

House Sub-Committee on COVID & Housing

Proposal for a Housing Relief & Resilience Fund

I. Introduction

A. The coming wave of housing distress

Economic stress in Hawaii will be deep and prolonged due to our heavy dependence on the travel industry. The next “curve to flatten” may be a sharp rise in housing instability and homelessness in the wake of COVID-19 - a curve that would impact many people who have never relied on public assistance before, and who do not qualify for existing housing programs.

As of this writing, many COVID relief programs are scheduled to end by Aug 1 including: PPP loans; the \$600/week Unemployment Insurance (UI) “Plus-Up”; temporary increases to public assistance such as SNAP; and both the State and federal moratoriums on evictions. Federal relief may be extended, but Hawaii’s recovery will likely take longer than the rest of the U.S., and may outlast federal aid. At present, experts predict a rise in evictions, housing instability, and homelessness in August, with potential ripple effects through banking and other parts of the economy.

Renters are especially vulnerable. Homeowners with a federally-backed mortgage qualify for up to a year of forbearance, but there is no similar protection for mortgages without federal backing, and renters have no forbearance or other housing assistance. When eviction moratoriums expire, back rent is still owed, which could result in demands for lump-sum payments and a wave of evictions.

B. About this report

This report summarizes findings, recommendations, ideas and questions related to the use of State CARES Act funds to provide relief for renters and landlords in distress as a result of COVID. It reflects the thinking of members of the Subcommittee on COVID & Housing (the “Subcommittee” or “We”), appointed by House Speaker Scott Saiki and Bank of Hawaii CEO Peter Ho and convened on May 29, 2020. The Subcommittee was charged with:

1. monitoring and raising awareness about housing needs and opportunities emerging from COVID and its economic fallout
2. recommending priority areas for action and investment, including but not limited to the use of federal CARES Act funds by the State to address COVID-related housing needs
3. advancing action/investment priorities by (a) promoting in Subcommittee members’ own work (as individuals and organizations) and (b) by promoting to peers and the public

The findings that follow are based on research and discussion of our Subcommittee members and discussions with people and organizations in the community. A full list of Subcommittee members is attached.

C. Caveats

The State’s CARES Act funds are intended to assist people who have been financially impacted by COVID and must be spent by the end of 2020. As such, this proposal focuses on the needs of

renters at-risk of losing their housing due to COVID-related income loss. It is one proposal among several being formulated by the Subcommittee, not all of which relate to renters, CARES funding, or legislative action. Not every Subcommittee member agrees with every part of this proposal. However, members do support the general thrust of the ideas and recommendations contained herein.

II. Complementing vs Duplicating Existing Relief

Our subcommittee collected information about current housing assistance and COVID relief programs and found five areas where we believe a State-funded effort can help fill gaps.

A. Speed: A need for programs that can provide household relief quickly

Local COVID emergency relief programs are struggling to process applications within 4 weeks, which is too long for many in dire need. Delays are caused mainly by household income and asset verifications required prior to approval, which turns a 10-day approval process into a 40-day process, according to one agency. Quicker turnaround is possible with self-certification of income/assets and legal penalties applied if false information is found upon later review. Comparing data from two COVID relief programs in Hawaii, one requiring verification and another using self-certification, there was no difference in households served (all were ALICE households experiencing COVID hardship), and only 1 applicant in 44 self-certified a higher income than actual. Even this applicant was qualified to receive assistance, but made an error on the application. There is little evidence of fraud or abuse of relief funds to date.

B. Timing: A focus on the coming need versus current needs

Existing household relief programs funded by the Counties and foundations (e.g., the City & County of Honolulu Household Hardship Relief fund and Hawaii Community Foundation Resilience Fund) are serving people who are in distress now, most likely because their UI claims have been denied or delayed. People with UI are probably able to pay their rent, and may even have temporary, surplus income. Overall, rent delinquency increased only modestly in May and June due to stimulus checks and the UI Plus-Up. However, these “UI households” will be challenged when the Plus-Up ends or is reduced. This is the need we aim to serve.

