their monthly income on housing.<sup>2</sup>

As a result, too often America's renters are faced with impossible tradeoffs – pay rent or buy groceries, pay the electric bill or put gas in the car – with profound impacts on their long-term health and economic prospects.<sup>3</sup> Many have no choice but to live in neighborhoods with rampant crime, scarce jobs, failing schools and substandard housing.<sup>4</sup> And others are just one unforeseen event – a layoff, an unexpected healthcare bill, even a drop of hours at work – from seeing an eviction notice on their front door.

Absent meaningful changes to public policy, we expect the crisis to get significantly worse in the years to come. According to projections from Enterprise and the Harvard Joint Center for Housing Studies, even if rent growth matches income growth, the number of housing insecure renters is expected to increase by about 1.3 million households over the next decade – an increase of over 10 percent.<sup>5</sup>

There are several factors contributing to this growing rental affordability crisis:

- *As more households delay or forego homeownership, demand for rental housing has grown significantly.* In the wake of the recent foreclosure crisis, a growing number of Americans are turning to the rental market – some by choice, some because they have no other option due to excessively tight credit standards for mortgages.<sup>6</sup> The U.S. homeownership rate currently stands at 63.5 percent – near a 30-year low – and researchers at the Urban Institute expect the rate to keep falling as the number of new renters outpaces the number of new homeowners.<sup>7</sup>

According to Harvard's Joint Center for Housing Studies, an average of 900,000 new renter households were created each year since 2005, making it the strongest 10-year period for renter growth on record.<sup>8</sup>

- *Rental supply is not keeping up with the rising demand, especially on the lower end of the market.* Developers of rental housing have ramped up construction in recent years to meet the growing demand, but the current level of production – about 370,000 multifamily units per year – is still falling well short of the need. In addition, the vast majority of multifamily construction is for the higher end of the rental market: the median asking rent for new apartments in 2015 was \$1,380, or about half of the median renter's monthly income. As a result of scarce supply – especially for lower-rent apartments – rental vacancy rates are at the lowest point in two decades, causing rents to rise in just about every market, often at much faster rates than overall inflation.<sup>9</sup>
- *As the cost of living rises, wages are stagnating for low- and moderate-income workers.* While the American labor market continues to improve, the wages earned by most American workers have not kept pace with the rising cost of living. After adjusting for inflation, the typical renter's income has fallen by more than 9 percent since 2001, while the median rent has increased by 7 percent.<sup>10</sup> As a result, families are spending an increasing share of their take-home pay on rent, forcing them to make deep cuts elsewhere in their household budget and making it virtually impossible for many low-income families to save for a rainy day or a down payment on a home.
- *While need has skyrocketed, public resources for affordable housing have remained flat or even decreased.* Recent budget cuts at the federal, state and local levels have hit housing and community development programs particularly hard. According to the Center on Budget and Policy Priorities, recent federal budget cuts due to sequestration resulted in 100,000 fewer low-income families with rental assistance vouchers, even as the number of families eligible for vouchers has increased significantly.<sup>11</sup> In addition, the HOME Investment Partnership program, a crucial source of gap financing for affordable housing developments, has been cut by more than 50 percent since 2010, while the Community Development Block Grant (CDBG) program has been cut by 25 percent over the same period.<sup>12</sup>
- *As a result, a growing number of lower-income renters are competing for an increasingly scarce supply of affordable rental homes.* According to the National Low-Income Housing Coalition, there are currently 17.9 million very low-income renter households in the U.S. – meaning they earn less than 50 percent of the area median income (AMI) – but only 15.7 million rental units that are affordable at that income level, creating a total gap of more than two million units.<sup>13</sup> To make matters worse, about one-third of those “affordable” units are unavailable because they're occupied by higher-income tenants, while another 7 percent are considered inadequate.<sup>14</sup>

The rental housing crisis is having a profound impact on America's families, communities and the economy, as rising rents are keeping many families stuck on the lower rungs of the income ladder. We have long known that where a person lives – the city, the neighborhood, even the block – determines her access to schools, jobs, food, health services, public transportation and other resources that are necessary to build skills, stay healthy and get ahead.<sup>15</sup> It even impacts her life expectancy.<sup>16</sup> But thanks to groundbreaking new research from Stanford's Raj Chetty, we now have a deeper understanding of the direct link between where a child grows up and the opportunities she gets in life. For example,

