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MEMORANDUM

To:	Honorable Mayor and City Council, City of Beverly Hills
From:	HR&A Advisors, Inc.
Date:	November 13, 2018
Re:	Preliminary Assessment of a Potential Beverly Hills Rent Subsidy Program

During the October 11 and 18 City of Beverly Hills (the "City") City Council Study Sessions regarding the Rent Stabilization Ordinance ("RSO"), City Councilmembers discussed the possibility of introducing a new rent subsidy program in which the City would assist a subset of eligible tenant households residing in units subject to the RSO who, due to their household's very limited financial circumstances, would benefit from rental assistance provided by the City. The amount of subsidy the City might provide, as well as the scope and the source of the funds for such a program have yet to be determined, but Councilmembers suggested an initial set of criteria to determine the eligible subset of RSO households who might be defined as "qualified" for such a program. HR&A Advisors, Inc. ("HR&A") used the RSO Registry data and available U.S. Census Bureau data to make a rough estimation about the number of RSO households that might be eligible for this program based on City Council's preliminary suggestions. HR&A also reviewed nominally similar rent subsidy programs in the City of Santa Monica, City of Denver, and Orange County to provide further information about existing rent subsidy programs which may inform further City Council discussion about this matter.

Preliminary Analysis "Qualified" RSO Households

At the October 18th City Council Study Session, three criteria were suggested by Council Member Wunderlich for this program:

1. Households with rents below the lowest 20th percentile of RSO rents;
2. Households that are housing cost-burdened according to HUD definitions; and
3. Households with more than three to five years of tenancy.

As noted in HR&A's Data Brief prepared for the RSO Issue Papers, robust U.S. Census Bureau sample data that could be used to cross-tabulate these criteria are not available, because these specialized data are not available for relatively small cities like Beverly Hills. HR&A, instead, used a combination of RSO Registry data and the U.S. Census Bureau's 2016 American Community Survey 5-Year data series to produce a rough estimate of the number of households that would meet the suggested eligibility criteria in Beverly Hills.

Of RSO units for which rent data were recorded in 2017 and rent was above $0, 1,317 units fall into the lowest 20th percentile.[1] The number of such units by bedroom size and implied household incomes for the each threshold rent levels (estimated using census data on the overall median gross rent paid as a percentage of household income in Beverly Hills -- i.e., 30.7% in 2016), are shown in Figure 1.

[1] The 2017 RSO Rent Registry includes a total of 7,699 units, but 904 of these units were vacant, owner-occupied, or otherwise did not report rent data. This analysis was done only using the units for which rent was recorded.

Figure 1: Lowest 20th Percentile of 2017 RSO Rents by Number of Bedrooms and Implied Household Incomes

Number of Bedrooms	2017 Median Rent	20th Percentile Rent	Implied Household Income	Number of Units Below 20th Percentile Rent
0	$1,444	$1,100	$42,997	129
1	$1,905	$1,550	$60,586	581
2	$2,700	$2,214	$86,541	496
3	$3,750	$3,054	$119,359	105
4	$4,975	$3,952	$154,476	6
Number of Units				1,317

Source: Beverly Hills RSO Registry, 2017

As also noted in HR&A's Data Brief, the U.S. Department of Housing and Urban Development ("HUD") defines households as "rent-burdened" if they pay more than 30 percent of their income for rent, and "severely rent-burdened" if they pay more than 50 percent of their income for rent.

In 2016, in the City as a whole, 52 percent of renter-occupied households spent more than 30 percent of their annual income on rent, and 29 percent of households spent more than 50 percent of their annual income on rent.[2] If it is assumed that the Citywide value for "rent burden" applies to households paying the lowest 20th percentile rents, this would imply that 685 households (i.e., 52% rent-burdened x 1,317 lowest 20th percentile rents) might qualify for City assistance based on the first two suggested criteria. If, alternatively, the second criterion is limited to severely rent-burdened households paying the lowest 20th percentile of rents, this would imply that 382 households (i.e., 29% severely rent-burdened x 1,317 lowest 20th percentile rents) would qualify.

For the third suggested criterion, and as also reported in the Data Brief, 7.5 percent of renter households moved into their unit in 2015 or 2016, meaning that at least 92.5 percent have resided in their unit for three years or more. While this overall duration of tenancy factor may not apply specifically to those households paying the lowest 20th percentile rents, assuming that it does, it would further reduce the number of households potentially eligible for City financial assistance to either to 634 households (i.e., 52% rent burdened x 1,317 lowest 20th percentile rents x 92.5% minimum three years tenancy), or 353 households (i.e., 29% severely rent burdened x 1,317 lowest 20th percentile rents x 92.5% minimum three years tenancy).

