

HOUSING
RENTAL ASSISTANCE DEMONSTRATION PROGRAM
2017 Summary Statement and Initiatives
(Dollars in Thousands)

RENTAL ASSISTANCE DEMONSTRATION PROGRAM	Enacted/ Request	Carryover	Supplemental/ Rescission	Total Resources	Obligations	Outlays
2015 Appropriation .....	...	...	...	...	...	...
2016 Appropriation .....	...	...	...	...	...	...
2017 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 Research and Technology (R&T) account of \$250 thousand.

1. What is this request?

The Department requests \$50 million in fiscal year 2017 for the Rental Assistance Demonstration (RAD) program to support the conversion of public housing properties that cannot feasibly convert to long-term Section 8 rental assistance contracts at existing funding levels; and a targeted expansion of the RAD authority to include Section 202 Project Rental Assistance Contracts (PRAC) properties. 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.

In general, the transformation of some properties with significant need for recapitalization is not viable at current funding levels, and these properties are in need of limited incremental subsidy to feasibly convert under RAD. With respect to public housing, funds would specifically be applied to those properties located in high-poverty neighborhoods, including designated Promise Zones, and areas where the Administration is supporting comprehensive revitalization efforts as well as transfer of assistance to high opportunity locations where there is a limited supply of affordable housing. For Section 202 PRACs, this request both establishes the authority for HUD to convert these contracts at existing funding levels and permits a portion of the \$50 million requested to increase the funding for properties with significant recapitalization needs, including those properties with service coordinators for frail and elderly residents.

This funding request will cover the incremental subsidy cost of converting approximately 25,000 public housing and Section 202 PRAC units, thereby increasing private investment in targeted projects and surrounding neighborhoods and creating thousands of new jobs.

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HUD also seeks to expand the authority to convert properties under RAD without additional incremental subsidy. In addition to re-proposing the elimination of the unit cap on RAD public housing conversions, the Budget also includes proposals, described in Section 5, which would expand the number of cost neutral conversions that could occur under RAD, while ensuring that tenants' rights are protected and the public interest is preserved. As noted above, one such proposal is to make Section 202 PRACs eligible to convert to long-term, Section 8 contracts via RAD. The opportunity to sign fifteen or twenty-year contracts under the Section 8 program will allow owners to leverage private debt and equity to address preservation needs to an extent not possible under current PRAC contracts, which run for one-year and must be renewed annually by HUD. Though many PRAC properties would require incremental subsidy in order to fully recapitalize, a significant number are expected to benefit from restructuring of the existing subsidy stream through a cost neutral conversion. Similar to cost neutral conversions of public housing, the conversion of Section 202 PRACs would entail the transfer of renewal subsidy from the Section 202 account to either Project-Based Rental Assistance or Tenant-Based Rental Assistance.

HUD would meanwhile continue to facilitate cost neutral conversions of currently authorized affordable housing programs to preserve and enhance critical affordable housing using the following existing funding sources:

- Transfer of amounts made available under the existing Public Housing Operating Fund and Capital Fund programs;
- 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);
- Amounts made available under Rental Housing Assistance heading; and
- Budget authority recaptured from expired or terminated RS or RAP contracts and contract authority recaptured from contracts converting to RAD, which may be re-appropriated as budget authority.

2. What is this program?

The main goal of RAD is preservation of affordable housing, specifically by converting public housing and other HUD-assisted properties to long-term, project-based Section 8 rental assistance (PBRA) and project-based vouchers (PBVs). This conversion allows PHAs and owners to leverage private debt and equity to address their properties' immediate and long-term capital needs. As of December 2015, under the RAD First Component, more than 26,000 public housing units have been converted with over \$1.7 billion in construction investments leveraged to improve and preserve their assets. Meanwhile, 135 RS, RAP, and MR projects with over 17,000 units¹ have been preserved through conversion.

¹ In addition to units receiving RS or RAP rental assistance at the time of conversion, this number includes unassisted units at a project that are eligible for Tenant Protection Vouchers at the time of prepayment and are included on the project-based HAP.

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

1. Public Housing 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, MR, and MR SRO properties, upon contract expiration or termination, to convert to project-based vouchers (PBVs) or to Project-Based Rental Assistance (PBRA).

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 had been losing an average of 10,000 units annually through demolitions or dispositions. Meanwhile, the units currently assisted under the MR (20,515 units), MR SRO (13,568 units), RS (1,747 units), RAP (8,757 units), and 202 PRAC (121,614 units) 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, MR SRO, RS and RAP programs, and as proposed the owners of 202 PRAC properties, 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 while ensuring the public's interest is maintained;
3. Increases housing choice for residents and safeguards strong resident rights; and
4. Places properties on a regulatory structure that allows flexible, local decision-making.

Funding Conversions

Public housing units that converted through 2015 are reflected in the fiscal year 2017 Project-Based Rental Assistance (PBRA) and Tenant-Based Rental Assistance (TBRA) budget requests for renewals.