Chetty's recent study found that each year a child spends in a high-poverty neighborhood – as opposed to a lower-poverty neighborhood with more opportunities – decreases her chances of going to college, increases her chances of becoming a single parent and decreases her expected earnings as an adult.<sup>17</sup>

Here's the good news: America has tackled massive, seemingly intractable housing problems in the past, and we can do it again. Through policies enacted at the federal, state and local levels, we have ensured that long-term, affordable mortgage credit is available for most Americans throughout the business cycle. We have created an effective system for financing, building and maintaining quality rental housing that's affordable to low-income households, driven by programs like the Low-Income Housing Tax Credit. Through innovations like Section 8 vouchers and supportive housing, we have ensured that many of the most vulnerable people in our communities – including those struggling with homelessness – have access to quality, affordable housing and the services they need to thrive. And through a variety of effective partnerships between the federal government, state and local governments and the private sector, we have drastically improved the physical conditions in which most low-income people live – a far cry from the blighted slums of decades ago.

In February 2016, Enterprise published *An Investment in Opportunity*, a long-term platform that identifies the federal, state and local policy changes necessary to tackle America's rental housing crisis and create communities of opportunity throughout the country.<sup>18</sup> Below we offer 11 specific policy proposals for inclusion in the DNC's 2016 Platform, as an essential component of the party's broader strategy for promoting opportunity and economic mobility for all Americans.

### **1. Gradually double annual allocations of Low-Income Housing Tax Credits and provide additional gap financing to support the expansion.**

The Low-Income Housing Tax Credit, also known as the Housing Credit, has financed virtually all of the country's affordable housing construction since the mid-1980s. The program is an undeniable success story in public-private partnership, helping to build or preserve nearly 2.8 million homes that are affordable to low-income renters. However, as demand for rental housing has skyrocketed in recent years, the amount of Housing Credits available to states has not kept pace. Developers requested more than \$2.3 billion in Housing Credits from state allocating agencies in 2013, over three times the available authority, according to the National Council of State Housing Agencies.<sup>19</sup> As a result, each year many viable projects that would serve low-income families in need are turned down because of scarcity of tax credits, not because of the applicant's qualifications or the community's needs.

The Housing Credit is also the country's main tool available to preserve the aging federally assisted housing stock, which places additional pressure on limited program resources. According to the Joint Center for Housing Studies, an estimated 2.2 million assisted rental units will reach the end of their mandatory affordability period over the next decade, many of which are at risk of being converted to market-rate housing or removed from the housing stock altogether. About 1.2 million of those at-risk units are in properties developed by the Housing Credit.<sup>20</sup> According to our analysis, in order to keep up with rising demand, preserve at-risk affordable housing and make a meaningful dent in the existing affordable housing supply gap, annual allocations to the Housing Credit must at least double. If phased in over a period of several years, we believe that there will be sufficient demand among developers and investors for these additional Housing Credits. Once fully phased in, we expect a doubling of the Housing Credit to help build or preserve up to an additional 80,000 rental homes each year — each of which is affordable to low-income families for a period of at least 30 years — at an annual cost to taxpayers of \$7 billion - \$8 billion in foregone tax revenues.

In addition to the tax credits themselves, Housing Credit properties require additional sources of funding, such as grants or rental assistance, in order to be financially viable or achieve a level of affordability that's deeper than the program's minimum requirement. Historically, this gap financing has been provided by programs like the HOME Investment Partnerships Program, through which the federal government issues grants to states and local governments to meet their affordable housing needs. Approximately one in four developments financed with Housing Credits use HOME dollars.<sup>21</sup> However, federal funding to HOME has been cut by more than 50 percent since 2010, forcing local policymakers and developers to do more with less.<sup>22</sup> For these reasons, any expansion of the Housing Credit must be accompanied by additional federal resources for gap financing.

## **2. Significantly expand funding to Section 8 vouchers to ensure that the most vulnerable households in the U.S. have access to some form of rental assistance.**

According to the National Apartment Association, it costs the typical landlord about \$370 each month just to maintain an apartment – and that's before accounting for upfront development costs and ongoing mortgage payments.<sup>23</sup> Realistically, it's practically impossible for a landlord to charge less than \$500 per month for a typical apartment without taking a loss. Even at that break-even price, a family would have to make at least \$20,000 per year to afford rent on that apartment, based on widely accepted standards of affordability. The unfortunate reality is that very few households earning below that amount – including elderly or disabled adults on fixed incomes, full-time workers earning at or near the federal minimum wage and single parents who can only work part time – will be able to make rent on a privately owned and financed apartment without some sort of assistance.