Given the above data limitations, if the City Council chooses to move forward with a more detailed assessment of a rent subsidy program, consideration should be given to fielding a scientific random sample survey of rent stabilized City households to derive more precise estimates of program demand under the above or alternative qualification assumptions. A more refined demand estimate would then need to be paired with a rationale for a target amount of City financial assistance, and an estimated cost for program administration, to project overall annual program cost to the City. Even with better data and cost estimates,

[2] The Census also reports renter "cost burden" (i.e., rent and utilities) for renter-occupied households, but only for those households paying more than 30 percent of household income on housing costs.

the City should also consider a Pilot Program in which a limited number of eligible households participate before deciding if and how to scale up a Citywide rent subsidy program.

Precedent Rent Subsidy Programs

While direct assistance in the form of rental subsidies funded by a local jurisdiction is uncommon in the United States, several cities do fund programs that are designed to reduce hardship for lower- and middle-income renter households.

HR&A has identified three rental subsidy programs that are potentially aligned with what Beverly Hills may consider: the City of Santa Monica's new "basic needs" rental subsidy program for elderly renters; the City of Denver's LIVE program, a public-private partnership that provides rental assistance to working residents; and the Manufactured Housing Educational Trust's rental assistance program for manufactured housing residents in participating mobile home parks in Southern California. The Santa Monica and Denver programs described below are both still in their pilot phases, and as such, the effectiveness and sustainability of these programs is still under evaluation. In any event, these examples may prove instructive if the City Council chooses to continue exploring this type of program.

Santa Monica's Preserving Our Diversity Program

Santa Monica began the Preserving Our Diversity ("POD") Pilot Program in November 2017, nearly two years after the idea of a rent subsidy program was first introduced, and was intended to operate for a trial period of 14 months. The POD Program aims to improve quality of life by providing financial assistance to low-income, long-term senior renter residents, ensuring that households have sufficient resources to meet their basic needs. The City is running a pilot in order to gauge the program's effectiveness as a housing preservation and anti-displacement strategy and model; and identify key issues to address in conjunction with considering any program expansion.[3]

The POD Pilot program currently assists 21 households with residents aged 62 or older who have been living in rent-controlled apartments since January 1, 2000 or before, and are low-income or very low-income. The subsidy is paid directly to the landlord, or directly to the POD participant when a landlord refuses to accept payment or when a tenant is concerned about involving the landlord. The City allocated $300,000 toward the pilot program, with $100,000 allocated to administration and $200,000 to rent assistance.

The program was first proposed to assist the nearly 6,000 rent-burdened households in Santa Monica. As a first step in developing the program, Santa Monica City staff distributed a Renter Needs Survey to residents of rent-controlled units to assess the magnitude of need among low-income residents. The Renter Needs Survey also served as a pre-application for the POD pilot program. Survey respondents were assessed on two preliminary eligibility criteria: extremely low-income (earn less than 30 percent of area median income); and severely rent-burdened (paying more than 50 percent of gross household income toward rent). Survey results confirmed that a subset of Santa Monica's long-term residents in rent-controlled housing are extremely low-income, rent-burdened seniors living alone, and with very little after-rent income to pay for basic needs.

Based on the analysis of the survey results, the City decided to target senior households, to use residual income available after rent as the subsidy metric, to prioritize long-term residents of rent-controlled housing,

[3] City of Santa Monica Staff Report to the City Council Preserving Our Diversity Subsidy Pilot Program, July 25, 2017 (available at: http://santamonicacityca.iqm2.com/Citizens/Detail_LegiFile.aspx?Frame=&MeetingID=1098&MediaPosition=&ID=2502&CssClass=).

and to direct additional services and resources to pilot participants, including connecting participants to existing programs and services that are available to low-income households. The City conducted interviews with 45 households in which interviewees self-reported household income, assets, resources, and expenses. Using this information, City staff selected 26 high-need households to participate in the POD Pilot Program. Due to attrition, five households did not ultimately participate in the program and the total number of pilot households was 21.

The amount of financial assistance provided through POD was determined using the Basic Needs Subsidy Method, based on UCLA's Elder Index Basic Needs Budget. The program aims to equalize the remaining amount each household retains after paying rent. The total monthly non-rent Basic Needs Budget is $740 for a 1-person household and $1,293 for a 2-person household.

