

County Acquisition of Low-Income Residential Tenant Rental Debt

Although there has been significant progress to slow the spread of the novel coronavirus (COVID-19), low-income communities in the County of Los Angeles have been especially impacted by the COVID-19 pandemic and associated public health restrictions. The County and State of California have partially mitigated these impacts by adopting emergency eviction protections that prohibit landlords from evicting tenants who are unable to pay rent due to impacts of COVID-19. While these measures helped reduce the immediate risk of eviction, many tenants now owe considerable sums in back rent. One estimate suggests that tenants in the County of Los Angeles owe nearly a billion dollars in back rent, <https://www.policylink.org/node/63161>. The vast majority of such debtors are likely to be low-income households – that is, households earning 80 percent of the Area Median Income (AMI) or less. Other tenants have accumulated debt with payday lenders and credit card companies in order to stay current on their rent. The unemployment rate reached historic peaks during the pandemic and remains elevated. Many low-income tenants will struggle to recover financially and would benefit

MOTION

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from relief to address rental debt and provide forward looking rental assistance. Without assistance, this financial hardship could cause greater numbers of tenants to fall into homelessness. According to HUD, over one million tenant households in the County of Los Angeles qualified as low-income before the COVID-19 pandemic.

On January 29, 2021, the State of California enacted SB 91, establishing eviction protections and a framework for administering statewide federal rental assistance funding. Under the SB 91 framework, landlords are offered 80% of the face value of the COVID-19 rental debt owed between April 1, 2020 and March 31, 2021 if the landlord agrees to forgive the remaining 20%. If the landlord refuses this offer, the tenant can still receive assistance for 25% of the debt, but the landlord may pursue collection efforts against the tenant for the balance. And for prospective rent, a tenant would only be eligible to receive assistance for 25% of the rent owed between April 1, 2021 and June 30, 2021. SB 91 offers assistance to all landlords regardless of the landlord's ability to absorb losses from tenants who are unable to pay. The SB 91 rental assistance framework is primarily concerned with ensuring that tenants can take advantage of delayed rent collection procedures under other parts of SB 91. This motion aims to address the underlying economic reality that low-income tenants are facing.

Sources indicate that it is unlikely that a landlord who refuses rental assistance will be successful in recovering a significant portion of rental debt from a low-income tenant. For instance, in one article, the National Apartment Association cited the recovery rate on rental debt as ranging from 15 to 20 percent, with rates sometimes lower than 10 percent in low-income markets. Understanding the fair market value of rental debt held by landlords that refuse rental assistance will help the County design

future rental assistance programs.

On March 11, 2021, the American Rescue Plan Act was signed into law. The American Rescue Plan (ARP) allocates approximately \$211 million in federal funding earmarked for rental assistance directly to the County of Los Angeles. The State of California received additional federal rental assistance funding that will be allocated to local governments. The County should explore options to use this funding as efficiently as possible to fully resolve rental debt, provide prospective assistance to low-income tenants, and support small landlords. Specifically, the County should explore whether it can establish a program that requires landlords to relinquish COVID-19 rental debt in exchange for fair compensation, with small landlords potentially receiving greater assistance than large landlords, and/or provisions to ensure that tenants do not remain in debt for the unpaid rent if their landlord refuses to accept rental assistance.

Unless we resolve this debt and help tenants get back on their feet financially, the same communities that were hardest hit by the COVID-19 pandemic will be held back by debt for years to come, and we will see more families spiral into homelessness. As such, we urgently need to come up with “out of the box” and strategic solutions to stretch the federal rental assistance funding as far as possible – to resolve COVID-19 rental debt and provide forward looking assistance to advance racial justice and equity while helping those who need it the most.

Therefore, as the Board considers crucial next steps with respect to the County's eviction moratorium, we must also consider how the County can help our most vulnerable households deal with rapidly mounting rental debt.

I, THEREFORE, MOVE THAT THE BOARD OF SUPERVISORS direct the County Counsel, in consultation with Department of Consumer and Business Affairs, the Los Angeles County Development Authority, and the Chief Executive Officer, to report back in 45 days on:

1. The estimated average fair market value of residential COVID-19 rental debt owed by a low-income tenant whose landlord has refused to accept rental assistance, based on typical collection rates, prices paid by those who purchase rental debt, the unique restrictions on collection and resale of COVID-19 rental debt pursuant to applicable law, and any other appropriate data sources.
2. The total estimated residential COVID-19 rental debt owed by all tenants in Los Angeles County, and the proportion owed by tenants who are likely eligible for ARP Emergency Rental Assistance funding under the federal guidelines.
3. The total estimated need for prospective rental assistance for tenants eligible for ARP Emergency Rental Assistance funding under the federal guidelines.
4. The estimated number of tenants in Los Angeles County with landlords that own fewer than five rental units, five to nine rental units, and ten or more rental units. To the extent possible, for purposes of this calculation, units owned by parent entities, subsidiaries, and other entities under common control should be aggregated and considered owned by a single landlord.
5. All legal options the County may pursue to fully eliminate all residential COVID-19 rental debt, including options for landlords to relinquish COVID-19 rental debt

in exchange for fair compensation and/or fair market value.

6. Viable funding sources, including ARP Emergency Rental Assistance funding, to fund the County's potential acquisition of rental debt incurred by low-income residential tenants as a result of financial impacts of COVID-19.

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