For decades, federal rental assistance programs– and the Section 8 Housing Choice Voucher program in particular – have proven to be effective in keeping low-income households stably housed, even those that are at serious risk of becoming homeless. According to initial findings from HUD's Family Options Study, which tracked certain outcomes for families with children living in homeless shelters, families with Section 8 vouchers were more than twice as likely to remain stably housed and avoid a foster care placement compared to families leaving shelter without a voucher, among other positive outcomes.<sup>24</sup>

Despite these results, due to rising demand and a series of budget cuts, federal funding for rental assistance programs covers only a small fraction of the people who need it. HUD estimates, that the number of very low-income renters who qualify for rental assistance subsidies increased by 18 percent between 2003 and 2013,<sup>25</sup> while annual funding to HUD's primary rental assistance programs has stayed relatively flat.<sup>26</sup> Today only 23 percent of households who are eligible for federal rental assistance actually receive it, resulting in long waiting lists and sometimes even lotteries for rare openings.<sup>27</sup>

That's one reason why the Bipartisan Policy Center's (BPC) Housing Commission proposed an ambitious expansion in federal rental assistance, with a particular focus on households with the greatest needs. The commission recommended establishing Section 8 vouchers as an entitlement for all extremely low-income households, essentially putting rental assistance on par with Medicaid, food stamps and public education.<sup>28</sup> According to the BPC report, taking into account reasonable participation rates and other assumptions, this change would provide economic stability to an estimated 3.1 million renter households that are currently unassisted, the vast majority of which are housing insecure today. The expansion would cost the federal government an additional \$22.5 billion annually – above the \$19 billion spent on Section 8 each year.<sup>29</sup>

### **3. Expand funding to the National Housing Trust Fund and the Capital Magnet Fund as part of any effort to reform America's mortgage finance system.**

In 2008, Congress established the Housing Trust Fund and the Capital Magnet Fund to promote the production and preservation of affordable housing for lower-income families. The Housing Trust Fund is intended to support state and local efforts to build affordable rental housing and provide homeownership opportunities for very and extremely low-income families, while the Capital Magnet Fund helps community development financial institutions (CDFIs) attract private funds to finance their affordable housing activities.

As originally envisioned, both funds would receive funding through a modest assessment on the ongoing business of Fannie Mae and Freddie Mac, but federal regulators suspended those obligations when the GSEs were put into conservatorship in August of 2008. In 2015, however, Fannie and Freddie began contributing money to the two funds, which generated roughly \$200 million for the two funds in its inaugural year. Sixty-five percent of that funding will go to the Housing Trust Fund, while the remaining 35 percent will go to the Capital Magnet Fund.

Seven years after conservatorship began, the future of Fannie and Freddie is largely uncertain, as the companies have been at the center of a high-stakes debate over the future of housing finance in the U.S. and the appropriate role of government in the housing market. In the 113<sup>th</sup> Congress alone, four different bills were introduced to wind down the mortgage companies and establish a new system of housing finance in the U.S.<sup>30</sup>

To meet the growing needs of low-income renters and homeowners, we recommend expanding the Housing Trust Fund and Capital Magnet Fund as part of any housing finance reform effort. Instead of the current arrangement – which funds the programs through a 4.2 basis-point assessment on new loan purchases by Fannie and Freddie – Congress should establish an annual assessment of at least 10 basis points on all outstanding mortgages that are backed by the federal government. This would include all securities backed by Fannie Mae, Freddie Mac and Ginnie Mae, as well as any private entities that replace them in the future system. Notably, three of the four housing finance reform bills introduced in the 113<sup>th</sup> Congress would have significantly expanded funding for the Housing Trust Fund and Capital Magnet Fund.<sup>31</sup> We estimate that a 10 basis point annual assessment would generate about \$18 billion for the programs over the first five years and roughly \$6 billion per year after that.<sup>32</sup>

### **4. Make the public and private investments necessary to preserve existing affordable housing while creating mixed-income communities.**

After decades of underinvestment, many of the country's 1.1 million units of public housing are in need of significant capital investment. According to HUD, the aging stock has a backlog of at least \$25.6 billion in unmet capital needs,<sup>33</sup> and an estimated 10,000 public housing units are lost entirely each year to obsolescence and decay.<sup>34</sup>

