



## **Keep California Housed: A proposal for the stabilization of housing California's lower-income households in response to the COVID-19 pandemic**

### **Introduction:**

On top of California's existing housing and homelessness challenges, the COVID-19 emergency creates a new threat that could quickly exacerbate these crises. While every Californian has had their life upended by COVID-19, the 3.3 million<sup>1</sup> lower-income renter households are likely to bear the brunt of the growing economic impacts of this crisis. It is imperative that state leaders act quickly to keep these renters stably housed and assure the long-term financial health of the State's affordable housing communities.

The Governor, the courts, and many local governments have taken action to limit residential and commercial evictions during the current crisis. While these actions are helpful and necessary in the short term, without additional assistance they may simply delay evictions given that the capacity of lower-income households that have lost income to recover and repay back rent will be limited.

This is especially true for lower-income households living in affordable housing. As unemployment numbers climb, many of these families will have no way to repay back rent and the longer this crisis lasts, the more this will undermine the financial stability of affordable housing providers. If even a fraction of these properties are lost to foreclosure—and fail to hold on their deed-restricted status—this would set the state back decades in its production of affordable housing at a time when the need for affordable housing among lower-income households is greater than ever.

### **Core Principles:**

This proposal starts with a series of core principles that are important in consideration of any solution:

- ***It is CRITICAL to Keep People Housed***
- ***It is CRITICAL to Maintain and Operate the State's Affordable Housing Communities***
- ***It is CRITICAL that We Work Together***

### **Keep California Housed:**

While the March 27th federal CARES Act provides funding to ensure that low-income tenants living in homes supported by Section 8 and other forms of federal rent assistance remain stably housed, this assistance will only help people living in a small portion of California's existing affordable housing. The state and federal governments must act quickly to provide rent payment assistance to help struggling lower-income Californians pay rent during and after the COVID emergency—and to avoid widespread

---

<sup>1</sup> <https://lao.ca.gov/Publications/Report/3345>

defaults among affordable housing providers working hard to keep their critically needed properties operating amidst this period of unprecedented economic uncertainty.

#### Proposal for Project Level Subsidy:

There are approximately 300,000 existing rent-restricted homes in California that were created through the federal Low Income Housing Tax Credit program—and that are not currently receiving any rent subsidies. For these properties, the impact of lost tenant rent revenues will have a potentially catastrophic, cascading effect that could lead to loss of control of properties and possible bankruptcies described above.

The federal and state government have already invested significant public funds to create these homes, which house California's lowest income, most vulnerable populations, many of whom would become homeless if they lost access to this precious housing.

This proposal would keep these essential affordable housing developments at break-even cash flow during the COVID emergency to ensure that no one will be evicted or become homeless, that no properties or housing providers will go bankrupt, and that none of California's deed-restricted affordable housing stock is lost as a result of this crisis.

To accomplish this goal, the proposal relies on a partnership of owners, lenders, investors, and public agencies—all of whom will need to share in the cost.

- **Subsidy:** Create a time-limited subsidy pool of \$1 billion<sup>2</sup> to help preserve affordable housing communities. Projects will be considered on a project by project basis for subsidy amounts that are sufficient to pay for the following:
  - a. All operating expenses related to running the property including operating staff and property management expenses, utilities, insurance, other required taxes and special assessments, replacement reserve contributions, and resident services expenses.
  - b. Sufficient funding to cover payment of mortgage loans with a debt service coverage ratio of 1.1 (notwithstanding any forbearance noted below).
  - c. Contributions required to maintain operating reserves.
- **Tenant Rent Relief:** Project sponsors will agree that in exchange for receipt of the subsidy, they will provide evidence of rent accommodation or rent forgiveness plans to tenants who have documented COVID-19 related income loss or hardship. Tenants will agree to pay rent or a portion thereof to the extent possible.
- **Eligible Projects:** Any project that has a recorded regulatory agreement(s) that requires at least 75% of units be affordable to households earning 80% or below Area Median Income.

