

HOUSING
RENTAL ASSISTANCE DEMONSTRATION PROGRAM
2016 Summary Statement and Initiatives
(Dollars in Thousands)

RENTAL ASSISTANCE DEMONSTRATION PROGRAM	<u>Enacted/ Request</u>	<u>Carryover</u>	<u>Supplemental/ Rescission</u>	<u>Total Resources</u>	<u>Obligations</u>	<u>Outlays</u>
2014 Appropriation .....	...	...	...	...	...	...
2015 Appropriation .....	...	...	...	...	...	...
2016 Request	<u>\$50,000^a</u>	<u>...</u>	<u>...</u>	<u>\$50,000</u>	<u>\$50,000</u>	<u>...</u>
Program Improvements/Offsets	+50,000	...	...	+50,000	+50,000	...

a/ Includes an estimated transfer to the Transformation Initiative (TI) account of \$380 thousand.

1. What is this request?

The Department requests \$50 million in fiscal year 2016 for a targeted expansion of the Rental Assistance Demonstration (RAD) program to public housing properties that cannot feasibly convert to long-term Section 8 rental assistance contracts at existing funding levels, specifically those located in high-poverty neighborhoods, including designated Promise Zones, and areas where the Administration is supporting comprehensive revitalization efforts. In working with Public Housing Agencies (PHAs) attempting to convert and transform their stock of public housing through RAD, the Department has clearly learned that offering even limited incremental subsidy would allow for the transformation some properties greatly need and that could not be achieved at current funding levels. This request will cover the incremental subsidy cost of converting approximately 25,000 public housing units, thereby increasing private investment in targeted projects and surrounding neighborhoods.

Additionally, HUD will continue to implement RAD conversions without incremental subsidy in 2016 by making use of:

1. Amounts made available under the existing Public Housing Operating Fund and Capital Fund programs;
2. Tenant Protection Vouchers (TPVs) that otherwise would be issued to tenants upon expiration or termination of Section 8 Moderate Rehabilitation (MR), Mod Rehab SRO (MR SRO), Rent Supplement (RS) and Rental Assistance Payment (RAP) contracts (see Other Assisted Housing justification);
3. Amounts made available under Rental Housing Assistance that would have otherwise been used to amend or extend RS and RAP contracts; and
4. Contract authority recaptured from RS and RAP conversions.

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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 to eliminate the 185,000-unit cap on Public Housing and MR conversions and clarifies the elimination of the sunset date for conversions of RS, RAP and MR properties under the second component of RAD. These proposals are described in more detail in Section 3.

The main goal of RAD is to use 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.

2. What is this program?

The Consolidated and Further Continuing Appropriations Act of 2012 (P.L. 112-55), modified by the Consolidated and Further Continuing Appropriations Act of 2015 (P.L. 113-235), authorized RAD to test new preservation tools for the HUD-assisted housing stock. Modified by subsequent appropriation bills, RAD currently allows:

1. Public Housing (PH) and MR properties to convert assistance to long-term Section 8 rental assistance contracts (capped at 185,000 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, or to Project-Based Rental Assistance (as newly enacted in 2015).

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 Public Housing 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 43,500 units assisted under the MR, MR SRO, 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 Public Housing, 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:

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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.

Funding Conversions

Public housing units that converted in calendar years 2013 and 2014 are now reflected in the Project-Based Rental Assistance (PBRA) and Tenant-Based Rental Assistance (TBRA) budget requests. In calendar year 2014, 116 public housing properties containing 11,619 units completed conversion to project-based Section 8 contracts (either PBRA or PBV). These conversions represent approximately \$72 million in funds that will be shifted from the public housing operating and capital accounts to PBRA and TBRA in 2015.

Public housing units that may convert in 2015 are still reflected in the fiscal year 2016 funding requests for the public housing Operating Fund and Capital Fund. In fiscal year 2016, once it is known how many units converted to PBRA and PBV, respectively, HUD will transfer funds from the public housing Operating Fund and Capital Fund into PBRA and TBRA. Authority to execute this transfer is provided within Public Law 112-55. HUD currently estimates that a total of \$125 million will be transferred in fiscal year 2016, though the precise number will be based on the actual number of conversions and the specific funding levels of the converting properties.