Preserving at-risk public housing must be a key component of federal housing policy. But we need to think beyond the current funding model, which has allowed hundreds of thousands of units to wither in a state of disrepair. HUD's Rental Assistance Demonstration (RAD) allows public housing authorities to convert dilapidated projects into privately financed, government-subsidized properties, using the Section 8 program to preserve long-term affordability. By altering the source of the rental subsidy,

participating authorities can attract outside sources of financing. Some of those sources are public, such as the Low-Income Housing Tax Credit, while others are private.<sup>35</sup>

Several local housing authorities see RAD as a promising tool for preserving at-risk public housing while deconcentrating poverty in their most distressed neighborhoods. For example, with support from Enterprise Community Partners, the city of San Francisco is working to rehabilitate over 4,500 distressed public housing apartments through RAD, using a combination of Low-Income Housing Tax Credits, debt financing, grant support and project-based rental assistance. According to the San Francisco Housing Authority, the RAD program allows for the city to make the necessary capital investments over a period three years, while it would take more than 50 years to raise the necessary funds through the public housing program.<sup>36</sup>

Congress initially authorized local housing authorities to convert 60,000 units under RAD, but HUD has so far received applications to convert over 190,000 units.<sup>37</sup> At the urging of hundreds of public housing authorities and other stakeholders through the Enterprise-led Raise the Cap Coalition, Congress in 2014 increased the cap to 185,000 units, which covered the current backlog of applications in the pipeline. As a next step, Congress should remove the unit cap altogether.

We believe that RAD has the potential to preserve most, if not all, of the country's at-risk public housing stock. However, the highest-need properties that require significant rehabilitation will need significant capital subsidies from the federal government. According to our preliminary estimates, it would require roughly \$15-20 billion in federal support – or about \$3-4 billion annually for the next five years – to support RAD conversions that address the capital backlog for the entire public housing stock.

In addition to the public housing stock, there are 1.3 million units of privately owned affordable rental housing supported with Section 8 project-based rental assistance (PBRA). Under the PBRA program, a property is partially funded by the federal government through a long-term contract with the owner, through which HUD covers a portion of the monthly rent over a certain period. According to the Urban Institute, about one-third of existing PBRA units are at risk of losing their affordability status due to contracts that are set to expire in the coming years.<sup>38</sup> Preservation of all existing PBRA units, specifically by renewing rental assistance contracts when they expire, must be a key priority for federal housing policy. After all, it is significantly cheaper – somewhere between one-half and two-thirds the cost – to preserve an existing affordable property than it is to build a new one.<sup>39</sup>

## **5. Break down funding silos to encourage public investments in healthy and affordable housing for recipients of Medicaid.**

The federal government alone spends \$265 billion each year on Medicaid, the country's primary health insurance program for low-income families and individuals.<sup>40</sup> That's roughly five-times what the government spends on all affordable housing programs targeted to low-income people.

A growing body of evidence shows that that investments in quality and affordable homes can have profound effects on a person's long-term health outcomes, from improved asthma to a reduced chance of cardiovascular disease.<sup>41</sup> Providence Center for Outcomes Research & Education, with support from Enterprise Community Partners, recently studied the link between affordable housing and health care for Medicaid-eligible residents of Oregon, with a focus on families with children, elderly adults and people experiencing chronic homelessness. The study found that providing affordable housing with appropriate and integrated health services – including family housing, permanent supportive housing

and housing plus services for low-income seniors – resulted in increased participation in primary care, fewer trips to the emergency room and lower health care costs.<sup>42</sup>

For this reason, several states are pursuing housing-focused investments to improve outcomes while reducing long-term costs to Medicaid. We recommend that the U.S. Department of Health and Human Services (HHS) establish a new partnership with interested states to pursue similar cost-saving investments. Specifically, HHS should pursue a pilot with up to 10 states – on a volunteer basis – to pursue housing-focused investments using a blend of state and federal Medicaid resources. The initial pilot should target populations that are both key drivers of Medicaid costs and most likely to experience housing insecurity, including:

