DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Office of Housing

Project-Based Rental Assistance

SUMMARY OF RESOURCES

(Dollars in Thousands)

	Enacted/ Requested	Carryover	Supplemental/ Rescission	Total Resources	Obligations	Net Outlays
2021 Appropriation	13,465,000	480,398	-	13,945,398	13,574,246	13,541,747
2022 Annualized CR	13,465,000	477,000	-	13,942,000	13,738,000	13,589,000
2023 President's Budget	15,000,000	317,000	-	15,317,000	15,054,000	14,517,000
Change from 2022	1,535,000	(160,000)	-	1,375,000	1,316,000	928,000

a/ FY 2021 Resources includes unobligated balances of $369 million, recaptures realized in 2021 of $55 million, and $56 million transferred from the Public Housing Fund.

b/ FY 2022 Resources includes an estimated $371 million of unobligated balances, an estimated $56 million from recaptures, an estimated $33 million from transfers from the Public Housing Fund, and an estimated $17 million from Housing for the Elderly for RAD conversions.

c/ FY 2023 Resources includes an estimated $204 million of unobligated balances, an estimated $56 million from recaptures, an estimated $40 million from transfers from the Public Housing Fund, and an estimated $17 million from Housing for the Elderly for RAD conversions.

PROGRAM PURPOSE

The Project-Based Rental Assistance (PBRA) program provides over 1.2 million low-income and very low-income families with decent, safe, and affordable housing. Without this assistance, many currently affordable properties would either convert to market rates or would be unable to generate enough rental income to be maintained in adequate living conditions.

BUDGET OVERVIEW

The 2023 President's Budget requests $15 billion for the PBRA program, which is $1.535 billion more than the 2022 Annualized CR. This includes:

- $14.065 billion for contract renewals and amendments, including public housing properties that converted to PBRA via the Rental Assistance Demonstration (RAD);
- $50 million for RAD conversion subsidy for public housing projects converting to PBRA;
- $10 million for RAD conversion subsidy for the Section 202 Project Rental Assistance Contracts (PRACs) converting to PBRA;
- $275 million for Budget-Based Rent Increases (BBRI) for certain at-risk post-Mark-to-Market (M2M) properties and other PBRA properties with health and safety deficiencies;
- $31 million for BBRIs for PBRA properties serving the elderly to cover the cost of a service coordinator;
- $194 million for Moderate Rehabilitation and Single Room Occupancy renewal programs; and
- $375 million for Performance-Based Contract Administration (PBCA).

This Budget also requests modifications to the RAD statute to expand and improve the efficacy of RAD conversions to both PBRA and Project-Based Vouchers (PBV), including:

- The elimination of the cap on public housing units that may convert under RAD and the sunset date by which applications must be received.
- Avoiding disincentives to conversion to RAD for Second Component conversions by excluding existing service coordinator and service costs from the 120 percent of Fair Market Rent

(FMR) rent cap for new Section 8 contracts so that properties serving the elderly can effectively be preserved without losing access to critical services.

- Ensuring continued availability of services for residents following a RAD conversion to PBRA or PBV under the first component. This will guarantee that resident services funding under the Jobs Plus, Resident Opportunities for Self-Sufficiency (ROSS), and Congregate Housing Services Program (CHSP) programs awarded to public housing properties prior to conversion may continue to operate fully and, as appropriate, be eligible for renewal at the completion of the grant term. Additionally, this will also permit the full implementation of the Jobs Plus Initiative program design following conversion of properties benefiting from Jobs Plus program grants.
- Permitting the conversion and integration of the budget authority associated with Tenant Protection Vouchers (TPV) authorized following a Section 18 approval into RAD PBRA or PBV contracts, and permitting previously converted properties that have both a PBV and a PBRA contract to combine those contracts into one platform (i.e. either PBRA or PBV).
- Authorizing the use of Participating Administrative Entities (PAEs) to reduce the administrative burden on small properties converting under RAD.
- Authorizing the budget-neutral conversion of Section 811 PRAC properties under RAD.
- Authorizing the budget-neutral conversion for properties assisted under Senior Preservation Rental Assistance Contracts (SPRACs) under RAD.

