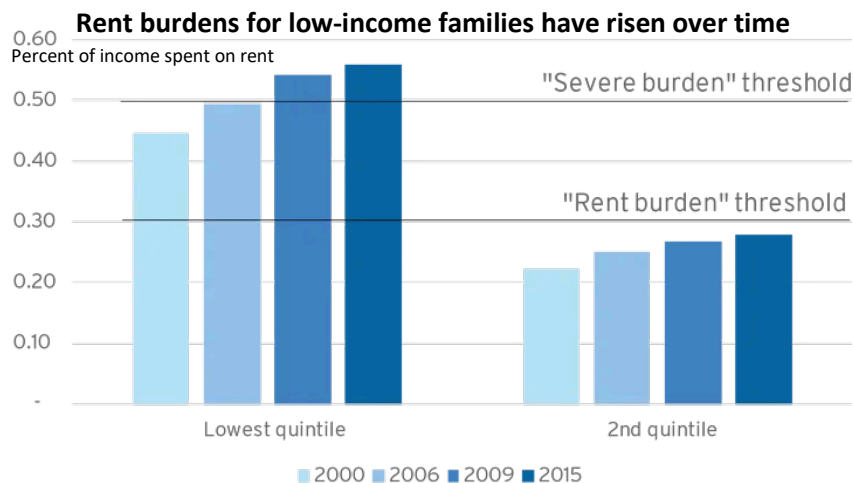




Rent Burden Housing Subsidy in California

Over 130,000 people are experiencing homelessness on any given night in the state of California. Over the last decade, average rents across the state have steadily increased, inflation-adjusted wages have mostly remained stagnant, and the supply of affordable housing has decreased dramatically (Cowan & Gebelof, 2019). Across California, 53% of renters are considered “rent burdened,” meaning they spend more than 30% of their household income on rent and utilities each month (American Community Survey (ACS), 2017). The graph below shows the rise in rent burdened families over time for the United States as a whole. Research suggests that homelessness increases faster in communities with high rates of rent burden compared to those where residents can afford their rent (Glynn & Casey, 2018), suggesting that mitigating rent burden could be one strategy to reduce inflows to homelessness.

This analysis proposes a “Rent Burden Subsidy” policy that would cover household rental expenditures that exceed some threshold in rent burden to reduce financial strain on the state’s renters. The analysis projects the cost of multiple versions of this policy, based on two levels of rent burden and various rent and income eligibility rules. The paper concludes by placing the cost of this proposal within the broader context of United States housing policy and addressing potential concerns and limitations with the policy. The analysis finds a wide range of potential annual costs, ranging from \$7.09 billion to \$21.95 billion. However, most versions of the policy cost less per household on average than other major housing subsidy programs. Moreover, the rent and income eligibility caps prevent exploitation from those with excessively high rents, ensure that the subsidy targets California’s most vulnerable households, and mitigate moral hazard concerns.



Source: (Schuetz, 2017)

Key Takeaways:

- The proposed Rent Burden Subsidy would be a substantial step towards ensuring affordable housing for every Californian and would provide relief to those struggling most from rent burden.
- Cost projections for the proposed subsidy (with the exception of the costliest estimate) are less expensive than other subsidies such as the Housing Choice Voucher program.
- Cost estimates for the subsidy include all eligible households, compared to the Housing Choice Voucher program where only about one in four eligible households actually receive the subsidy.



International Framing for a Right to Housing

The “Right to Housing” model seeks to reduce homelessness by targeting an underlying cause of housing instability, but it varies from country to country in terms of framing, legality, and outcomes. Several international treaties establish a Right to Housing as a part of an adequate standard of living, such as the 1948 Universal Declaration of Human Rights and the 1966 United Nations International Covenant on Economic, Social, and Cultural rights (Byrne & Culhane, 2011). These treaties have been implemented to varying degrees, with differences in framing, legality, and outcomes. Table 1 below outlines some important findings from the experiences of six different countries pursuing some form of Right to Housing.