- *Chronically homeless individuals.* We have long known that investments in permanent supportive housing – which offers both long-term housing and services for physical and mental health, substance abuse and other problems common in the chronically homeless population – can improve outcomes for people experiencing homelessness and yield significant long-term savings in other publicly funded services, including emergency room and other health care-related expenses.<sup>43</sup> When researchers tracked health care spending on residents moving into Bud Clark Commons, a 130-unit supportive housing development in Portland, Oregon, they found that a stable home reduced the typical residents’ Medicaid costs by 45 percent. In the year before moving into Bud Clark Commons, Medicaid-eligible residents spent an average of more than \$1,600 on healthcare each month. One year after moving in, those costs fell to less than \$900 per month.<sup>44</sup>
- *Low-income seniors.* The federal government spent more than \$580 billion last year on Medicare expenditures for seniors and disabled adults.<sup>45</sup> In addition, older adults account for about 10 percent of Medicaid enrollees and 25 percent of the program’s expenditures, according to estimates from the Kaiser Family Foundation and the Urban Institute.<sup>46</sup> About 12 percent of federal Medicaid spending – more than \$30 billion – is for long-term nursing home care, which is often avoidable through a relatively modest investments in housing plus services for low-income seniors.
- *Families with children that are in poor-quality housing or at high risk of becoming homeless.* Nearly half of all people covered by Medicaid are children.<sup>47</sup> When combined with the Children’s Health Insurance Program (CHIP), the federal government covers more than one in three children in the U.S. and more than half of all low-income kids. Meanwhile, the top 10 percent of child enrollees – most of whom have chronic conditions – account for 72 percent of total Medicaid and CHIP spending on children.<sup>48</sup> By focusing on housing-based solutions aimed at preventing or alleviating high-cost chronic conditions – such as programs to prevent homelessness or physical improvements to reduce asthma and other respiratory issues – HHS can help control costs while putting low-income children on the path to success.

## **6. Build capacity of public, private and philanthropic organizations at the local level to pursue cross-sector solutions to the problems facing low-income communities.**

No two communities are the same, and each low-income neighborhood faces a unique set of social and economic challenges, from growing poverty and high unemployment to poor performing schools and blighted streets. While solutions must be tailored to the specific needs of the community, there is a significant need for better communication across cities, with a focus on state and local policies that have

proven to work. In addition, overstretched budgets at all levels of governments can make matters worse, leaving cities without the tax base or resources to provide the necessary public services and social programs.

In 2014, Enterprise and our partners joined the White House and HUD to launch the National Resource Network (NRN), a consortium of experts that is providing cross-cutting technical assistance to help turn around dozens of the country's most economically challenged communities. Over the next three years, the NRN will help 80-100 cities build the capacity to rethink the delivery of basic services, reform key spending areas and invest in social equity and economic recovery. The NRN provides three core services:

- *Direct assistance to cities.* The NRN deploys teams of private and public sector experts to work with eligible cities on the ground to implement locally identified projects and initiatives that will deliver economic benefits in the near term. NRN teams also work to build local capacity and leadership for the future.
- *Access to peer networks and new ideas.* The NRN convenes and connects local leaders to their peers and other experts solving similar problems across the country.
- *Online, on-demand access to expertise.* The NRN's website provides an unprecedented online library of tools, resources and technical assistance opportunities that support and enhance the work of local leaders.

In addition to the NRN, HUD supports local nonprofits through the Section 4 Capacity Building for Community Development and Affordable Housing program. The Section 4 program ensures that community-based organizations have the ability to attract resources to create and sustain jobs, increase housing production and preserve the vitality and affordability of existing housing developments nationwide. Since 1993, Enterprise has distributed over \$125 million in Section 4 support to more than 1,250 community development organizations throughout the country. Over the past decade, Section 4 grants have created or preserved over 89,000 homes and attracted over \$14.5 billion in investment for low-income neighborhoods and communities across the country. We encourage Congress to significantly expand annual allocations to these programs to reach as many communities as possible.

## **7. Allocate the resources necessary to effectively implement and enforce HUD's Affirmatively Furthering Fair Housing rule**

In many ways, 2015 was a pivotal year for fair housing. In June, the Supreme Court upheld "disparate impact" as a legal tool for fair housing complaints, reinforcing that housing discrimination does not have to be intentional to be illegal. A few weeks later, the Obama administration released its long-awaited final rule on Affirmatively Furthering Fair Housing, clarifying the obligations of state and municipal governments under the federal Fair Housing Act.