C. Capacity: A need to build capacity of existing agencies and add new agencies to the mix

Even pre-COVID, social service agencies struggled to serve housing needs due to onerous eligibility determination and reporting requirements (often required by government funding), combined with lack of funding for adequate administration, staffing, training, and technology. Using CARES or other funds to build capacity AND to demonstrate more flexible forms of assistance can help Hawaii make better use of its housing resources even after COVID.

D. Flexibility: Ability to adapt the program in a highly unpredictable environment

Uncertainty about federal actions, the timing of Hawaii’s recovery, and other factors make it impossible to predict the scale, timing, and duration of housing needs. Therefore, we need a relief program that is flexible -- able to change eligibility requirements, assistance levels, and other features as needs change. Many existing COVID relief programs have compliance requirements which don't allow for modifications, but a State CARES-funded program could be flexible if parameters were defined in a Grant-in-Aid rather than in legislation or rulemaking.

E. Community: Engaging everyone who is willing and able to help

Hawaii faces what is potentially an unprecedented wave of housing hardship. It will take more than government funding to address it. We will need to ask everyone in our community to step up and help -- landlords, tenants, lenders, individuals and companies with enough to share, private philanthropy, nonprofit organizations, and individual donors and volunteers. Thankfully, we live in Hawaii, where the desire to help others is abundant. Any proposals should be designed to activate and utilize this community goodwill.

III. Estimating the Housing Needs Ahead

A. Renters

We relied on projections of housing instability resulting from COVID by UHERO and the Hawaii Budget & Policy Center. Findings included:

- 40,000 to 45,000 renter households will be unemployed, lose their FPUC UI Plus Up, and not be receiving other rental assistance come Jul 31.
- 21,500 of these renter households will be at risk of losing their housing come July 31, because the portion of their income going to housing will jump by 10% or more.
- 7,500 of these renter households will be at extreme risk of losing their housing come July 31 because the portion of their income going to housing jumps by 30% or more.

Here is an example of how the housing cost burdens increase for a “typical” renter household with \$60,000 in income (the statewide median), rent of \$1800 (the average 2BR rent) and UI that only covers 60% (typical percentage) of past income after July 31.

	<u>Pre-COVID</u>	<u>Post-Jul 31</u>
HHLI Income (avg Renter income = \$60k)	\$ 5,000	\$ 3,000
Pre-Covid Rent (avg 2BR rent = \$1800/mo)	\$ 1,800	\$ 1,800
Post Jul 31 Housing Burden	36%	60%

HBPC and UHERO also found that housing relief will likely be needed beyond the end of 2020, when this round of CARES funds expires. Both emphasize that these figures are conservative estimates of housing distress. In addition, UHERO modeled housing relief needs assuming the UI Plus-Up or household subsidy is provided in varying amounts after July 31. Those projections are forthcoming via the UHERO blog.

C. Homeowners

HBPC estimates 13,000 homeowners will also be unemployed, lose their UI Plus-Up, and not be receiving other assistance (including mortgage forbearance) on July 31. Some portion will be at risk of housing loss, but generally speaking, homeowners have more options and “cushion” than renters: 37% of all owner-occupied homes in Hawaii have no mortgage; many can draw on home equity to cover expenses; and, low-income homeowners are more likely to have a federally-backed mortgage which qualifies them for forbearance. Our discussions found that the best solution for homeowners is to work with lenders to add missed monthly payments on to the end of the mortgage term. We felt that making mediation/legal assistance available to homeowners (as recommended below) was a better solution than a direct subsidy.

V. Proposal for a Housing Relief & Resilience Fund

A. Overview

Our Subcommittee recommends creating a Housing Relief & Resilience Fund (HRRF) for renters who can show loss of income due to COVID, who had pre-COVID income under 100% of Area Median Income (AMI), and have liquid assets under \$10,000.

