

**PUBLIC AND INDIAN HOUSING  
RENTAL ASSISTANCE DEMONSTRATION PROGRAM  
2014 Summary Statement and Initiatives  
(Dollars in Thousands)**

| RENTAL ASSISTANCE DEMONSTRATION PROGRAM | Enacted/<br>Request         | Carryover  | Supplemental/<br>Rescission | Total<br>Resources | Obligations     | Outlays    |
|---|-----------------------------|------------|-----------------------------|--------------------|-----------------|------------|
| 2012 Appropriation .....                | ...                         | ...        | ...                         | ...                | ...             | ...        |
| 2013 Annualized CR .....                | ...                         | ...        | ...                         | ...                | ...             | ...        |
| 2014 Request .....                      | <u>\$10,000<sup>a</sup></u> | <u>...</u> | <u>...</u>                  | <u>\$10,000</u>    | <u>\$10,000</u> | <u>...</u> |
| Program Improvements/Offsets .....      | +10,000                     | ...        | ...                         | +10,000            | +10,000         | ...        |

a/ This number includes an estimated Transformation Initiative (TI) transfer that may be up to 0.5 percent of Budget Authority.

**1. What is this request?**

HUD requests \$10 million for a targeted expansion of the Rental Assistance Demonstration (RAD) to public housing properties that cannot feasibly convert at existing funding levels and are located in high-poverty neighborhoods, including designated Promise Zones, where the Administration is supporting comprehensive revitalization efforts. This request will cover the incremental subsidy cost of converting approximately 3,300 public housing units, thereby increasing private investment in targeted projects and surrounding neighborhoods. Additionally, HUD will continue to implement no-cost RAD conversions in 2014 by making use of funds requested for: 1) the existing Public Housing Operating Fund and Capital Fund programs; and 2) Tenant Protection Vouchers (TPVs) that otherwise would be issued to tenants upon expiration or termination of Moderate Rehabilitation (MR), Rent Supplement (RS) and Rental Assistance Payment (RAP) contracts. Through conversion, public housing agencies (PHAs) and other owners, working with private industry, will be able to raise capital using private and public financing tools to rehabilitate or redevelop affordable housing in their communities.

The Budget also proposes several changes to the 2012 enacted RAD appropriations language to facilitate additional no-cost conversions: 1) an increase in the 60,000 unit cap on projects that could convert assistance to long-term Section 8 rental assistance contracts to 150,000 units; 2) exclusion of MR properties from the project cap; 3) the ability to make Section 8 MR Single Room Occupancy (SRO) properties eligible for RAD; and 4) a 2-year extension (through September 30, 2015) for RS, RAP, and MR properties converting under the second component of the demonstration.

The main goal of RAD is to test the conversion of public housing and other HUD-assisted properties to long-term, project-based Section 8 rental assistance as a tool for PHAs and owners to leverage private debt and equity to address their properties' immediate and long-term capital needs.

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### **2. What is this program?**

The Consolidated and Further Continuing Appropriations Act of 2012 (P.L. 112-55) authorized the Rental Assistance Demonstration (RAD) to test new preservation tools for the HUD-assisted housing stock. RAD allows:

1. Public Housing (PH) and MR properties to convert assistance to long-term Section 8 rental assistance contracts (capped at 60,000 units and with rents limited to existing subsidy amounts); and
2. RS, RAP and MR properties, upon contract expiration or termination, to convert tenant protection vouchers (TPVs) to project-based vouchers (PBVs), subject to the availability of annual appropriations of TPVs.