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Public housing units that may convert in 2016 are still reflected in the fiscal year 2017 funding requests for the public housing Operating Fund and Capital Fund. In fiscal year 2017, once it is known how many units converted to PBRA and PBV, respectively, HUD will transfer corresponding 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 \$278 million will be transferred in fiscal year 2017, though the precise number will be based on the actual number of conversions and the specific funding levels of the converting properties.

Under the second component, conversions to PBV are funded by the Tenant Protection Voucher funding HUD provides at contract expiration or termination. For PBRA conversions, MR conversions are funded by appropriations that are already made for MR and MR SRO properties into the PBRA account. RS and RAP conversions are funded by transfers to the PBRA account from budget authority recaptured from expired or terminated RS or RAP contracts; contract authority recaptured from contracts converting to RAD, which may be re-appropriated as budget authority; unobligated balances and new appropriations for amendments or extensions in the "Other Assisted Housing" account; and TPV funding that would have otherwise been issued for the project at expiration or termination.

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

Preservation Challenges

The 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 PHAs to keep up with needed life-cycle improvements. As a result, a very large capital needs backlog has accumulated. Despite the addition of replacement public housing units, there has been a net loss of over 139,000 public housing units since fiscal year 2000, representing an average loss of approximately 8,700 units annually.

In addition to the public housing stock, RAD targets certain "at-risk" HUD legacy programs. Without RAD, the properties assisted under MR and MR SRO contracts are limited to short-term renewals and constrained rent levels that inhibit recapitalization. Similarly, the properties supported under 202 PRACs, which are newly proposed in this budget request to be eligible for conversion under RAD, are also limited to short-term contract renewals that prevent owners from accessing capital as well as an expiring use agreement that put at risk the ongoing affordability of this critical housing source for low-income seniors. Finally, without RAD the properties assisted under RS and RAP contracts would have no ability to retain long-term project-based assistance beyond the current contract term without RAD, threatening their ongoing affordability as their contracts expire.

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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 and 202 PRAC projects that cannot be converted at current funding levels. These efforts will support the Administration's broader efforts in high-poverty areas, including designated Promise Zones, as well as transfer of assistance to high opportunity locations where there is a limited supply of affordable housing. The Department estimates that the \$50 million in incremental subsidies will support the conversion and redevelopment of approximately 25,000 public housing and 202 PRAC units that otherwise could not convert, thereby increasing private investment in targeted projects and surrounding neighborhoods.

The Budget also includes various proposals that would expand the number of HUD-assisted affordable housing units that could be preserved under RAD without additional cost, while ensuring that tenants' rights are protected and the public interest is preserved. These proposals include eliminating any constraints on the number of public housing units that could convert; making 202 PRACs eligible for conversion; ensuring ongoing public interest in converted public housing properties; and strengthening the right to return requirements for MR, RS, RAP, and 202 PRACs. If enacted, HUD could preserve substantially more units, which would preserve and improve affordable housing for low-income households, and create thousands of new jobs.

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 and 100,000 Project-Based Vouchers administered through PHAs. Property owners in these programs 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 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 programs for decades.

Indeed, as of December 2015, with more than 26,000 units converted, PHAs and their partners have raised over \$1.7 billion to improve and preserve public housing assets and properties with formerly public housing RAD units, 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

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funded. HUD has made awards to public housing properties up to the statutorily authorized 185,000 unit cap and has a waiting list that includes nearly 11,000 additional units that PHAs have proposed for conversion. 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 135 RS, RAP, and MR projects, covering over 17,000 units, that would have otherwise expired or been terminated, and has 39 projects that are actively being processed for preservation.

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 2017 request:

- Eliminating the 185,000 unit cap on public housing projects that could convert assistance to long-term Section 8 rental assistance contracts,
- Eliminating the deadline of September 30, 2018, for submission of RAD Applications under the first component,
- Standardizing ownership and control requirements for converted public housing properties by permitting non-profit ownership in conversion where low-income housing tax credits are used or where foreclosure, bankruptcy, or default occurs,
- Authorizing a tenant's right to continued occupancy for conversions under the second component; and
- Expanding the second component of RAD to include the conversion of Section 202 PRAC properties. (Sec. 269)

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Summary of Resources by Program
(Dollars in Thousands)

<u>Budget Activity</u>	<u>2015 Budget Authority</u>	<u>2014 Carryover Into 2015</u>	<u>2015 Total Resources</u>	<u>2015 Obligations</u>	<u>2016 Budget Authority</u>	<u>2015 Carryover Into 2016</u>	<u>2016 Total Resources</u>	<u>2017 Request</u>
Incremental Conversion								
Cost	\$50,000
Research and Technology								
(transfer)	[250]
Total	50,000

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Appropriations Language

The fiscal year 2017 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]2020. 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), or under section 202(c)(2) of the Housing Act of 1959 (12 U.S.C. 1701q(c)(2)).