



# UP FOR GROWTH<sup>®</sup> LEGISLATIVE BRIEF

## **S. 5061, *The Housing Supply and Affordability Act*** **Senator Amy Klobuchar (D-MN) and Senator Tim Kaine (D-VA)**

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### INTRODUCTORY NOTE

In the following pages, we analyze the *Housing Supply and Affordability Act*. Our analysis considers the specific provisions laid out in the bill and the potential impact of the bill's grant programs on improving the availability and affordability of homes.

This analysis was completed by Up for Growth, a 501(c)(3), and is not intended to serve as an endorsement of any specific legislation.

### BACKGROUND

The United States is in the midst of a severe housing shortage and affordability crisis driven by a myriad of factors with far reaching social and economic consequences. Up for Growth's research found that the country fell short by 7.3 million homes relative to need from 2000 to 2015 (Baron et al., 2018). This underproduction has led to the cost-burdening of nearly half of the nation's 44 million renter households. Cost-burdening is defined as paying more than 30% of one's income on rent (Joint Center, 2019), limiting individual economic mobility and lowering overall economic growth. Increasing the supply of housing to meet demand is critical for reducing the burden on households and meeting their collective housing needs.

Housing underproduction occurs for a number of reasons, including financing, high cost of materials, labor shortages, and lengthy permitting processes and onerous regulatory barriers. Exclusionary zoning laws and overly burdensome land-use policies are some of the most powerful forces in suppressing the development of homes and forcing up the cost of housing. State and local governments have significant autonomy over housing, land use, and zoning decisions, and many places have used this power to create overly restrictive policies. These local and state decisions have spillover effects on a regional and national level. If the federal government takes a more active role in encouraging pro-housing reform, local communities can take steps towards meaningfully addressing housing underproduction.

The *Housing Supply and Affordability Act (HSAA)* would increase the federal government's role in encouraging state and local housing policy reform by creating a competitive grant program that gives these jurisdictions funding to support the planning and implementation of such reforms. Eligible recipients in areas with high housing costs and an imbalance in the number of jobs and homes available to residents can use the grant funds to develop and implement comprehensive housing plans. The HSAA would also require extensive reporting from grant recipients on the effectiveness of their reforms and a comprehensive study of the entire program conducted by the Department of Housing and Urban Development (HUD).

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## LEGISLATIVE SUMMARY

The HSAA seeks to increase the supply of homes and improve affordability in markets with rising housing costs by creating a competitive federal funding program that states and localities can utilize for planning and implementation grants. The grant program would allocate \$300 million a year over five years to states, localities, or tribes that demonstrate a housing availability need and affordability problem.

1. Eligible grant applicants include states, localities, and tribes that demonstrate existing or expected rising housing costs and an imbalance between available jobs and available homes. Grantees may apply to one of two competitive grant programs: planning or implementation. Planning grant applicants must demonstrate an intent to develop a housing policy plan and an intent to engage stakeholders in the plan's development. Implementation grant applicants must have adopted or be in the process of implementing a housing policy plan and must demonstrate stakeholder engagement in the plan's formulation.
2. The bill defines a "housing policy plan" as a comprehensive plan to increase housing supply while avoiding displacement; make housing more affordable in the area; and reduce barriers to housing development. Planning grant dollars can be used on a variety of activities related to the development and evaluation of the housing policy plan, including technical and code writing assistance, market evaluation, design options, and stakeholder outreach.
3. Priority status would be given to applicants whose plans would:
  - a. Improve housing supply and affordability;
  - b. Reduce barriers to housing development and avoid displacement;
  - c. Leverage other federal, state, and local housing initiatives, including Community Development Block Grants (CDBG) and HOME Investment Partnership funds;
  - d. Increase the supply of housing near transportation options in areas with significant or expanding job markets and demonstrate coordination with transportation and workforce agencies; or
  - e. Represent a regional coalition.

The degree of priority shall be based on the number of priority criteria that the applicant meets.

4. Eligible entities must match 100% of the federal grant amount with non-federal funds. The non-federal match can include contributions made as part of other federal assistance programs.
5. Grant recipients are required to report on fund expenditures, progress toward finalizing a housing policy plan, or data relating to the success of the implementation of the housing policy plan within 180 days of receipt of funds and not less than quarterly for the subsequent three-year period.
6. Within five years of the bill's enactment, (HUD) must conduct a study on the impact of grants on recipient areas and which strategies are most impactful on expanding housing supply and increasing affordable housing while avoiding displacement.
7. The bill would authorize a \$300 million appropriation each fiscal year for five years from 2021-2025.

## LEGISLATIVE ANALYSIS

In recent decades, states and localities have maintained significant control over housing policy, which has left many areas with overly restrictive zoning and land-use regulations. These have artificially limited the supply of homes, which has, in turn, increased housing costs. The consequences of the underproduction of homes include individual cost burdening; displacement and unequal access; spatial mismatch that prevents workers from finding housing near job-rich areas; and strains on the environment. An adequate supply of affordable homes is critical, and the federal government can and should play a more active role in encouraging housing and land-use policy reform at the state and local levels.

The grant program proposed in the HSAA would provide critical capacity for states and localities to develop and implement policies that increase housing and improve affordability. Such policies would increase the supply of homes and reduce housing costs, thereby addressing some of the economic and social consequences of an imbalanced housing market. Additionally, the requirement for HUD to conduct a study on the grant program's impact and explore best practices for increasing supply and affordability while reducing displacement will provide incredibly valuable standards for nationwide improvements to housing and land-use policies.