Housing-related challenges can trigger significant mental health distress. Training and technical assistance resources available in this account will be used to support HUD's department-wide effort to reduce the impacts of housing-related challenges on mental and emotional well-being and improve the experience of the Department's customers. HUD will coordinate validated, evidence-based training for front-line housing professionals on the signs and symptoms of emotional distress and mental health challenges. This training will help housing professionals connect customers who are experiencing emotional distress with appropriate local resources.

JUSTIFICATION

Contract Renewals and Amendments - $14.065 billion

The Budget fully funds the renewal or amendment of approximately 17,240 rental assistance contracts, providing safe, stable, and affordable housing to approximately 1.2 million low-income and very low-income households. The PBRA program serves some of the Nation's most vulnerable populations including seniors, families with children, and persons with disabilities; it also serves many people of color (demographic detail below in chart). This includes funds for renewal of Section 8 contracts already within the Office of Housing PBRA portfolio, as well as properties that are projected to convert to PBRA during 2021 and 2022 via the Rental Assistance Demonstration program and require PBRA budget authority for the first time in 2023. This also includes $20 million for Section 8 Original Term contract amendments, which were used to amend long-term project-based Section 8 contracts executed primarily in the 1970s and 1980s. The PBRA contract renewal and amendment amounts assume that PBRA annual gross current services needs will be fully funded in 2022.

Increases in gross needs for PBRA renewals and amendments are driven by several factors, most notably annual rent increases and the addition of units formerly funded in other programs (e.g., Public Housing) entering the PBRA renewal portfolio for the first time. For 2023, HUD estimates PBRA subsidy inflation at approximately 4.0 percent, resulting from Operating Cost Adjustment

Factors (OCAF) and other rent adjustments, coupled with no significant increases in tenant contributions, relative to 2022 enacted levels.

PBRA contracts are public-private partnerships working with for-profit and non-profit entities in local communities and providing a crucial Federal investment in the nation's stock of deeply affordable housing. In places of disinvestment, PBRA improves housing quality and safety through higher management and occupancy standards than are generally required under State and local law. In places with high housing costs, PBRA provides access to affordable housing not otherwise available for many households.

The program maintains and protects the long-term Federal investment in these assets. Nationally, only 37 affordable units are available per 100 extremely low-income renters.[1] Without rental assistance, many of these households would not be able to access housing at local market rates or would have very high housing costs. Households burdened with high housing costs often sacrifice spending on other critical expenses such as food, healthcare, and transportation to stay housed, potentially impacting their health outcomes and access to job and educational opportunities.[2] PBRA funding directly reduces worst-case housing needs by providing affordable housing to populations likely to be in this situation, including families with children, senior citizens, and persons with disabilities, who might otherwise be at risk of experiencing homelessness. Approximately 45 percent of assisted households are headed by elderly persons, 16 percent by persons with disabilities, and 33 percent are families with children.[3]

The PBRA program is a crucial component of the Federal housing safety net for people in need. Multifamily housing assisted by PBRA stabilizes neighborhoods and contributes to greater local economic opportunity by providing employment, increasing the buying power of assisted tenants in support of local businesses, and increasing local tax bases. The PBRA program directly contributes to job creation and retention in the fields of property management, maintenance, general construction, and contract work such as landscaping, pest control, security, snow removal, equipment servicing, legal representation, and property insurance. Because PBRA contracts are a place-based investment, they provide opportunities for the Department to engage with communities where they are located and foster connections between initiatives and programs at the local level. Without ongoing rental income, some properties may be unable to continue payments on existing debt, including mortgages insured by FHA or backed by bonds issued by State housing finance agencies. The periodic refinancing of the debt underlying projects assisted by PBRA generates significant capital available for investment in construction repairs and improvements. Refinancing and capital improvements create opportunities for increasing the energy efficiency of PBRA properties. HUD incentivizes energy efficiency at FHA-insured PBRA properties undergoing refinance through the FHA Green Mortgage Insurance Premium (MIP) program. Of 16,800 total PBRA properties, more than 5,100 PBRA properties carry financing issued by FHA.