1. Tenants would agree to pay a portion of their monthly rent (estimated at 60%) for the next 6 months and engage in financial counseling. The actual amount would be determined by taking a renter's pre-covid "housing cost burden" (% of income paid to rent) multiplied by their post-Covid income after July 31 (i.e., keeping their "housing cost burden" the same).
2. Landlord would agree to discount rent by 15% for the next 6 months, and to not evict during that period, extending the lease to cover this period if necessary. The actual discount amount could be adjusted up or down based on landlords' ability to contribute.
3. State would make up the difference through the HRRF. Assuming statewide average 2BR rent of \$1800/mo, a 60% renter contribution, and 15% landlord discount, the remaining 25% would be \$450/mo or \$2700 for the 6 month period. This would be paid up-front, directly to the landlord.

B. Determining Eligibility & Assistance

1. Renter submits lease agreement and renter's UI or PUA approval letter (letters if more than one earner in the household is receiving UI).
2. Renter signs a certification that reports all household income sources, and declares that adults in the household (a) have less than \$10,000 in combined liquid assets, and (b) are not receiving other rental assistance.
3. Landlord signs agreement to extend lease without eviction for 6 months; to forgo 15% of the next 6 months of rent; and to engage in mediation to work out a payment plan if back rent is owed. Landlord contribution amount can be adjusted if necessary.
4. Renter signs an agreement committing to pay monthly rent equal to their post-COVID income x their pre-COVID housing cost burden (estimated at an average of 60% of base rent); to participate in financial/emergency budget counseling; and to engage in mediation to work out a payment plan if back rent is owed.
5. People who do not have UI but can document a drop in income via employer letter and past pay stubs are permitted to use HRRF funds in combination with other rental assistance (since they won't have 60% of past wages from UI).
6. Homeowners can qualify to access mediation/legal services and financial counseling under this program if they show loss of income due to COVID, and self-certify less than \$10,000 in liquid asset and pre-COVID income under 100% AMI.
7. Review of household income and assets may be required after approval and penalties applied if an applicant is found to have falsified information on their application.

We included eligibility item "5" above for those households that may need additional help above what County and private programs offer. This may be especially important for COFA citizens, self-employed people, immigrants, and others who experience longer UI delays and/or higher UI rejection rates than others. We Are Oceania reports that more than 80% of COFA citizens who have applied for UI had not received them as of this writing.

Here is an illustration of how eligibility and the assistance amount would be calculated. The four boxed items are the key inputs:

ITEM	DATA SOURCE	1MO	6MO
A Pre-Covid Rent	lease agreement (Med 2BR rent \$1800)	\$ 1,800	\$ 10,800
B Pre-Covid HHLD Income	UI/PUA letter + other HHLD income self-certified (Med Renter Inc \$60K)	\$ 5,000	\$ 30,000
C Pre-Covid Burden	A / B = % of income needed for rent pre-COVID	36%	36%
D Post-Covid Rent	lease agreement (Med 2BR rent \$1800)	\$ 1,800	\$ 10,800
E Post-Covid HHLD Income	from UI/PUA letter and self-certified other income (est 60% pre-COVID)	\$ 3,000	\$ 18,000
F Post-Covid Burden	D / E - % of income needed for rent post-COVID	60%	60%
G Landlord Contribution %	documented in landlord agreement	15%	15%
H Landlord Contribution \$	A * G = Pre-Covid Rent x percent landlord discount	\$ 270	\$ 1,620
I Renter Contribution	C * E = Pre-Covid Burden % x Post-Covid Income	\$ 1,080	\$ 6,480
J State CARES Contribution	Pre-Covid Rent - (Landlord Contribution + Renter Contribution)	\$ 450	\$ 2,700

