Dear Mr. Petek,

SPUR, PolicyLink, and UCLA Luskin Center for Innovation are writing to thank the Legislative Analyst's Office (LAO) for their excellent research on California's most pressing policy questions, and to express concerns about the methodology and conclusions in the recent report, *How Has Covid-19 Affected Renters and Homeowners?*[1]

The topic of rent debt in California is an urgent one and we applaud the LAO for tackling this important issue. The LAO is a statewide authority on public policy issues and your research greatly informs the policymaking process. However, the assumptions in the research report are likely to dramatically underestimate the true amount of rental debt, which could result in policy solutions that fail to meet the needs of the people of California.

The analysis uses a modeling approach with flawed assumptions that are likely to generate an underestimate of the amount of rent owed:

- The estimate of rental debt is based on a model of income and expenses for California renters before and during the COVID-19 recession that is not corroborated by survey information on actual debt. Over nine waves of surveys since August 2020, the U.S. Census Bureau Household Pulse Survey has found that between 10 and 21 percent of California renters were behind on rent - far more than the 2 percent of renter households predicted by this model.[2]

- The model makes unrealistic assumptions about the share of monthly income spent on rent during the COVID-19 recession.
    - The model used by the LAO is modified from the Federal Reserve of Philadelphia's national model. Crucially, this model only accounts for rental debt caused by job losses.[3] It does not consider behavioral changes in spending during the recession. Specifically, eviction moratoriums in conjunction with rising household expenses in other areas (childcare during remote learning,[4] internet access,[5] among others) likely contributed to households spending a reduced

[1] Legislative Analyst's Office, 2021.
https://lao.ca.gov/reports/2021/4312/COVID-19-renters-homeowners-011921.pdf
[2] U.S. Census Bureau, 2021.
https://www.census.gov/programs-surveys/household-pulse-survey/data.html
[3] Federal Reserve Bank of Philadelphia, 2020, pp. 6-7.
https://www.philadelphiafed.org/-/media/frbp/assets/community-development/reports/household-rental-debt-during-covid-19.pdf
[4] CNN, 2020. https://www.cnn.com/2020/09/08/success/parents-costs-remote-learning/index.html
[5] Broadband Now Research, 2020.
https://broadbandnow.com/research/internet-tv-phone-shopping-study-2020

share of their income on rent. Simply put, households that were already struggling to make ends meet likely spent more money on other needs besides rent during the period of the eviction moratorium.
    - The model used fails to account for the likely disproportionate rent burden accumulated by workers who do not file for unemployment insurance, including undocumented workers and those in the informal economy. With more than two million undocumented people living in California, untold households are facing economic strain without access to assistance.

- The assumption of 100% uptake of unemployment insurance is overly optimistic.[6] We appreciate LAO's point that more than 4 million workers received unemployment insurance benefits in April, when only 2.6 million actually reported being unemployed. However, the conclusion that there was 100% uptake of unemployment insurance is improbable in light of the well-documented late payments and record-keeping problems at the Employment Development Department.[7]

In addition, the analysis ignores competing lines of evidence that Californians' rent debt is much higher than $400 million:

- Research that relied on surveys of renters and landlords generated estimates of $3.6 billion dollars of rental debt in California.[8]
- Data on debt to utilities, which were also subject to a shutoff moratorium, indicates that people are accumulating vast amounts of debt. For example, Californians owe $1 billion on unpaid water bills, while water costs a fraction of rent.[9]

In sum, the report yields a reasonable estimate of how much California rent debt is due to income loss for people eligible for unemployment. But it is likely a gross underestimate of *actual* rent debt. Actual rent debt is likely much higher because of behavioral changes in spending patterns and income losses among those ineligible for unemployment insurance.

We recommend that the LAO issue an updated version of the report that clearly explains the limitations of the model used and more fully explores data on actual rent debt based on surveys of renters and landlords.

We would be happy to discuss these issues further with you and look forward to reading your future work.

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[6] Legislative Analyst's Office, 2021, pp. 9.
https://lao.ca.gov/reports/2021/4312/COVID-19-renters-homeowners-011921.pdf
[7] Auditor of the State of California, 2021. https://www.bsa.ca.gov/pdfs/reports/2020-128and628.1.pdf
[8] The San Francisco Foundation, PolicyLink, and USC Equity Research Institute, 2021.
https://bayareaequityatlas.org/research/analyses/COVID-19-evictions-california
[9] California State Water Resources Control Board, 2021.
https://www.waterboards.ca.gov/drinking_water/programs/documents/ddwem/faqs_covid_survey_final.pdf

Sincerely,

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