Table 1: International Policies on Right to Housing

Country	Year	Framing	Legal	Outcomes
South Africa	1996	Human Rights	Constitution	Lack of meaningful follow through on this principle enshrined in the Constitution (Chenwi, 2007)
Finland	1999	“Housing First”	Constitution	Decreased long-term homelessness by 35% from 2008 to 2015, with number of people experiencing homelessness falling to just 7,000 for the first time in 2015 (Housing Rights Watch, 2013)
Austria	1920s	Public Housing	None	Avoids price hikes through rent controls and public sector housing stock development (Fitzpatrick, 2017)
Singapore	1960	Public Housing	None	Government uses housing to incentivize social agenda rather than offering universal access (Keating, 2018)
England	2002	Legal Entitlement	Legislation	High-needs individuals experiencing homelessness have the right to seek judicial review in the event that a housing authority denies their application (Byrne & Culhane, 2011)
France	2007	Legal Entitlement	Legislation	The right can only be fulfilled to the extent that housing is available to meet the demand, and those most in need of exercising the right have had difficulty accessing it procedurally (Byrne & Culhane, 2011)

Looking abroad reveals that the United States is largely considered an outlier in terms of the scope, affordability, and framing of housing assistance. Across the developed world, there have been a variety of approaches to pursuing a Right to Housing through declarations, legislation, and entitlements. Governments have pursued universal access to housing as a fundamental human right and have demonstrated that the right alone may not be sufficient to effectively reduce homelessness. The experience of these countries demonstrates the importance of producing additional affordable housing to meet increased demand and measures to ensure equitable access for any Right to Housing policy.

Rent Burden Subsidies in the United States

States and localities across the United States face a distinct set of housing and affordability barriers that could warrant a unique approach to providing housing, tailored to local contexts. In California, nearly half of the 13 million households



living in the state are renters (ACS, 2017). Across the state, 53% of renters are considered “rent burdened,” meaning they spend more than 30% of their household income on rent and utilities each month. Further, 27% of renters are “severely rent burdened,” spending more than half of their monthly income on housing (ACS, 2017). This growing number of cost-burdened households directly relates to the increasing population experiencing homelessness - research suggests that homelessness increases faster in communities with high rates of rent burden compared to those where residents can afford their rent (Glynn & Casey, 2018).

Rent burden has prompted some localities to implement policies designed to mitigate this financial strain on their most vulnerable residents. For example, the City of Santa Monica recently expanded its Preserving Our Dignity (POD) pilot program which provides cash assistance to low-income, rent burdened seniors (City of Santa Monica, 2019). Since senior citizens are one of the fastest growing groups represented in the unhoused population, this program ensures that they have a bare minimum of cash leftover after paying rent. It also limits eligibility to those making equal to or less than 50% of Area Median Income (AMI). This report considers whether a Rent Burden Subsidy approach could take efforts like those in Santa Monica a step further by reducing rent burdens for all Californians.

Rent Burden Subsidy

Given the prevalence of rent burden in California and its connection to homelessness, introducing a Rent Burden Subsidy could be one effective policy mechanism for ensuring housing for all in the state. In practice, a Rent Burden Subsidy involves covering rental expenditures that exceed some threshold in rent burden. Three candidates during the 2020 Democratic Primaries proposed three different versions of this policy in the form of a rental tax credit. Table 2 below summarizes the primary differences between these tax credit proposals.

Table 2: 2020 Democratic Primary Rental Tax Credit Proposals

Candidate	Covers	Fair Market Rent (FMR) Cap	Income Cap
Senator Kamala Harris	Amount in rent paid over 30% of income (cost-burdened renter)	Covers up to 150% FMR	Progressive scale for income caps: <ul style="list-style-type: none"> • Less than \$25K - 100% of credit reimbursed • \$25K-50K - 75% of credit reimbursed • \$50K-75K - 50% of credit reimbursed • \$75K-100K - 25% of credit reimbursed • More than \$100K - 0% of credit
Senator Cory Booker	Amount in rent paid over 30% of income (cost-burdened renter)	Covers up to 100% FMR	Limits eligibility to those making 80% of AMI or less
Julian Castro, Former Secretary of Housing and Urban Development	Amount in rent paid over 30% of income (cost-burdened renter)	Takes FMR "into account"	Limits eligibility to those making 50-100% of AMI (because his Housing Voucher policy expands coverage to everyone below 50% of AMI)