3. Why is this program necessary and what will we get for 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.

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The most recent capital needs study of the public housing stock, completed in 2010,¹ 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. Without RAD, the 34,500 units assisted under MR and MR SRO are limited to short-term renewals and constrained rent levels that inhibit recapitalization. Further, the approximately 9,000 units still assisted under RS and RAP would have no ability to retain project-based assistance beyond the current contract term without RAD. As a result, as their contracts expire, these projects would no longer be 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 incremental subsidy, HUD requests \$50 million for the incremental subsidy costs of converting assistance under RAD. Such funding will be targeted 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 \$50 million in incremental subsidies will support the conversion and redevelopment of approximately 25,000 public housing units that otherwise could not convert, thereby increasing private investment in targeted projects and surrounding neighborhoods.

The Transportation, Housing and Urban Development, and Related Agencies Appropriations, 2015 (PL 113-235) made important improvements to RAD in order to maximize participation by those PHAs and other owners whose current funding levels are sufficient for conversion as well as to ensure that funding provided for RAD can be used to convert as many units as possible:

- Increasing from 60,000 to 185,000 unit cap on public housing and MR projects that could convert assistance to long-term Section 8 rental assistance contracts and extending the application deadline for such conversions to September 30, 2018;
- making Section 8 MR Single Room Occupancy (SRO) properties eligible for RAD;
- allowing Rent Supplement and RAP properties to convert to long-term Project-Based Rental Assistance (PBRA) , as necessary, using resources including amounts remaining on the contracts of a converting project and funding that would otherwise be used to provide short-term contract extensions, contract rent amendments, and/or Tenant Protection Vouchers for expiring contracts. To ensure cost neutrality, any increase in cost in the PBRA account as a result of Rent Supp and RAP properties

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

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converting to PBRA contracts must be equal to transfers from the Rent Supp/RAP and/or TBRA accounts; and deleting the sunset date for Rent Supp and RAP conversions.

The Budget eliminates the 185,000-unit cap on Public Housing and MR conversions and, for the second component of RAD, clarifies the elimination of the sunset date for conversions of RS, RAP and MR properties under the second component of RAD. This clarification will give HUD the flexibility to preserve all remaining RS, RAP, and MR properties as their current contracts end.

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 Rental Assistance program. Property owners in that program have leveraged billions in public and private investment in order to make lifecycle property improvements while maintaining an industry-low foreclosure rate. Because of this program's success, the bipartisan 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.

Indeed, as of January 2015, with approximately 13,000 units converted, PHAs and their partners have raised over \$485 million (\$37,000 per unit) to improve and preserve public housing assets (as compared to the average capital need of \$23,365 per unit that was identified in a study of the public housing portfolio) and have begun to make regular deposits into an ongoing "replacement reserve" account to ensure that repair and replacement needs that arise in the future are funded. The remaining awards under HUD's original 60,000 unit cap, plus the over 115,000 units for which HUD has already received approvable applications and that will soon be awarded under the newly raised cap are expected to leverage billions more. Further, HUD continues to receive interest and applications from PHAs that with properties that could be preserved at no additional cost. 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 would further test and advance RAD's goals.

Meanwhile, the Department has converted to long-term PBV contracts more than 75 RS, RAP, and MR projects that would have otherwise expired or been terminated, and has 85 projects that are actively being processed for preservation.

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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.

5. Proposals in the Budget

Below are the proposals included in the 2016 request (Section 220 of General Provisions):

- Eliminating the 185,000 unit cap on public housing and MR projects that could convert assistance to long-term Section 8 rental assistance contracts, and
- Confirming the removal of the sunset date for RS, RAP, and MR conversions by clarifying HUD's permanent authority under the second component.

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Summary of Resources by Program
(Dollars in Thousands)

<u>Budget Activity</u>	<u>2014 Budget Authority</u>	<u>2013 Carryover Into 2014</u>	<u>2014 Total Resources</u>	<u>2014 Obligations</u>	<u>2015 Budget Authority</u>	<u>2014 Carryover Into 2015</u>	<u>2015 Total Resources</u>	<u>2016 Request</u>
Incremental Conversion								
Cost	\$50,000
Transformation								
Initiative (transfer)	[380]
Total	50,000

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Appropriations Language

The fiscal year 2016 President's Budget includes proposed changes in the appropriation language listed and explained below. New language is italicized and underlined, and language proposed for deletion is bracketed.

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, \$50,000,000, to remain available through September 30, 2019: 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).