C. Implementation

We need a program that can scale up in August to potentially reach tens of thousands of households across all islands. The program will need to avoid the staffing shortages and delays experienced by the UI program and others. Finally, it will need to adapt as conditions change. With these priorities in mind, we recommend the following method of implementation:

1. Appropriate CARES Act Funds to State agency (e.g., HPHA) and pass-thru funds via GIA (State Grant-in-Aid) to a nonprofit intermediary such as the Hawaii Community Foundation or Aloha United Way. Parameters of the program can be written into the GIA, rather than codified in law or regulation, allowing for adaptations if needed.
2. Nonprofit Intermediary sub-grants funds to community nonprofit agencies in line with the GIA terms. Community nonprofits will be responsible for implementation including marketing, application processing, payments to landlords, mediation/legal assistance, financial counseling, and outcomes reporting. In order to add capacity to the already strained social services system, it will be important to engage several types of organizations:
 - a. Social service providers -- nonprofits that already provide services related to housing, homelessness, and rent assistance. Since these agencies are stretched thin, additional nonprofits should be engaged including:
 - a. Community Development Financial Institutions -- nonprofit lenders certified by the US Dept of Treasury, which already have software, banking relationships, and experience managing payments, documenting agreements, and determining eligibility. Some Credit Unions may also be good fits for the program. Several CDFIs are already administering relief programs and have expressed interest and ability to help scale this program as well.
 - b. Housing/Financial Counselors -- Housing Counseling Agencies (certified by US Dept of Housing & Urban Development) also have experience and infrastructure to make/track payments, determine eligibility, and provide financial counseling and related services.
 - c. Mediation and Legal Assistance. Many legal assistance and mediation programs have experience working out landlord-tenant agreements, collecting documentation, and determining eligibility.

Note: All of these nonprofits are well positioned to reach those in need, engage their communities, and overcome barriers that may prevent equitable utilization. By

engaging the above range of nonprofits in this work, we can expand Hawaii's capacity to provide housing assistance and homeless prevention now and in the future.

3. Nonprofits add staff capacity through hiring AND by repurposing existing VISTAs. Subcommittee members report there are up to 300 AmeriCorps members in Hawaii who could be mobilized quickly, trained to deliver services, and paid through their existing AmeriCorps living stipends, rather through CARES Act funds or State funding. VISTAs can be assigned to do eligibility determinations, financial counseling/emergency budgeting with renters, and to take on other program-related responsibilities.

Our consultation with nonprofit organizations in the categories above gives us confidence that capacity can quickly be built on all islands, and a program deployed in August, while avoiding the types of processing delays experienced by UI and other programs. Implementing through community nonprofits rather than through a government also offers other advantages:

1. Build long-term capacity (training, infrastructure, new partnerships) for increasing the use, efficiency, and accountability of housing vouchers and other rent assistance that pre-dated COVID, which have proven difficult to fully expend historically.
2. Enable the private sector and community to contribute. Private foundations, corporate foundations, and banks have expressed interest in helping to cover program costs related to housing relief and resilience. This is easier to do through nonprofit structures than through government agencies.
3. Easier to scale up or down than utilizing State government agencies. Bringing new nonprofits into the fold to share their expertise and infrastructure, and utilizing Americorp VISTA members wherever possible, allows for flexibility in scale.
4. Marketing to multiple parties, through multiple channels. Committee discussions identified the need to promote relief to landlords, property managers and renters and to do so through a variety of channels including through community organizations, media, and grassroots outreach. The mix of nonprofits described above is well suited to reach out through these networks and channels.

D. Funding

We recommend that the HRRF be appropriated a minimum of \$50 million for housing subsidies, which would cover 18,519 households under the assumptions above. We also recommend appropriating an additional 15% (\$7.5 million) for program and administrative costs, including housing/financial counseling; legal/mediation assistance; and the technology, and staffing and training to quickly begin deploying funds and services at scale by August. We considered limiting admin and program costs to 10% of direct assistance, but existing COVID relief programs in Hawaii have found this inadequate to cover costs and sustain operations. Furthermore, the admin and program costs in our proposal do more than just get money out the door -- they are an investment in permanent new capacity which will equip Hawaii to better address housing needs in the future.