The Budget also funds the Real Estate Assessment Center's (REAC) efforts to eliminate the backlog of overdue physical inspections accrued largely during the COVID-19 pandemic, consistent with HUD Strategic Objective 2B – Improve Rental Assistance. The funds requested will enable REAC to eliminate the multifamily housing inspection backlog and maintain on schedule inspections and re-inspections consistent with multifamily program regulations through the end of 2023. Funds

[1] National Low Income Housing Coalition (2021). The Gap: A Shortage of Affordable Rental Homes March 2021. Analysis based on tabulations of 2019 American Community Survey Public Use Microdata Sample data. Available at: https://reports.nlihc.org/gap
[2] Joint Center for Housing Studies of Harvard University (2020). The State of the Nation's Housing 2020. Available at: https://www.jchs.harvard.edu/state-nations-housing-2020
[3] HUD Administrative Data. 12 Month Tenant Characteristics Report - Ending December 31, 2020. Available at: https://www.hud.gov/sites/dfiles/Housing/documents/Tenant_Characteristics_Rpt.pdf

requested also support inspections-related contracts facilitating analysis of inspection data, performance reporting, and the improvement of HUD's inspection program through the National Standards for the Physical Inspection of Real Estate (NSPIRE) contract.

Q4 2021 Project-Based Section 8 Tenant Characteristics

How many households and people are served?

2.1 million people	
1.2 million households	

What are the racial characteristics of the tenants?

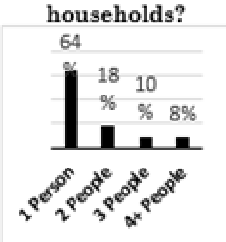
This program serves a relatively demographically diverse population. **64%** of residents are in a minority group.

Asian/ P.I.	*Black, non-Hispanic*	*Hispanic*	*Native American*	*White*	*Unknown*
5%	**39%**	**19%**	**1%**	**31%**	**5%**

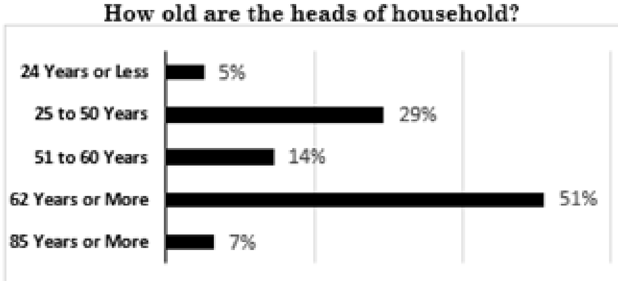
What are the characteristics of the heads of household?

Female headed families with children	**23%**
Elderly	**51%**
Non-elderly disabled	**16%**

How big are the households?



How old are the heads of household?



What is the share of rent paid by the tenant and HUD?

Average household contribution	**$315**
Average HUD Contribution	**$910**

How do household incomes compare to the local area median income?

Extremely low income (less than 30% AMI)	**79%**
Very low income (30% to 50% AMI)	**17%**
Low Income (50% to 80% AMI)	**3%**

What are the income levels of assisted households?

Tenants make an average gross income of **$13,519**. 83% of households earn $20,000 or less per year

Head of Household characteristics and age categories are not mutually exclusive and may not total 100 percent.
Some percentages totals not equal to 100 due to rounding.
Source: HUD PIC and TRACS databases, December 2020 extract.

Rental Assistance Demonstration Activities - $60 million

The Budget includes a total of $60 million for RAD activities: $50 million in RAD conversion subsidy in the PBRA account to support the cost-effective conversion of 30,000 public housing properties that are unable to convert using only the funds provided through existing appropriations, and $10 million in RAD conversion subsidy to support the cost-effective conversion of 3,000 Section 202 PRAC properties that could not otherwise participate in a RAD conversion to support a more sustainable long-term operation. These funds would also be available to utilize PAEs to provide direct support to small owners and properties for the administrative costs of the RAD conversions under both components of RAD.

Budget-Based Rent Increases (BBRI) for certain at-risk post-Mark-to-Market properties and other PBRA properties with health and safety deficiencies - $275 million

The Budget includes up to $250 million to allow budget-based rent adjustments for certain at-risk post-Mark-to-Market (M2M) Section 8 properties to prevent distress and facilitate rehabilitation, consistent with program requirements that the property rents remain at or below comparable market rents. M2M contract rents are initially set at market levels and may currently only be adjusted by OCAF. Of the approximately 1,800 post-M2M Section 8 properties, approximately 830 have rents currently below Fair Market Rents for their locality. This Budget would allow a BBRI adjustment for those properties at risk of becoming distressed. The Budget also includes at least $25 million for BBRI adjustments for other PBRA properties that have health and safety deficiencies, to set rents at or below market rent, based on a current rent comparability assessment. This funding would stabilize operating budgets of the affected properties and, where needed, provide for rehabilitation and/or transfer of ownership. This will ensure quality management of the properties, achieve greater sustainability, and increase the availability of affordable housing units by preserving these investments farther into the future while preventing default on FHA-insured mortgages and Section 8 contracts.