---

<sup>2</sup> Using 2018 CTCAC Annual Operating Expense Data and assuming a 50% revenue loss and 1.1 debt-service coverage ratio, the California Housing Partnership estimates an aggregate net loss of \$988,772,795 over 12 months. They further estimate an overall rental income loss of \$1,762,745,522 to the affordable housing portfolio.

- **Ineligible Projects:** It is assumed that projects that have 100% project-based subsidy from federal, state or local agencies will not require assistance because HUD and/or the local housing authorities or local agencies have the capacity to work with owners and tenants to adjust rents, and will include projects that have a rent subsidy contract from HUD or other governmental entity for 100% of the units in the project.
- **Partially Eligible Projects:** Projects with partial subsidy contracts will be eligible on a pro-rated basis, depending on their ability to substantiate need. Projects with tenant-based vouchers will be treated in the same manner as partially subsidized project-based deals.
- **Term of Subsidy:** Owners would initially apply for a period of up to 12 months.
- **Calculation of Subsidy:** The subsidy will be determined on a project-by-project basis based on substantiated need.
- **Lender/Investor Consents:** Lenders and investors shall consent to the subsidy and to the use of operating reserves to bolster the capacity of the property to operate until subsidy is received—this includes use of reserves to assure the property has sufficient liquidity to meet its various obligations or use of reserves to pay operating expenses.
- **Mortgage Loan Forbearance/Concessions:** Lender shall have committed to forbear on first mortgage payments for up to 3 months or committed to other concessions that facilitate interim operating feasibility and extend repayment on forbearance payments in a manner that assures continued successful operating capacity of the property through the end of the term of the loan.

#### Proposal for Tenant Level Subsidy:

As noted above, eviction moratoriums play an important role in protecting renters, but tenants are still responsible for their rent payments and small landlords still need rent revenues to operate and maintain their housing units. Providing temporary rental assistance to current and projected cost-burdened renters would keep at-risk tenants stably housed. This assistance could be provided through a combination of Emergency Solutions Grants, Housing Choice Vouchers, Section 521 Rural Rental Assistance, or the Disaster Housing Assistance Program (DHAP).

The National Low Income Housing Coalition analyzed the need for emergency rental assistance during the COVID-19 and economic crisis and estimates that approximately 1.2 million at-risk California renter households would participate and receive emergency rental assistance for up to 12 months, at a cost of \$17.3 billion.<sup>3, 4</sup>

Vouchers have the advantage of reflecting local rent value. They can also adjust as people go back to work and their income increases or to reflect their unemployment benefits, which could be accounted

---

<sup>3</sup> See <https://nlihc.org/sites/default/files/Need-for-Rental-Assistance-During-the-COVID-19-and-Economic-Crisis.pdf> for methodology.

<sup>4</sup> The Urban Institute also estimates that approximately 1.2 million low-income Californians qualify for the federal Housing Choice Voucher Program, but are not receiving assistance. See <https://www.urban.org/urban-wire/its-time-reinforce-housing-safety-net-adopting-universal-vouchers-low-income-renters>.

for to avoid paying double assistance. And, importantly, with a voucher, payments go directly to landlords, which ensures rents get paid, and landlords in turn can pay their mortgages.

**Conclusion:**

California was facing serious affordable housing challenges before the COVID-19 emergency, and the state will face equally serious challenges after the crisis has passed. The “Keep California Housed” proposal highlights key steps the state must take to get through this emergency—supporting lower-income households in desperate need of affordable housing, while also providing assistance to affordable housing providers responsible for keeping struggling Californians housed.

Accomplishing these goals will require a partnership between state and federal government, as well as the private-sector owners, lenders, investors responsible for building and maintaining California’s affordable housing stock.

Given the statewide scope of the COVID-19 crisis, it will also require operating at speed—and on a significant scale—to ensure all California residents can remain safe and healthy in their homes.