Enterprise believes that fair housing is essential to creating inclusive communities of opportunity. We strongly support distributing federal resources in a way that allows low-income people to make housing choices that are best for themselves and their families. This means preserving affordable housing where it exists today, revitalizing distressed communities, building affordable homes in neighborhoods of opportunity and creating and promoting options for mobility. And for communities that are in transition, including gentrifying neighborhoods where housing costs are rapidly rising, we must preserve affordable

housing options so that current residents are not displaced. These strategies, of course, are not mutually exclusive; they must be pursued in tandem.

Enterprise urges the next administration to renew a commitment to Affirmatively Further Fair Housing, and allocate the federal resources, including technical assistance and capacity building support to local participants in the planning process, necessary to ensure that the rule is implemented and enforced effectively in communities across the county.

#### **8. Make permanent and significantly expand the New Markets Tax Credit.**

The New Markets Tax Credit (NMTC) was designed to attract private investment in low-income communities where capital doesn't naturally tend to flow. Since its enactment in 2000, the program has helped to develop or rehabilitate more than 100 million square feet of residential and commercial real estate and created nearly 750,000 jobs, all while leveraging \$8 in private investment for every \$1 from the government.<sup>49</sup> Research shows that the NMTC has generated more federal tax revenue than the credit costs, essentially paying for itself.<sup>50</sup>

Because of scarce resources, there is a very high level of competition for NMTC allocations. In 2013 developers and community groups submitted nearly \$26 billion worth of applications for \$3.5 billion in credit authority.<sup>51</sup> We estimate that for every one project that received a credit allocation that year, there were at least nine fundable projects that were rejected.

Despite a proven track record of success and broad bipartisan support, the NMTC program is at serious risk today. The program has yet to be made a permanent part of the tax code, leaving lawmakers to extend and fund the program on an annual basis. While Congress has extended the program each time it expired, lawmakers have continually failed to renew the program on a long-term or permanent basis. This uncertainty deters forward-looking investors from committing capital and discourages CDEs from undertaking long-term approaches to addressing community revitalization. There is also a need to increase funding levels, as the current allocation falls far short of need. For these and other reasons, in 2015 bipartisan legislation was introduced in both the House and the Senate to permanently extend and strengthen the NMTC with an allocation of \$5 billion per year.

#### **9. Establish minimum wages at the federal, state and local levels that reflect the reasonable cost of living for each community.**

America's low-wage workers, particularly those who rent their homes, face a daily struggle just to make ends meet. Assuming a monthly rent of \$900 – roughly the current median gross rent in the U.S. – a full-time worker needs to make at least \$10.40 per hour just to avoid housing insecurity. In fact, according to the National Low-Income Housing Coalition, in no state can a full-time, minimum-wage worker afford a one-bedroom unit at fair-market rent.<sup>52</sup>

The federal minimum wage has not changed since July 2009, and over that time it has lost more than 8 percent of its purchasing power due to inflation.<sup>53</sup> As of 2014, 21 states and the District of Columbia had set minimum wages that were higher than the federal minimum, and 11 of those states adjusted the rate annually to keep up with inflation. Still, about half of all workers in the U.S. live in states where the minimum wage is \$7.25 per hour.<sup>54</sup>

According to the Congressional Budget Office, increasing the federal minimum wage from \$7.25 per hour to \$10.10 – as recently proposed by several members of Congress and the Obama administration – would benefit an estimated 16 million workers at virtually no cost to government.<sup>55</sup> According to a different analysis from the Economic Policy Institute, almost a quarter of the workers who would benefit from such an increase are in families with incomes of less than \$20,000 per year, while more than half are in families with incomes of less than \$50,000.<sup>56</sup>

The CBO report also estimated that such a change would lead to a slight reduction in total employment in the U.S., but it's worth noting that economists are largely divided on the relationship between minimum wage levels and unemployment.<sup>57</sup> According to Princeton's Alan B. Kruger, widely considered to be one of the top researchers on issues related to the minimum wage, "research suggests that a minimum wage set as high as \$12 an hour will do more good than harm for low-wage workers, but a \$15-an-hour national minimum wage would put us in uncharted waters, and risk undesirable and unintended consequences."<sup>58</sup>