Budget-Based Rent Increases to fund service coordinators for the elderly - $31 million

This Budget includes $31 million to support BBRIs at PBRA properties serving the elderly to cover the cost of a service coordinator to help elderly residents stay healthy and age in place. Elderly service coordination is recognized as a cost-effective means to support seniors aging-in-place and prevent premature institutionalization in nursing homes. These rent increases would be limited to circumstances where budget-based rent adjustments are allowed by statutory program authorizations but have been constrained in recent years by HUD policies designed to slow program cost growth. HUD would modify its rent adjustment procedures to reflect availability of the requested funds.

Moderate Rehabilitation and Single Room Occupancy renewal programs - $194 million

The requested funding provides $194 million for renewals in Section 8 Moderate Rehabilitation and the Single Room Occupancy Program for Homeless Individuals (commonly known as the Mod Rehab and SRO programs).

Contract Administration - $375 million

The Budget includes $375 million to maintain the Contract Administration program in 2023. This level of funding will ensure critical contract administration services continue without interruption. The extension of existing PBCA agreements is estimated to cost up to $395 million in 2023, which HUD would fund from new appropriations and supplement with $20 million in Housing Certificate Fund recaptures. Estimates provide for continuation of Management and Occupancy Reviews, incorporate projected transfers of existing non-PBCA administered contracts into the PBCA portfolio, and include projected increases in Fair Market Rents, upon which fees are based. This assumes the extension of current agreements, though HUD may complete pending procurements to replace the current agreements by 2023.

Rental Assistance Demonstration (RAD)

The RAD conversion to PBRA and PBV is a powerful tool to secure the Federal safety net that has preserved over 195,000 affordable homes thus far (157,400 in public housing and 37,600 in other HUD rental programs). In addition, through RAD, PHAs and private owners have moved assisted housing to lower-poverty neighborhoods, allowed residents to use tenant-based assistance if they want to find new housing, and produced more energy-efficient and climate-resilient housing free of environmental hazards. The outcomes associated with the converted public housing units are particularly noteworthy:

- The PHAs' development teams have generated over $14 billion, or over $60,000 per home, for the rehabilitation or redevelopment of modern, safe, and affordable housing for low-income households. These teams have secured $14.83 for every $1 of appropriated public housing funds contributed to project budgets.
- Over 21,000 of the most-distressed public housing apartments have been demolished and replaced with newly constructed homes, all meeting international standards for energy efficiency.
- Over 9,000 homes have been moved away from detrimental environmental conditions, floodplains, and opportunity deserts and into neighborhoods with greater access to jobs, schools, and transportation.
- All properties have undergone an environmental review as a condition of conversion, including evaluating, and where necessary mitigating, the presence of radon, lead, asbestos, carbon monoxide, and mold.
- All properties have been evaluated for their energy- and water-efficiency and have implemented cost-effective improvements to decrease their carbon footprint.
- Over 250,000 jobs have been created, directly or indirectly, through RAD construction activities, including many jobs for low-income persons through HUD's Section 3 requirements.

There remain many public housing properties that are unable to leverage the public and private capital needed for property improvements with subsidy levels based only on available appropriated funds. The public housing capital backlog, together with additional modernization needs, require a cost-effective, leveraged strategy to achieve a comprehensive modernization; this Budget advances those efforts. The funding supports the cost-effective conversion of public housing properties that are unable to convert using only the funds provided through existing appropriations. Several of the general provisions requested below protect residents' access to services, provide an affordable housing preservation strategy for additional portfolios of at-risk properties, provide technical capacity to support small owners, and assure permanent affordability of converted properties blending RAD and Section 18 strategies.