The following analysis uses 2017 data from the Census Bureau's American Community Survey to calculate the cost of providing a rent subsidy to Californians experiencing rent burden (30% or more of income on rent) and severe rent burden (50% or more of income on rent).¹ The subsidy would cover all rental expenses that exceed either 30% or 50% of household income, meaning that both options at a bare minimum remove all people in California from severe rent burden, as defined by the Joint Center for Housing Studies at Harvard University (Rate & Low, 2015).

Similar to the tax credit policies outlined in Table 2, this analysis caps rental expenses using 'HUD's 2017 Fair Market Rent (FMR) values based on household size for each county in California. For further context, Appendix A shows how these FMR values vary from county to county in California for 2-bedroom housing units. The analysis uses both 100% of FMR and 150%, based on thresholds used in Senator Booker and Senator Harris's rental tax credit proposals, respectively (National Low Income Housing Coalition, 2018). This cap protects the policy from exploitation by individuals seeking to cover exorbitant rental expenditures. It also, in practice, serves as an income cap because rent burden is a rent to income ratio. For context, Table 3 below shows how 100% and 150% of FMR vary by household size in Los Angeles County.

Table 3: 100% & 150% Fair Market Rent (FMR) by Bedrooms in Los Angeles County (2017)

Apartment Size	100% Fair Market Rent	150% Fair Market Rent
Efficiency	\$988	\$1,482
One Bedroom	\$1,195	\$1,793
Two Bedroom	\$1,545	\$2,318
Three Bedroom	\$2,079	\$3,119
Four Bedroom	\$2,303	\$3,455

Results

The charts below display cost estimates for providing a subsidy that covers rent expenses for households experiencing rent burden and severe rent burden.² Tables 4 and 5 provide cost estimates for providing these subsidies without any income eligibility requirements and break down the percent of households served for those making 30%, 50%, and 80%

¹ To provide an estimate with the most recent data, we used 2017 1-year estimates from the American Community Survey. Due to small populations and/or difficulties in collecting representative samples, 24 counties are not included in the portion of the analysis that caps rental subsidies at 100% or 150% of FMR. As a result, the following counties are not included in the data: Nevada County, Sutter County, Mendocino County, Yuba County, Lake County, Tehama County, San Benito County, Tuolumne County, Calaveras County, Siskiyou County, Amador County, Lassen County, Glenn County, Del Norte County, Colusa County, Plumas County, Inyo County, Mariposa County, Monterey County, Mono County, Trinity County, Modoc County, Sierra County, and Alpine County. However, the ultimate findings should still be representative of total costs for California due to the proper use of survey weights. This would only change if individuals in the 24 excluded counties interacted with the FMR ceilings in a way that was systematically different than the other 34 counties, which seems unlikely.

² Refer to Appendix B for a more detailed explanation of the methodology used to calculate these estimates.



of Area Median Income (AMI).³ The projections in Table 4 cap rental expenses at 100% of FMR while those in Table 5 cap rental expenses at 150% of FMR.

California Rent Burden Subsidy (No AMI Caps)

Table 4: 100% FMR Cap

Rent Burden	Households Served (millions)	Annual Cost (billions)	Average Annual Cost Per Household	Households: 30% AMI or Less	Households: 31 - 50% AMI	Households: 51 - 80% AMI
30%	2.69	\$18.20	\$6,768	42%	28%	24%
50%	1.36	\$8.73	\$6,406	69%	26%	5%

Table 5: 150% FMR Cap

Rent Burden	Households Served (millions)	Annual Cost (billions)	Average Annual Cost Per Household	Households: 30% AMI or Less	Households: 31 - 50% AMI	Households: 51 - 80% AMI
30%	3.00	\$22.95	\$7,650	37%	25%	24%
50%	1.53	\$11.11	\$7,259	62%	27%	10%

