

RENTAL ASSISTANCE DEMONSTRATION PROGRAM

The main goal of the Rental Assistance Demonstration is the 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 May 2017, PHAs have converted more than 61,000 public housing units and have leveraged \$4 billion in construction investments to improve, replace, and preserve these properties. Meanwhile, 197 Rent Supplement (RS), Rental Assistance Payments (RAP), Moderate Rehabilitation (MR) and Moderate Rehabilitation Single-Room Occupancy (MR SRO) projects with over 23,000 units¹ have been preserved through conversion. In light of the success of the program, this budget includes various proposals, described at the end of this document, which would expand the number of cost-neutral public housing conversions that could occur under RAD; building on the success of RAD and permitting the cost-neutral conversion of the 121,000 units supported by year-to-year Section 202 Project-Rental Assistance Contract (202 PRACS), and ensuring that tenants' rights are protected and the public interest is preserved. If enacted, HUD could preserve substantially more units without increased federal outlays, which would preserve and improve affordable housing for low-income households and create thousands of new jobs.

The Consolidated and Further Continuing Appropriations Act of 2012 (P.L. 112-55), as amended, authorized RAD to test new preservation tools for HUD-assisted housing stock at risk of being lost from the nation's affordable housing inventory. RAD currently allows the following types of assisted properties to convert to long-term Section 8 rental assistance contracts (project-based vouchers (PBVs) or Project-Based Rental Assistance (PBRA)):

1. Public Housing properties, capped at 225,000 units and with rents limited to existing subsidy amounts. 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; and
2. RS, RAP, MR, and MR SRO properties, upon contract expiration or termination. The units currently assisted under the MR, MR SRO, RS, and RAP programs are ineligible to renew their contracts on terms that favor private financing and long-term preservation.

By offering a long-term contract tied to a regulatory structure that facilitates partnerships with other forms of private and public financing, RAD achieves the following goals:

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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1. Promotes local public-private development activity with access to safe, proven tools to leverage private capital, while ensuring an ongoing public interest in the properties;
2. Recapitalizes the HUD-assisted housing portfolio to ensure its long-term stability and affordability, without the need of increased appropriations;
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 2016 are reflected in the fiscal year 2018 Project-Based Rental Assistance (PBRA) and Tenant-Based Rental Assistance (TBRA) budget requests for renewals.

Public housing units that may convert in 2017 are still reflected in the fiscal year 2018 funding requests for the Public Housing Operating Fund and Capital Fund. In fiscal year 2018, once it is known how many units converted to PBRA and PBV in 2017, 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.

Below is a chart of public housing conversions in progress for 2017. HUD is still working with PHAs to determine 2018 conversions.

Section 8 Type	Units Converted	Transferred from Operating Fund	Transferred from Capital Fund
Transfer to PBRA	12,016	\$47,601,919	\$14,910,461
Transfer to TBRA	14,080	\$62,043,681	\$21,244,462
TOTAL	26,096	\$109,654,600	\$36,154,923

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/or TPV funding that would have otherwise been issued for the project at expiration or termination.

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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 Public Housing 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 maintenance. As a result, a very large capital needs backlog has accumulated, and between 1995 and 2013, when RAD began, the public housing program would lose in net 10,000 units per year.

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. 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, threatening their ongoing affordability as their contracts expire.

As of May 2017, with more than 60,000 units converted, PHAs and their partners have raised over \$4 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 funded. The construction and related activity have stimulated an estimated 75,000 jobs. HUD has made awards to public housing properties up to the originally authorized cap of 185,000 units. The Consolidated Appropriations Act, 2017 gave HUD the authorization to make awards to an additional 40,000 units, but a waiting list will remain and HUD expects ongoing interest and participation from additional PHAs. This is a strong demonstration of the model and how substantial amounts of capital can be accessed.

Meanwhile, the Department is working to convert the final RS and RAP properties that will otherwise expire or be terminated, as well as ramp up the conversion of the MR and MR SRO stocks.

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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Proposals in the Budget

Below are the proposals included in the 2018 request (Section 219 of General Provisions):

- Eliminating the 225,000 unit cap on public housing projects authorized to convert assistance to long-term Section 8 rental assistance contracts;
- Eliminating the deadline of September 30, 2020 for submission of RAD Applications under the first component;
- Expanding the second component of RAD to include the conversion of Section 202 PRAC properties;
- Standardizing ownership and control requirements for converted public housing properties by extending the baseline standard of permitting non-profit ownership at conversion to situations where low-income housing tax credits are used or where foreclosure, bankruptcy, or default occurs;
- Ensuring a tenant's right to continued occupancy under the second component.