E. Everyone Can Contribute

We believe one strength of the proposal above is that it enables everyone in our community to contribute:

- Renters ensure there's enough relief for everyone by taking only what they need, and using financial counseling to help them stretch dollars as far and long as possible.

- Landlords help by forgoing an average of 15% of base rent over the next 6 months and agreeing not to evict during that time.
- Government makes up the difference between renter’s lost income and 85% of base rent. Government also helps by coordinating responses to avoid duplication.
- Lenders help by working with landlords and homeowners to restructure mortgages and can also provide funds and expertise for financial counseling for renters.
- Nonprofits help by getting relief out quickly and equitably, and by collaborating to build new skills, knowledge, staffing, and technology infrastructure within their organizations.
- Community helps by activating volunteers to help test the new system and can even volunteer to help get the word out and process applications for relief.
- Philanthropy helps by contributing private dollars to support the effort, and by providing expertise/support to government to ensure funds are expended appropriately.

Preventing a wave of housing instability and homelessness requires more than government funds. It requires contributions large and small, from all members of our island society. We believe the proposal above enables everyone to contribute in ways that help Hawaii’s people through the difficult months ahead.

F. Other Things We Considered

1. 20% vs 15% landlord contribution

To determine assistance levels, we used as a starting point recommendations from the Renter Relief Hui led by OHA, Medical Legal Partnership, Hawaii Appleseed and others. Subsequent discussions with landlords, realtors, and tenant advocates found that a 20% landlord contribution (as initially recommended by the Renter Relief Hui) may not be feasible for properties with lower rents and lower-income renters. Therefore, we propose a landlord contribution of 15% (roughly equivalent to forgiving 1 of the next 6 months rent). The renter contribution of 60% is based on the assumption that a vast majority of people served by the Fund will receive UI, which covers 60% on average of past wages.

2. Higher subsidy levels

We considered a larger subsidy per household, especially for those who do not have UI. However, we discovered that many without UI are being served through other relief programs such as the City & County of Honolulu’s Household Relief & Resilience Fund which provides \$1000 per month plus childcare expenses.

3. Asset and income verification

We considered requiring verification of household assets and/or income prior to approval rather than self certification with legal penalties for false information. But as noted, we discovered this was a prime contributor to processing delays and there was little evidence that self-certification did worse in terms of targeting need or preventing abuse.

4. Loans versus grants

We initially considered deploying rent assistance as loans rather than grants. Loans have several advantages including that they better target those in need (folks who don’t need help are less likely to apply for a loan than a grant), and that repayment means funds can be relent to other households in need, stretching CARES funds further. However, it was unclear whether Dept of Treasury rules would count repaid funds as “expended” before Dec 31. We are still

awaiting guidance from Treasury on this question as of this writing, and opted to structure the relief program as a direct subsidy instead of a loan.

Subcommittee Members

Ali Slous	Governor's Coord of Disaster Recovery
Aura Reyes	Ka Poe O Kakaako
Chris Benjamin	Alexander & Baldwin
Gavin Thornton	Hawaii Appleseed
Janice Takahashi	Hawaii Housing Finance & Dev Corp
Jeff Gilbreath	Hawaii Community Lending
Laura Thielen	Partners in Care
Michelle Kauhane	Hawaii Community Foundation
Milo Spindt	Kauai Housing Dev Corp
Peter Ho	Bank of Hawaii
Phil Garboden	UH Manoa UHERO/DURP
Rose Prieto	Affordable Hawaii for All
Scott Saiki	Speaker of the House
Tracey S. Wiltgen	Mediation Center of the Pacific
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