Table 4, illustrating a 100% FMR cap, shows that the 30% Rent Burden Subsidy serves 1.3 million more households than the 50% Rent Burden Subsidy, costs nearly \$10 billion more in total, and costs nearly \$300 more per household served. In addition to differences in cost and the number of households served, the income distribution of households served also differs between the 30% and the 50% Rent Burden Subsidy. Only 5% of households served make between 51-80% of AMI for the 50% Rent Burden Subsidy, whereas 24% of households served by the 30% Rent Burden Subsidy have incomes within that range. As such, the 50% Rent Burden Subsidy focuses on the highest need households in terms of income, with nearly 100% of households served making equal to or less than 80% of AMI.⁴

As the FMR cap increases from 100% to 150% in Table 5, the number of households served, the total annual cost, and the average annual cost per household all increase. Moreover, the distribution of households served shifts toward those making slightly higher incomes, as the share of households served making between 31-80% AMI increases for the 50%

³ Using [income limits](#) calculated by the California Department of Housing and Community Development (HCD).

⁴ Even though the AMI coverage percentages in Table 4 for the 50% rent burden subsidy add up to 100%, in reality 99.9% of those covered make equal to or less than 80% of AMI. Rounding accounts for the difference.



Rent Burden Subsidy and the share of households served exceeding 80% AMI increases for the 30% Rent Burden Subsidy.

The charts below provide cost estimates for the same subsidy described above, except that the subsidy applies income requirements that restrict eligibility to households making equal to or less than 30%, 50%, and 80% of AMI. Tables 6, 7, and 8 provide estimates for subsidies that cap rental expenses at 100% FMR, while Tables 9, 10, and 11 provide estimates for a 150% FMR cap.

California Rent Burden Subsidy (100% FMR & AMI Caps)

Table 6: 100% FMR & 30% AMI Cap

Rent Burden	Households Served (millions)	Annual Cost (billions)	Average Annual Cost Per Household
30%	1.12	\$9.99	\$8,906
50%	0.94	\$7.09	\$7,535

Table 7: 100% FMR & 50% AMI Cap

Rent Burden	Households Served (millions)	Annual Cost (billions)	Average Annual Cost Per Household
30%	1.87	\$14.81	\$7,905
50%	1.29	\$8.52	\$6,581

Table 8: 100% FMR & 80% AMI Cap

Rent Burden	Households Served (millions)	Annual Cost (billions)	Average Annual Cost Per Household
30%	2.52	\$17.61	\$6,995
50%	1.36	\$8.73	\$6,410

When compared to the estimates in Tables 4 and 5 with no income caps, the estimates in Tables 6, 7, and 8 with income caps reduce overall cost of the subsidy but also significantly shrink the pool of households served, resulting in larger per household costs. For instance, even though the 30% AMI cap reduces the overall cost of the 50% Rent Burden Subsidy from \$8.73 billion to \$7.09 billion, the number of households served also falls from 1.36 million to approximately 940,000. This makes the average annual cost per household increase by more than \$1,000. Tables 9, 10, and 11 below again show that as we increase the FMR cap from 100% to 150%, the number of households served, the total annual cost, and the average annual cost per household all increase.



California Rent Burden Subsidy (150% FMR & AMI Caps)

Table 9: 150% FMR & 30% AMI Cap

Rent Burden	Households Served (millions)	Annual Cost (billions)	Average Annual Cost Per Household
30%	1.12	\$11.09	\$9,881
50%	0.95	\$8.19	\$8,652

Table 10: 150% FMR 50% AMI Cap

Rent Burden	Households Served (millions)	Annual Cost (billions)	Average Annual Cost Per Household
30%	1.88	\$16.86	\$8,977
50%	1.36	\$10.41	\$7,668

Table 11: 150% FMR 80% AMI Cap

Rent Burden	Households Served (millions)	Annual Cost (billions)	Average Annual Cost Per Household
30%	2.61	\$21.20	\$8,126
50%	1.52	\$11.07	\$7,299