Raising the minimum wage could also bring significant long-term benefits to the federal government – most notably its budget. In addition to increasing tax revenues among low-wage workers, every additional dollar of earned income decreases a low-income family's reliance on government assistance programs, such as food stamps, Medicaid and Temporary Assistance for Needy Families (TANF). According to researchers at the University of California Berkley, low wages cost American taxpayers an estimated \$153 billion each year in public support for working families – which essentially serves as a subsidy to large corporations and business owners who keep wages low.<sup>59</sup>

The time has come for Congress, state legislatures and local governments to set minimum wages that accurately reflect the cost of living in that community. To be sure, there are many ways to calculate the local cost of living, and costs vary widely from state to state and city to city. But as a general rule – perhaps with certain exceptions for very high-cost cities – we believe that a full-time, minimum-wage worker should be able to afford fair-market rent on a one-bedroom apartment in the area in which he or she works without being housing insecure. Minimum wages should be carefully calibrated at the federal, state and local levels to reflect that broad principle.

#### **10. Expand the Earned Income Tax Credit, the Child Tax Credit and other essential income supports to America's low-wage workers.**

In addition to setting a minimum wage, the federal government supplements the take-home pay of low-income workers through the Earned Income Tax Credit (EITC). Since its creation in the 1970s, the EITC has proven to be one of our country's most effective anti-poverty programs.

The EITC encourages work by providing a tax credit to eligible workers for every dollar of earned income up to a certain level. The credit's rate and maximum value depend on the worker's total income and family size. The tax credit is refundable, meaning if the total value of credit exceeds the worker's total tax liability, the government cuts a check for the difference. According to several studies, the clear majority of EITC recipients use their tax refund to pay bills, including housing payments, utilities, health care expenses and paying off debts.<sup>60</sup>

Despite its successes over the years, the EITC is far from perfect. For example, under current rules the maximum assistance allowed for childless adults – which make up 65 percent of housing insecure renters – is less than \$500 per year, which is only enough to make modest improvements to a

household's overall economic security. In addition, an eligible family has to wait until the end of the year to receive their EITC benefits, forcing many families to incur costly debt in the later months of the year just to make ends meet.<sup>61</sup>

Several changes to the EITC have been proposed in recent years, most of which aim to expand eligibility and total benefits received through the program. According to estimates from the White House, if Congress were to phase in the credit more rapidly, lower the eligibility age from 25 to 21 and raise the maximum credit for childless adults to \$1,000 (along with other modest changes), it would help increase the earning power of 13.5 million low-income workers at an annual cost to taxpayers of about \$6 billion per year.<sup>62</sup>

As part of a broader effort to end childhood poverty in America, the Children's Defense Fund also proposed a series of additional reforms to the EITC to better serve working families with children. Specifically, the CDF recommended increasing the rate at which the credit phases in (from a range of 34-45 percent to a range of 68-79 percent), while increasing the maximum credit for each household type. The Urban Institute estimates that such a change would increase EITC benefits to 7.6 million families at a cost to taxpayers of \$8.2 billion per year.<sup>63</sup>

Congress should also pursue alternative approaches to paying out EITC benefits, such as quarterly installments throughout the year rather than a single lump sum. For example, over the past several years Chicago's EITC Periodic Payment Pilot Project has been administering quarterly EITC payments to eligible families and comparing their economic stability to a control group receiving the standard EITC payment. Preliminary findings from the pilot show that families receiving quarterly payments were less likely to be financially stressed and more likely to increase their savings over the course of the year.<sup>64</sup>

In addition to these changes to the EITC, the Children Defense Fund recently recommended that Congress meaningfully expand the Child Tax Credit (CTC), which provides a \$1,000 tax credit to families for each child under 17. Under current rules, the tax credit is only partially refundable, meaning that families need to make more than \$16,000 to redeem the full benefit on their taxes. By making the CTC fully refundable, Congress can improve the financial stability of 8.2 million families with children, at a cost to taxpayers of roughly \$12.2 billion per year.<sup>65</sup>

#### **11. Create a new federal fund to help test and scale innovative financial products that encourage low-income households to save, with a primary focus on unrestricted emergency savings.**

As a general rule of thumb, financial advisors recommend that families keep at least three months of rent and other household expenses as liquid savings, in part because it can take at least that long to find a new job after a sudden job loss.<sup>66</sup> Unfortunately, millions of families – most of them low-income households – are falling woefully short of that goal. According to NeighborWorks America, more than one-third of Americans have no emergency savings – up from 29 percent a year ago – and another 25 percent only have enough saved to get by for a month or less if necessary.<sup>67</sup> Half of all families who earn less than \$40,000 per year have no emergency savings whatsoever, and a significant portion of these households likely have a negative net worth.<sup>68</sup> Without adequate savings, low-income families often have no choice but to turn to expensive sources of short-term credit – such as credit cards, title loans or payday lenders – in times of crisis or even just to make ends meet.<sup>69</sup>