The $60 million requested in PBRA for RAD subsidy conversion is part of the Administration's whole-of-government approach to the climate crisis. In total, HUD's budget requests $1.065 billion in investments across several programs to assist communities reduce carbon pollution, increase resilience to the impact of climate change, and deliver environmental justice. The National Climate Assessment has shown that climate change disproportionately impacts low-income and disadvantaged communities, the very communities and households served by HUD programs. HUD's Budget addresses climate change on two fronts: both in tracking and lowering the carbon footprint and energy consumption of the 4.5 million units of public and assisted housing, and at the same time helping the communities served by HUD programs to better withstand and increase their resilience to future disasters. These investments are crucial to assist communities throughout the country mitigate and prepare for the worst effects of climate change.

Please see the "Climate Initiative" justification for more details.

IT Modernization

Within the Information Technology (IT) Fund, the Budget requests $5 million for integrated Real Estate Management System (iREMS) and $1.5 million for Tenant Complaint Customer Relationship Management (CRM). These two projects will directly support HUD's PBRA program in providing over 1.2 million low-income and very low-income families with decent, safe, and affordable housing:

- **iREMS Modernization**:

Program Pain Point
The integrated Real Estate Management System (iREMS) is the primary system for the oversight and asset management of insured and assisted properties in the portfolio of HUD's Office of Multifamily Housing Programs. GSA, GAO, and Multifamily leadership have found that iREMS is vulnerable to unacceptably high risk of data errors from manual input processes, having to use ad hoc tools such as MS Access for reporting, and not interfacing with other systems in real time.

Congressional mandates and Executive Orders that require Multifamily Housing action, such as security, privacy, and records management regulation, energy efficiency programs, FHA pilot programs, and the Rental Assistance Demonstration, are all hampered by an inability to integrate them fully into the Multifamily Housing asset management process in iREMS. Reporting from Asset Management field staff is often inaccurate because of inconsistencies between HEREMS, the underlying source database, and iREMS. Poor quality Housing data continues to increase the risk of HUD failing to meet its monitoring requirements of troubled properties within its portfolio.

Mission Benefits
The success of MFH and HUD's mission is deeply tied to the decision-making done from HEREMS to iREMS data processing. Therefore, ensuring the accuracy, completeness, reliability, and timeliness of this data has broad cross-program implications. An improved HEREMS to iREMS database model will serve as the central data repository for all Multifamily Housing, collecting data from more than 20 systems and integrating data across systems. Improved data and reporting in iREMS will provide essential support to HUD's efforts to provide decent, safe, and sanitary housing for tenants and to ensure program compliance.

Target Functionality
- Increase regulatory compliance on currently non-compliant mandates from privacy, cybersecurity, and records management.
- Increase flexibility in responding to the fast-evolving business requirements of MFH by providing more tools to adapt to the forecasted increase in MFH loan applications.
- Enhance decision-making, ensuring the accuracy, completeness, reliability, and timeliness of iREMS/HEREMS data has broad cross-program benefits.

Projected Cost Savings
The existing HEREMS/iREMS data model is outdated, expensive, difficult to maintain, and it is currently failing to meet system requirements. IREMS has an estimated $2 million backlog in development priorities that continues to grow. Improvements in the system would result in a cost benefit as it would support efficiencies in HUD's asset management and oversight functions.

- **Tenant Complaint CRM:**

Program Pain Point
Multifamily (MFH) Asset Management staff, Performance-Based Contract Administrators (PBCAs), the Multifamily Clearinghouse call center, and Field Program Management (FPM) staff are unable to conduct unified intake, tracking and resolution of tenant feedback related to unsafe and unsanitary property conditions or concerns about exigent health and safety conditions in Multifamily-assisted properties. The various parties maintain multiple systems with disparate rudimentary and uncoordinated logging and tracking of information, which is not conducive to ensuring the issues identified by tenants are addressed swiftly and satisfactorily.

As a result, MFH is substantially limited in its ability to understand, track, and address such complaints without a centralized tracking/response system. The current practice of various entities within HUD and contractors logging and acting on feedback independently restricts HUD's ability to manage its property portfolio in a coordinated manner.

Mission Benefits

An integrated tenant complaint logging and tracking system would allow HUD to effectively assess and act upon a wide variety of complaints regarding properties in its portfolio and take a coordinated approach regardless of the point of intake and allow all entities to track and update progress toward resolution in real time. This would allow HUD to both be more responsive to tenants by ensuring the appropriate party follows up and more efficient by avoiding duplicative work on the same issue.