Discussion

To put the cost of the average per-household annual subsidy into perspective, we could look at other subsidy programs. For example, the CBO estimates that in 2019, the federal government will spend an average of \$9,400 per household served by the Housing Choice Voucher Program (CBO, 2019). Most of the average costs per household in this proposed subsidy fall well below that, except for the subsidy capped at 150% FMR and 30% AMI (Table 7). Moreover, the cost projections for this analysis assume that all households who are eligible receive the subsidy, whereas the Housing Choice Voucher costs only account for the 1 in 4 eligible households actually receiving that subsidy (Poethig, 2014). Furthermore, even the most expensive version of this subsidy (\$22.9 billion for 150% FMR cap and no AMI restriction – Table 5) is small in comparison to the cost of the federal mortgage interest deduction which functions as a \$130 billion annual expenditure that almost exclusively benefits medium and high income households (Byrne & Culhane, 2011). Appendix C of this report further reduces total costs by restricting eligibility for the subsidy to families.

Despite the significant cost, this subsidy would be a substantial step towards ensuring affordable housing for every Californian and providing relief to those struggling most from rent burden. Research shows that rent-burdened households have higher eviction rates, less money in the bank, higher risk of entering homelessness, and higher usage of



public programs and welfare (Pew Charitable Trusts, 2018). As such, providing relief to rent-burdened households generates savings in the form of housing stability and reduced use of social safety net programs. Across the United States, the average household in the bottom quintile of the income distribution has less than \$500 remaining after paying rent, forcing them to make tough decisions about healthcare, food, and transportation. These choices may have long-term impacts on their health and well-being that end up costing the government in the form of public programs and emergency healthcare (Larrimore & Schuetz, 2017).

Implementation

In addition to the cost of the subsidy, there are other important considerations around implementation. Existing models suggest two possibilities; namely, a direct payment to the landlord on a monthly basis or renter's tax credit that is refunded as part of the tax system. While both have advantages and disadvantages, the renter's tax credit approach has fewer administrative costs and can simply be appended to a filer's tax return (like the Earned Income Tax Credit (EITC) and the Child Tax Credit). In 2015, the IRS reported that using tax returns results in lower administrative costs (less than 1% of benefits compared to 20% for other programs) and higher participation (Crandall-Hollick, 2015). Moreover, the alternative strategy of direct payments to landlords presents a number of other challenges that have been documented in the Housing Choice Voucher program, including landlord discrimination against voucher holders (Cunningham et al., 2018).

There are a number of options the state could use to fund a Rent Burden Subsidy. For example, the state could leverage discretionary state dollars from localities that fail to meet their housing element goals. Dating back to 1969, the state of California requires that cities and counties develop plans or "housing elements" that outline their strategy to meet the housing needs of everyone in their jurisdiction (Department of Housing and Community Development, 2020). Those that fail to meet goals as determined by the Regional Housing Needs Allocation (RHNA) could have discretionary funding from the state rescinded and redirected to fund this subsidy policy. This makes intuitive sense under the presumption that improving the affordability of the existing housing stock should reduce future housing needs of the region.

Limitations

Rent increases are a common concern for rent subsidy policies that do not simultaneously increase the supply of affordable housing. Olsen (2003) argues that the conventional theoretical understanding of the impact of housing vouchers on rent prices holds that for units significantly below standards prior to the expansion of vouchers, rents fall. For modest units meeting the standards or falling slightly below them, rents rise (De Leeuw & Struyk 1975; Kain 1981). The increase in demand without a corresponding increase in supply results in an increase in price for these units, and simultaneously the decrease in demand for substandard units without a corresponding decrease in supply results in lower prices. In a study using data from a nationally representative sample, Eriksen & Ross (2015) found that an increase in vouchers was not associated with overall rental price increases.⁵ However, they did find differential effects based on

⁵ Their study assumes average rents and excludes several California Metropolitan Statistical Areas as outliers. As such, this limits the external validity of applying these findings to California. However, the fact that these findings align with the consensus of housing literature on the impact of subsidies on rents is still insightful for predicting policy impact.



rent level prior to voucher expansion. They found that a 10% increase in vouchers was associated with a 0.95% decrease in price for rental units less than 80% of FMR prior to voucher expansions, and a 0.39% increase in price for units 80% or more of FMR prior to expansion (Eriksen & Ross, 2015). Their findings suggest a roughly \$5 increase and \$13 decrease in rents respectively, which are practically insignificant in light of our cost estimates.