RAD targets HUD-assisted properties that are at risk of being lost from the nation's affordable housing inventory. The 1.1 million units in the PH program have a documented capital needs backlog of nearly \$26 billion and are largely inhibited from accessing non-Federal sources to help to address this need. As a result, the public housing inventory has been losing an average of 10,000 units annually through demolitions or dispositions. Meanwhile, the 50,000 units assisted under the MR, RS, and RAP programs are ineligible to renew their contracts on terms that favor modernization and long-term preservation. Under RAD, PHAs and owners of rental properties assisted under the PH, MR, RS and RAP programs are offered the option to convert the current form of assistance on these properties to long-term, project-based Section 8 rental assistance contracts. By offering a long-term contract tied to a historically more reliable funding stream and a regulatory structure that facilitates partnerships with other forms of private and public financing, RAD achieves the following goals:

- 1) Promotes local public-private development activity with access to safe, proven tools to leverage private capital;
- 2) Recapitalizes the HUD-assisted housing portfolio to ensure its long-term stability and affordability;
- 3) Increases housing choice for residents and safeguards strong resident rights; and
- 4) Relaxes regulatory burdens to allow flexible local decision making to maintain effective public ownership.

### Salaries and Expenses (S&E) and Full-Time Equivalents (FTE) Request

RAD will be supported by 23 FTE, which will be realigned from FTE currently detailed from the Office of Housing and the Office of Public and Indian Housing. These FTE will execute RAD and other complex multifamily recapitalization financial transactions. The organization will build on existing infrastructure and allow the Department to realize efficiencies in staffing by integrating multiple financing activities related to mandated or needed refinancing, restructuring, recapitalization and preservation of assisted multifamily properties, including the transactions resulting from conversions in RAD. The staff that supports the RAD program will be focused on developing and refining applications, reviewing and processing applications, and allocating various resources according to program requirements for recapitalization transactions. It will also coordinate and streamline multiple current review processes, committees

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and teams working on such transactions. Monitoring, review, oversight, reporting, inspection, troubleshooting or other functions related to asset management, will continue to be supported in PIH and Multifamily Housing.

### **3. Why is this program necessary and what will we get from the funds?**

#### **Preservation Challenges**

The Federal Public Housing program provides much-needed affordable housing to about 1.1 million low-income households, many of whom are elderly, disabled, and veterans at risk of homelessness without this resource. Unlike other forms of assisted housing that serve very similar populations, the public housing stock is nearly fully reliant on Federal appropriations from the Capital Fund to make capital repairs. Funding and regulatory constraints have impaired the ability for these local and state entities to keep up with needed life-cycle improvements. As a result, a very large capital needs backlog has accumulated.

The most recent capital needs study of the public housing stock, completed in 2010,<sup>1</sup> estimated the backlog of unmet need at approximately \$26 billion, or \$23,365 per unit. Under the strain of this backlog, and without financing tools commonly available to other forms of affordable housing, the public housing inventory loses an average of 10,000 units annually through demolitions and dispositions.

In addition to the public housing stock, RAD targets certain “at-risk” HUD legacy programs. The 24,000 units assisted under MR are limited to short-term renewals and constrained rent levels that inhibit recapitalization. The approximately 21,250 units assisted under RS and RAP have no ability to retain project-based assistance beyond the current contract term. As a result, as their contracts expire, these projects are no longer available as HUD-assisted affordable housing assets.

#### **RAD as a Preservation Tool**

Conversion to long-term Section 8 rental assistance under RAD is essential to preserving these scarce affordable housing assets. Long-term Section 8 rental assistance allows for PHAs and other owners to leverage sources of private and public capital to rehabilitate their properties. While the Department expects and continues to process Public Housing conversions without additional subsidy, HUD requests \$10 million for the incremental subsidy costs of converting assistance under RAD for very limited purposes. Such funding will be targeted *only* to public housing projects that: 1) cannot be converted at current funding levels, and 2) are integral to the success of the Administration’s broader efforts in high-poverty areas, including designated Promise Zones. The Department estimates that the \$10 million in incremental subsidies will support the conversion and redevelopment of approximately 3,300 public housing units that otherwise could not convert, thereby increasing private investment in targeted projects and surrounding neighborhoods.

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<sup>1</sup> Abt Associates, Inc. “Capital Needs in the Public Housing Program.” Executive Summary. November 24, 2010.