Currently, HUD offers more than 20 grant programs that support its initiatives, each with varying goals and funding allocations. The Choice Neighborhoods Planning Grants program is most analogous to the HSAA's grant programs. This program provides funds for the development and implementation of neighborhood revitalization and improvement programs. The annual allocation for Choice Neighborhoods is \$150 million. The HSAA's proposed \$300 million annual allocation for five years is a significantly larger allocation, but the sunset provision and the large potential footprint of these grants could mean a significant return on investment. Underproduced and unaffordable housing markets have significant economic and social costs, and efforts to improve the availability and affordability of homes would have notable benefits.

The HSAA could be improved with more measurable eligibility requirements and with more explicit policy reform options and outcome metrics. Currently, the bill defines eligible entities as those with actual or expected rising housing costs, as well as those with a pattern of imbalance between available jobs and available housing. Many of the most supply-constrained markets are not experiencing rising prices per se, but rather persistently high prices that exclude many renters on an ongoing basis. To better utilize grant dollars, eligibility requirements could specifically target unaffordable markets based on HUD Small Area Fair Market Rents (SAFMR). More explicitly targeting high-cost markets will help ensure that grant dollars are going to jurisdictions that could benefit most from housing policy reform.

A more explicit list of eligible pro-housing policy reforms that focus on undoing cumulative barriers will help ensure that grant dollars are more efficiently helping recipients improve their housing policy. Specifically, eligible activities outlined by the HSAA should include initiatives that are proven to improve housing supply and affordability. These may include zoning reform that allows for:

- Upzoning or by-right development;
- Providing exemptions for development standards that prevent projects from reaching the allowable zoned density;
- Granting waivers for fees that make projects infeasible;
- Establishing incentives like density bonuses and tax abatements;
- Incentivizing conversion of vacant properties into affordable housing;
- Increasing floor area ratios and reducing minimum lot size requirements;
- Reducing or eliminating parking requirements;
- Streamlining regulatory and approvals processes; and
- Other specific provisions known to increase housing availability and affordability.

California provides planning grants through the Local Early Action Planning (LEAP) Grants for cities and counties and Regional Early Action Planning (REAP) Grants for Councils of Government (COG), multiagency working groups, and counties not represented by COGs or working groups. The California Department of Housing and Community Development (HCD) has established six policy areas and best practices as part of their technical assistance grants program, which makes it easier for localities to implement pro-housing policy reform (HCD, 2020). HUD should design a similar set of strategies and initiatives to administer at the federal level. The HSAA would be improved by including similarly well-defined policy areas and best practices, as grant recipients would have a clearer understanding of how to best use grant dollars. HUD should prioritize policies that address the cumulative effects of development constraints and barriers to supply. The bill should also require HUD to develop a protocol for scoring applications that considers the average causal effect of the plan's provisions and policies on housing production and displacement.

Additionally, the HSAA's prioritization criteria include a provision that favors housing built near transportation. This priority criteria should be narrowed to housing within a one-half mile of transit walksheds — including light rail, commuter rail, streetcars, and bus rapid transit. The connection between housing and transit is critical for creating accessible communities. Millions of people rely on transit to reach jobs, amenities, and resources, and governments should incentivize localities to build more housing near transit areas. Prioritizing this as part of the HSAA grants would encourage transit and planning agencies to better coordinate in their planning process. Aligning housing and transit systems is mutually beneficial for these agencies and plays a key role in community and economic development. With strategically integrated transportation systems, households have increased and more sustainable access to economic opportunities and amenities, and can thus help build strong, consistent ridership levels critical to the success of transit networks.

Often, housing reform initiatives are met with policies that impede forward momentum, such as downzoning or additional fees that make housing development unfeasible. The bill would be improved by adding a requirement or a prioritization incentive to applications that include protocols for estimating the impact that their plan would have on housing production and displacement. Additionally, it should require applicants to quantify the expected impact of their plan components on housing production and displacement. To ensure that grant dollars issued through the HSAA actually increase housing supply and improve housing affordability, the implementation grants should be disbursed in two phases. To be eligible for second-phase funding, recipients must demonstrate progress toward housing-related outcomes. These outcome metrics could include a demonstrated increase in project approvals, a change to housing market elasticity, or a reduction in displacement in areas where more housing is being built.

The HSAA makes important strides in increasing the federal government's role in housing and land-use policy at the state, local, and tribal levels. Incentivizing localities to create actionable housing policy plans will likely have positive impacts on improving housing availability and affordability in many places across the country. Additionally, the robust reporting and the HUD study on the grants' impact and efficacy will provide critical information for enacting large-scale housing policy reform. The quarterly reporting requirement, however, will likely be too burdensome on recipient districts. Shifting the reporting requirement to annually or bi-annually will likely lessen the burden while still providing important information about grant use. The grant dollars will reduce the burden on state and local governments for planning and implementing housing reform, while at the same time encouraging innovation and local collaboration to ensure that the best policies are being considered and implemented. The HSAA could be improved by better defining eligible jurisdictions, more explicitly naming eligible activities, and tying dollars both to the implementation of policies as well as measurable outcomes.

## ABOUT UP FOR GROWTH®

Up for Growth® is a 501(c)(3) pro-housing policy and research member network that forges policies and partnerships to achieve housing equity, eliminate systemic barriers, and create more homes.

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