These unintended price changes may mean that, all else equal, the cost estimates for the rental subsidy represent a lower bound. However, due to the FMR cap and the small magnitude of these effects, the underestimation should only be minimal. Regardless, lessons from Vienna and Singapore illustrate how rent subsidies should likely only be one part of a larger housing strategy that also includes production of more affordable housing units. A report published by the California Housing Partnership in 2018 found that in LA County alone, more than 568,000 new affordable units are required to meet the current demand, and many units across the county are at-risk of being converted to market rate properties without policy intervention. The cost of this subsidy should incentivize state and local agencies to simultaneously work to increase housing stocks and protect at-risk units so as to bring down the overall number of rent burdened households and subsequently reduce long-term costs from the subsidy. Models in other countries suggest that easing local regulations and zoning restrictions as well as improving permitting processes could incentivize affordable housing investment and development (Byrne & Culhane, 2011).

One additional concern with the rental subsidy or tax credit comes from the potential of it creating a moral hazard. By artificially maintaining an individual's rent burden, the policy may alter individual incentives to avoid risky housing or income choices. However, the FMR caps prevent individuals from ignoring the risks of high rent burden due to excessively expensive rents. Moreover, since the subsidy is calculated based on an individual's income, the subsidy cannot completely shield them from the consequences of working fewer hours or working for less pay because then the benefit is also reduced. Making this choice will always result in less income after paying rent, reducing the impact of moral hazard.

Our analysis does not take into account savings that the policy could generate for other state or municipally funded housing or cash assistance programs. Due to the relationship discussed above between rent burden and evictions, financial strain, homelessness, and welfare, this subsidy may reduce government expenditures on other social programs. As such, further research on this topic could expand the scope of this cost analysis to include how the benefits of the policy might absorb some portion of the overall expense.

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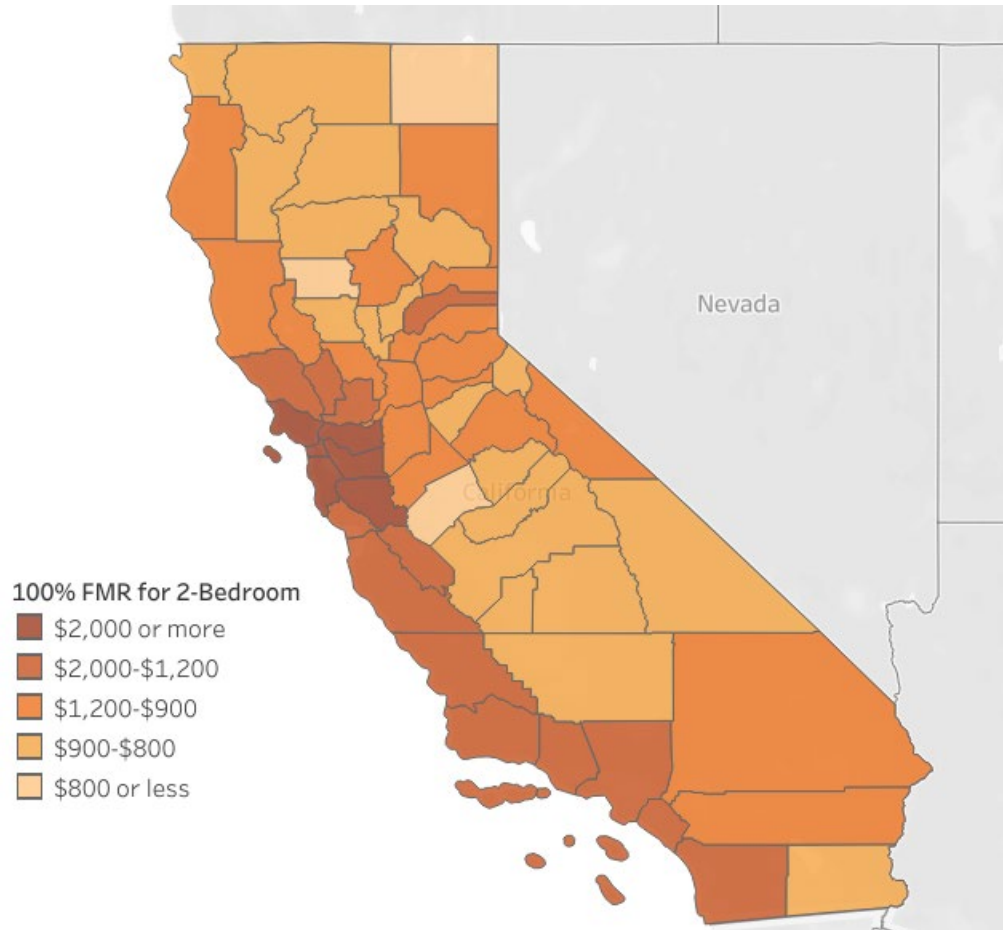
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Appendix A: 100% Fair Market Rent (FMR) Values for 2-Bedroom Housing Units in California by County (2017)