The federal government has a long history of supporting savings and asset-building among low- and moderate-income families, but these programs are often tied to a specific long-term financial goal.<sup>70</sup>

There are currently no major federal policies that are designed to encourage unrestricted emergency savings among low-income people.<sup>71</sup> We recommend that Congress create a new federal fund – either as a new program run by the Treasury Department or an expansion of the Corporation for National and Community Services’ Social Innovation Fund – to support the development and expansion of new financial products that encourage unrestricted emergency savings among low-income families. The fund would provide competitive grants, low-interest loans and other forms of assistance to eligible nonprofits, private companies and state and local government entities with the most innovative ideas and a demonstrated need for federal support. For products that have already proven to work in a cost-effective way, Congress should consider targeted policies that bring those products to scale.

In addition to the new fund, Congress should significantly expand HUD’s Family Self-Sufficiency (FSS) program, which allows certain recipients of federal rental assistance to put a portion of their monthly rent payments toward long-term savings. Under normal circumstances, tenants of public housing and recipients of Section 8 vouchers pay 30 percent of their monthly income toward rent – meaning when their income increases, so do their rent payments. Under the FSS program, when a tenant’s income increases, the difference between the new rent and the old rent is placed into an escrow account, which the tenant can access without restrictions after a certain period of time – typically five years. In order to access the money, the tenant has to accomplish a set of predefined goals by the end of the time period, such as maintaining steady employment and staying off of government assistance programs like TANF. A 2011 HUD study of the FSS program found that families who successfully graduated from the program ended up with an average of \$5,300 in savings, with 63 percent of enrollees either graduating or remaining in the program after four years.<sup>72</sup> Despite these successes, the FSS program has remained relatively modest in size, mostly due to funding constraints. As of 2011, only about 47,000 voucher holders and 8,700 public housing residents participated in the program, representing a tiny fraction of the 3.2 million families who participate in the two housing programs.<sup>73</sup>

### **Next Steps**

In order to establish America as a true land of opportunity, in which every person has a fair shot at success, we need to address America’s growing rental housing crisis. That will require a bold new vision for the future of housing policy in the U.S., focused on promoting opportunity and economic mobility for all Americans. The DNC’s 2016 Policy Platform provides an opportunity to lay out such a vision.

The problems we face are not intractable – indeed, we already have many of the tools needed to solve them. The key question is whether we have the political will to strengthen those tools and make the investments necessary to address the problem at the scale at which it exists.

Many of the proposals offered above already have broad bipartisan support – in fact, many were also offered by the Bipartisan Policy Center’s Housing Commission in 2013.<sup>74</sup> To be sure, some of the policies will carry significant costs, but the size and scale of the problem requires bold action. In addition, Congress could cover most or all of the annual investment through smart reforms to the mortgage interest and property tax deductions – two remarkably inefficient subsidies that cost taxpayers roughly \$100 billion each year – all while expanding support to the homeowners who need it most.<sup>75</sup>

As we weigh the costs and benefits of each proposal, we must also consider the high cost of inaction – the price of allowing millions of Americans to remain stuck in communities without access to good schools, jobs and other opportunities. For example, according to a recent study of high-cost cities like New York, San Francisco and San Jose, the dearth of affordable housing options costs the U.S. economy

an estimated \$1.6 trillion each year in lost wages and productivity alone.<sup>76</sup> In other words, this is not just a matter of fulfilling the promise of equal opportunity for all Americans – it's also a matter of keeping our economy competitive by unleashing the full potential of the American workforce.

Again, thank you for the opportunity to contribute to the development of the DNC's 2016 Policy Platform. If you have any questions or would like to schedule a time to discuss any of the above proposals, please contact me at [lblatchford@enterprisecommunity.org](mailto:lblatchford@enterprisecommunity.org) or John Griffith, Enterprise's National Director for State & Local Policy, at [jgriffith@enterprisecommunity.org](mailto:jgriffith@enterprisecommunity.org).

Sincerely,

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Enterprise Community Partners, Inc.

## ENDNOTES

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