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In addition to the funding request, each of the RAD legislative proposals in the general provisions are designed to maximize participation by those PHAs and other owners whose current funding levels are sufficient for conversion. In the first component of RAD, an increase in the 60,000 unit cap to 150,000 units, and the *exclusion* of Section 8 MR properties from the cap will allow for a greater portion of the PH and MR stock to participate in the demonstration and convert at no cost to the Federal government. Furthermore, allowing currently ineligible MR SRO projects to convert under RAD on the same “no cost” basis would give owners of these approximately 400 (mostly small) projects (totaling approximately 13,000 units) a new option for preservation, recapitalization, and repositioning in communities across the country. The addition of these projects among eligible participants also allows for a more consistent policy within the Department (i.e., *all* Section 8 MR projects would have the option to convert assistance to long-term contracts). For the second component of RAD, the request to extend the authority granted in the original statute through September 30, 2015 allows the Department to continue working with private owners of projects whose contracts would otherwise expire or terminate beyond September 30, 2013; it also allows the Department to more effectively prioritize and more seamlessly execute the conversion of these projects in conjunction with other preservation-related transactions on these properties (such as prepayments and Interest Reduction Payment IRP de-couplings); finally, it allows for a consistent demonstration period between the first and second components of RAD.

### **Promise Zones**

The President’s 2014 Budget would expand the contribution of RAD to the Administration’s Promise Zones initiative, which would revitalize many of America’s highest-poverty communities by creating jobs, attracting private investment, increasing economic activity, improving affordable housing, expanding educational opportunity, and reducing violent crime. Promise Zones are a key strategy in the Administration’s new Ladders of Opportunity initiative, which is aimed at giving millions of hard-working Americans in high-poverty communities a leg up into the middle class. Key rungs on the Ladders of Opportunity include raising the minimum wage, increasing access to high-quality preschool, redesigning America’s high schools, and promoting fatherhood and marriage.

Communities would compete to earn a Promise Zone designation by identifying a set of positive outcomes for their proposed Zone and its residents, developing an evidence-based strategy and implementation plan, encouraging private investment and realigning federal, state, local and Tribal resources to achieve those outcomes. The process would ensure rural and Native American representation among the designated Promise Zones. The Budget includes tax incentives to stimulate economic activity and create jobs within and around Promise Zones. Agencies would also provide intensive technical assistance aimed at breaking down regulatory barriers and using existing Federal funds in a more coordinated and effective way. In addition, applicants from Promise Zones would receive additional points for competitive Federal grants that would directly contribute to accomplishing the goals in the community’s strategic plan. Promise Zones will align the work of multiple federal programs in communities that have both substantial needs and a strong plan to address them.

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Promise Zones would build on the lessons learned from existing place-based programs like the Department of Education's Promise Neighborhoods program, the Department of Housing and Urban Development's Choice Neighborhoods program, and the Department of Justice's Byrne Criminal Justice Innovation program. Other Federal agencies that will be aligning their work in support of local Promise Zone partners would include the Departments of Commerce, Health and Human Services, Treasury, and Agriculture.

### **4. How do we know this program works?**

RAD serves as a bridge to bring older subsidized housing programs to the safe, proven, and reliable Section 8 platform. For nearly 40 years, long-term Section 8 rental assistance contracts have proven to be the most effective method of financing and preserving low-income housing. HUD supports 1.2 million units of affordable housing through the Office of Multifamily Housing's Project-Based Section 8 program. Property owners in that program have leveraged billions in public and private investment in order to make life-cycle property improvements while maintaining a historically low foreclosure rate. Because of this program's success, the bi-partisan Millennial Housing Commission and other panels of experts for years have recommended allowing public housing properties to leverage limited public resources with private debt and equity, in a manner similar to that done with the Section 8 multifamily programs for decades. Under the initial 30-day competitive application period for RAD, the Department gave initial approval to 112 project applications supporting the preservation of nearly 12,100 units of public housing. The estimated private sector capital leverage that can be achieved once these projects receive final approval exceeds \$650 million. This is a strong demonstration of the model and how substantial amounts of capital can be accessed. At the same time, since enactment of RAD, the Department has fielded hundreds of inquiries from PHAs and public officials and reviewed countless analyses of worthy projects that are not feasible for conversion at current funding levels; however, these projects would be much more likely to convert under RAD if afforded a modest incremental subsidy. Accordingly, the Department believes that offering limited incremental subsidy only to narrowly targeted, priority projects would further test and advance RAD's goals.