Appendix B: Methodology

We first estimate the cost of the rent subsidy for each individual observation in the sample at each rent burden threshold using microdata of the American Community Survey (IPUMS USA). To do so, we first take the smaller of the following two values: A) Gross Rent; or B) 100% or 150% of Fair Market Rent (FMR). We then subtract that value (smaller of A or B) from either 30% or 50% of total household income, depending on the rent burden level we want to calculate. This ensures that the subsidy covers the portion of a household's rent that exceeds either 30% or 50% of their income, up to a maximum coverage of the FMR cap. If the resulting value is negative, then it is replaced with a value of zero. The following formula covers this portion of the calculation:

$$Y_i = F_c - (RB * I_i)$$

OR

$$Y_i = R_i - (RB * I_i)$$

- Y_i : dollar cost of subsidy (at rent burden threshold RB) for individual i
- F_c : either 100% or 150% of Annual Fair Market Rent for individuals living in County c
- R_i : annual gross rent for individual i
- RB: rent burden threshold as a ratio of gross annual rent to household income (i.e., 0.3 or 0.5)
- I_i : annual household income for individual i

Next, we estimate the total cost of the subsidy, using survey weights to get the average individual subsidy cost for observations that have a positive value above and meet any AMI eligibility requirements (no cap or 30/50/80% AMI caps). We then multiply this value by the proportion of households in California who are eligible and the total number of California renter households (ACS 2017 1-year estimates). The following formula covers this portion of the calculation:

$$T = S * E * 5,880,007$$

- T: dollar cost of subsidy for all eligible CA recipients
- S_1 : average individual subsidy cost for those eligible
- E: proportion of renter households in California eligible for particular subsidy (based on rent-income ratio, FMR, and AMI caps)
- 5,880,007: number of renter households in California



Appendix C: California Cost Projections for Families

The following tables provide cost and households served projection for a 30% and 50% Rent Burden Subsidy for all family renter households in California. Here, family renter households means those where the head of the household is related to at least one other member of the household by birth, marriage, or adoption.

Table 1: 100% FMR Cap

Rent Burden	Households Served	Annual Cost (billions)	Average Annual Cost Per Household	Households: 30% AMI or Less	Households: 31 - 50% AMI	Households: 51 - 80% AMI
30%	883,917	\$6.09	\$6,894	39.2%	29.4%	25.0%
50%	419,562	\$2.68	\$6,384	69.4%	25.5%	5.0%

Table 2: 150% FMR Cap

Rent Burden	Households Served	Annual Cost (billions)	Average Annual Cost Per Household	Households: 30% AMI or Less	Households: 31 - 50% AMI	Households: 51 - 80% AMI
30%	977,041	\$7.50	\$7,680	35.5%	26.8%	25.3%
50%	471,718	\$3.30	\$7,004	62.3%	26.9%	9.9%