The formula used by the POD Program for determining rental subsidy is as follows:

1. Total annual income less rent = annual non-rent income
2. Difference between Basic Needs Budget Non-Rent Expenses and annual non-rent income = annual subsidy
3. Annual subsidy divided by 12 = monthly subsidy

The City of Santa Monica found that the average after-rent income for the pilot cohort was $273 for single households, so the monthly average POD subsidy would be $467 for the average household. For 26 households, this came out to a cost of $149,844 per year.

Figure 2: Santa Monica POD Pilot Program 12-Month Projected Subsidy Budget

HH Size	Average after-rent income	Basic Needs Budget Non-Rent	Monthly Average POD Subsidy	Monthly Program Subsidy Costs	Annual Program Subsidy Costs	Qualified HH
1	$273	$740	$467	$10,280	$123,360	22
2	$742	$1,293	$551	$2,207	$26,484	4
Total POD Costs				$12,487	$149,844	26
Average Per Household				$480	$5,763	

Source: City of Santa Monica Staff Report, 25 July 2017

Santa Monica city staff also calculated the cost of a traditional subsidy program that considers rent burden only, modeled on Section 8, for the 26 Pilot households. City Staff found that the Basic Needs Approach would cost the City about $40,000 less annually than the traditional rent subsidy method annually.

Figure 3: Santa Monica's Alternative Traditional Rent Subsidy Method Projected 12-Month Budget

Traditional Rent Subsidy Method Projected 12-Month Subsidy Budget			
HH Size	Monthly Average HH Subsidy	Monthly Total POD Subsidies	Annual Total POD Subsidies
1	$616	$13,543	$162,516
2	$464	$1,856	$22,272
Totals	$592	$15,399	$184,788

Source: City of Santa Monica Staff Report, 25 July 2017

In addition to financial assistance, a key component of the POD Program is connecting participants to existing benefits and service for which they are eligible. In an interim report on findings and observations from the Pilot Program as of June 2018, city staff found that economic hardship was alleviated due to POD, but also that participants reported feeling more hopeful and more connected to their neighborhoods and community. The city issued a wellbeing survey at the launch of the program and in June 2018, and during the course of the program participants became more likely to indicate that they plan to remain a resident of their neighborhoods for several years.[4]

In July 2018, the Santa Monica Housing Commission recommended increasing POD program funding to $2 million per year and expand the program to additional households.[5] Housing Commissioners noted that the program has enabled participants to live with dignity as integral members of the community. The City Council will consider this recommendation during 2019.

Denver's Lower Income Voucher Equity Program

The Lower Income Voucher Equity Program (LIVE Denver) is a two-year pilot program built through public-private partnerships between private employers, philanthropy and the City of Denver.[6] The program was developed in close collaboration between the Office of Economic Development, the Apartment Association of Metro Denver, and Denver's business community. Local Initiatives Support Corporation is working for the Denver Housing Authority as the program's fund manager. The program was designed as an approach to assist the 52,000 Denver residents comprising the "missing middle" of Denver's housing market, those residents who make too much to qualify for housing subsidies but not enough for a comfortable home without rent burden.[7]

LIVE Denver assists households in which at least one person is working full time and household income levels are within 40 percent ($23,520 for an individual or $33,560 for a family of four) to 80 percent ($47,040

[4] Preserving Our Diversity Pilot Key Assessment Findings, June 2018.

[5] City of Santa Monica Staff Report to the City Council, Approve the Proposed Housing Trust Funds Initial Plan, July 24, 2018 (available at: http://santamonicacityca.iqm2.com/Citizens/Detail_LegiFile.aspx?Frame=&MeetingID=1146&MediaPosition=&ID=2932&CssClass=).

[6] Denver LIVE Program: Housing working families and individuals today; see: http://livedenver.org

[7] A Bold Fix for Denver's Affordable Housing Crisis, August 2, 2018'; see: http://www.lisc.org/our-stories/story/bold-fix-denvers-affordable-housing-crisis

for an individual or $67,120 for a family of four) of Area Median Income. Thus, Denver LIVE is not designed to assist Denver's most vulnerable renters, but rather to expand immediate housing affordability for working families. In particular, the program targets employees of Denver's hospitals, teachers, and the hospitality and food service industries.