There is precedent for providing RS and RAP properties with the opportunity for long-term renewable Section 8 contracts. Starrett City, a multifamily project in New York, once had the largest RAP contract in the country; however, its contract was set to expire without an option to renew, placing over 2,400 deeply affordable homes at risk. Congress enacted special legislation in 2008 to allow the owners to renew assistance through long-term project-based assistance under the Multifamily Assisted Housing Reform and Affordability Act (MAHRAA). As a result, instead of displacing these tenants, the owners of Starrett City were able to continue to provide over 2,400 homes at rents affordable to low-income households. Without further action from Congress, approximately 21,250 units still assisted under the RS and RAP programs do not have an option to renew their subsidy contracts at expiration. The Demonstration provides these properties with the option to obtain on-going rental assistance so that they can continue to serve vulnerable households. As a testament to the demand for this program, in just the first year of the Demonstration the department has received requests for conversion from approximately half of all active RS and RAP contracts that were set to expire in fiscal year 2013.

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Finally, to ensure that the program is achieving the desired results, RAD also includes an ongoing evaluation component, which will assess, across different markets and geographic areas and within portfolios managed by PHAs of varying sizes, the following research areas:

- Conversion impact on properties' physical and financial stability;
- Amount and types of capital leveraged; and
- Affected residents' access to residential mobility.

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**PUBLIC AND INDIAN HOUSING  
RENTAL ASSISTANCE DEMONSTRATION PROGRAM  
Summary of Resources by Program  
(Dollars in Thousands)**

| <u>Budget Activity</u> | <u>2012 Budget Authority</u> | <u>2011 Carryover Into 2012</u> | <u>2012 Total Resources</u> | <u>2012 Obligations</u> | <u>2013 Annualized CR</u> | <u>2012 Carryover Into 2013</u> | <u>2013 Total Resources</u> | <u>2014 Request</u> |
|------------------------|------------------------------|---------------------------------|-----------------------------|-------------------------|---------------------------|---------------------------------|-----------------------------|---------------------|
| Incremental Conversion |                              |                                 |                             |                         |                           |                                 |                             |                     |
| Cost .....             | ...                          | ...                             | ...                         | ...                     | ...                       | ...                             | ...                         | \$10,000            |
| Total .....            | ...                          | ...                             | ...                         | ...                     | ...                       | ...                             | ...                         | 10,000              |

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RENTAL ASSISTANCE DEMONSTRATION PROGRAM  
Appropriations Language**

Below is the italicized appropriations language for the Rental Assistance Demonstration Program.

*For continuing activities under the heading "Rental Assistance Demonstration" in the Department of Housing and Urban Development Appropriations Act, 2012 (Public Law 112-55), and in accordance with priorities established by the Secretary, \$10,000,000, to remain available through September 30, 2017: Provided, That such funds shall only be available to properties converting from assistance under section 9 of the United States Housing Act of 1937 (42 U.S.C. 1437g).*

Below is the italicized general provisions language for the Rental Assistance Demonstration Program.

*Sec. \_\_. RENTAL ASSISTANCE DEMONSTRATION AMENDMENTS.—*

*The language under the heading "Rental Assistance Demonstration" in the Department of Housing and Urban Development Appropriations Act, 2012 (Public Law 112-55) is amended—*

*(1) by striking "(except for funds allocated under such section for single room occupancy dwellings as authorized by title IV of the McKinney-Vento Homeless Assistance Act)" in both places such language appears;*

*(2) in the third proviso by inserting "in excess of amounts made available under this heading" after "associated with such conversion";*

*(3) in the fourth proviso--*

*(A) by striking "60,000" and inserting "150,000"; and*

*(B) by striking "or section 8(e)(2)"; and*

*(4) in the penultimate proviso by striking "and 2013," and inserting "through 2015".*

Note.--A full-year 2013 appropriation for this account was not enacted at the time the budget was prepared; therefore, the budget assumes this account is operating under the Continuing Appropriations Resolution, 2013 (P.L. 112-175). The amounts included for 2013 reflect the annualized level provided by the continuing resolution.