Participants in the pilot program contribute 35 percent of their income towards rent payment. The remainder of a participant's monthly rent payment is funded by the City of Denver, private employers, and foundations pays the balance of rent. Five percent of the clients' rent payments are set aside as savings and returned to them at the end of the two-year program.

The program asks apartment owners to register newly constructed or recently renovated vacant units for the program and uses a third party to determine reasonable market rate for these registered units. This third party calculates the reasonable market rate by comparing each unit offered to three comparable units.

The City allocated $1.2 million dollars to run the pilot program: $1.0 million dollars for rent subsidies over two years and $200,000 for administrative costs. The pilot program is budgeted to subsidize 125 households initially, with City officials expecting to spend about $500 per month subsidizing a single person and $900 per month for a family.

The City's ability to sustain and scale the pilot program will likely depend on whether employer participation can be increased. The City believes that employers have natural incentives to participate in the program. St. Joseph Hospital, a participating employer, has stated that its medical technicians and nurses are moving further and further away from the City, which at some point becomes a problem from a recruitment and retention standpoint. As of November 2018, the hospital has contributed $100,000 to the program's funding with hopes that up to twelve employees will participate. Employers that have contributed to the program's funding generally pre-identify employees that would be interested in participating and set their contribution amount accordingly.

While the LIVE model would not fit housing market conditions in Beverly Hills, primarily because Beverly Hills is focused on helping residents stay in the units where they currently reside and the City does not have a surplus of vacant units, the City may consider certain aspects of the model, including identifying any Beverly Hills based employers with employees who are currently living in RSO units and who would potentially meet other eligibility criteria. Structurally, this program differs from Santa Monica's POD program, which is based on a universal elder basic needs budget for all participating households. LIVE Denver's approach is to set the rent subsidy at market rate rent less 35 percent of a participant's household income, setting aside five percent of the monthly payments as savings.

Manufactured Housing Educational Trust Rental Assistance Program

The Orange County Manufactured Housing Assistance Program is distinct from the above programs in that it is not funded or administered by local government. Participating mobile home park owners voluntarily pay for rental subsidies, with the non-profit Manufactured Housing Educational Trust administering the program and indicating to park owners which residents are eligible for assistance, and the amount of assistance they require based on the federal Section 8 rent subsidy model (i.e., household pays no more than 30% of household income for mobile home space rent). The program provides space rent subsidies to qualified mobile home owners living in Orange County mobile home parks, as well as a handful of parks in Riverside, San Bernardino, and Los Angeles Counties.[8] Through this program, monthly rent subsidies are paid to

[8] Manufactured Housing Educational Trust Rental Assistance Program; see: https://www.mhet.com/rental.shtml

qualified mobile home park residents on an interim basis until they begin receiving government housing assistance or other income assistance.

Mobile home owners in participating parks must meet the following eligibility criteria:

- Live in their mobile home as their primary place of residence;
- Have lived in the park where they are currently residing for the past three consecutive years;
- Meet the very low-income guidelines used by the local Housing Authority for the Section 8 rental assistance program (Gross annual income from all sources is 50% of the median income or less);
- Must meet one or more of the following criteria: (1) be at least 62 years of age or older; (2) be a family of two or more; or (3) be disabled;
- Does not receive assistance from any other rental assistance program;
- Have housing costs equal to or greater than 40% of their income;
- Do not own real property with a value of $10,000 or more;
- Do not own personal property with a value of $20,000 or more (excluding mobile home);
- Qualify for HUD Section 8 rental subsidy and are on the waiting list for assistance; and
- Is in compliance with all park rules and regulations and space lease.

This program's approach to eligibility criteria is different from LIVE Denver's in that it is primarily seeking to provide Section 8-type assistance to residents who do not currently have access to assistance.

Conclusion

While Santa Monica and Denver programs are likely not solutions that can be scaled to assist all eligible households in those cities, they provide innovative examples of current approaches to rent subsidy programs that seek to maximize the impact for participating households that were deemed the most vulnerable, in the case of the POD Program, or cost-efficient recipients of subsidy funds, in the case of LIVE Denver's employer contribution model. The MHET Rental Assistance Program provides an example of a more traditional rental subsidy based on the Section 8 model.

Significant time was required to research, design, and launch the Santa Monica and Denver programs: two years for POD and one year for LIVE Denver. Both pilot programs evolved from what was originally planned after determining that the need based on eligibility criteria was far greater than available funding. Leaders of both programs have noted that the path to launching the programs was more drawn out than originally anticipated.