This integrated tenant feedback tracking system will also enable HUD to better understand the overall volume and nature of complaints both at individual properties and across different portions of our portfolio, such as by city, program, or management agent, resulting in increased awareness of conditions and potential issues within the MFH property portfolio.

Target Functionality

- Full integration as a single system for intake and tracking of tenant complaints by (MFH) Asset Management staff, PBCAs, the Multifamily Clearinghouse call center, and FPM.
- Ability of staff to have real time feedback and reporting on status of tenant complaints and ongoing action tracking and reporting.
- Ability to aggregate instances of tenant feedback within a particular property and across portfolio on an ongoing basis.

Projected Cost Savings

PBCAs and other contractors would not need to invest in standalone system(s). An integrated platform would also reduce duplication of effort across all responsible parties.

Remaining implementation Costs in Outyears

N/A

For additional information regarding HUD's IT investments, please see the Information Technology Fund justification.

SUMMARY OF RESOURCES BY PROGRAM

(Dollars in Thousands)

Budget Activity	2021 Budget Authority	2020 Carryover Into 2021	2021 Total Resources	2021 Obligations	2022 Annualized CR	2021 Carryover Into 2022	2022 Total Resources	2023 President's Budget
Contract Renewals/Amendments	12,879,000	178,393	13,057,393	12,926,138	12,879,000	88,725	12,967,725	14,065,000
Rental Assistance Demonstration Conversion Subsidies	-	63,910	63,910	56,061	-	113,849	113,849	60,000
M2M BBRIs and Health and Safety BBRIs	-	-	-	-	-	-	-	275,000
BBRI Service Coordinators	-	-	-	-	-	-	-	31,000
Mod Rehab and SRO Renewals	230,000	56,861	286,861	223,226	230,000	105,779	335,779	194,000
Contract Administrators	350,000	-	350,000	350,000	350,000	-	350,000	375,000
Tenant Education and Outreach	6,000	3,800	9,800	-	6,000	9,800	15,800	-
Contract Renewals CARES Act	-	177,434	177,434	18,822	-	158,725	158,725	-
Total	**13,465,000**	**480,398**	**13,945,398**	**13,574,247**	**13,465,000**	**476,878**	**13,941,878**	**15,000,000**

a/ 2021 Resources include unobligated prior-year balances of $369 million, $55 million from recaptures of prior-year obligations realized in 2021, and $56 million transferred from the Public Housing Fund for Rental Assistance Demonstration Conversions (RAD).

b/ 2022 Resources include an estimated $371 million of prior-year unobligated balances, an estimated $56 million from recaptures of prior year obligations, an estimated $33 million of transfers from the Public Housing Fund for Rental Assistance Demonstration Conversions, an estimated $15 million from Housing for the Elderly Appropriated funds and $2 million from Housing for the Elderly unobligated funds for RAD conversions. PIH/MOD Rehab and CPD/SRO carryover into 2022 includes $42 million from unapportioned/unobligated recaptures.

c/ 2023 carryover includes an estimated $204 million of unobligated prior-year balances, an estimated $56 million from recaptures of prior-year obligations, an estimated $40 million of transfers from Public Housing Fund for Rental Assistance Demonstration Conversions, and an estimated $17 million transferred from Housing for the Elderly for RAD conversions.

LEGISLATIVE PROPOSALS AND GENERAL PROVISIONS

Appropriations Language Changes

The 2023 President's Budget includes the following:

<u>Provide capacity support for small properties and owners converting through RAD</u>: Owners of small properties, including those assisted under Section 202 PRAC and Section 8 Mod Rehab, sometimes struggle with the cost and complexity of certain underwriting requirements that HUD has established to ensure that the property will be physically sound and free of environmental hazards. This proposal would authorize the use of Participating Administrative Entities (PAEs), originally used in the Mark-to-Market program, to conduct the property level due diligence, including Capital Needs Assessments and environmental reports, that are required of all RAD conversions. They would provide significant relief for owners of small properties, where the cost of such due diligence is often prohibitive to taking the necessary steps to improve the property for residents. These small

properties are often in underserved communities, and this authority will assist in long-term preservation and affordable housing opportunities.

General Provisions

The 2023 President's Budget proposes the following general provision(s):

Rental Assistance Demonstration (RAD)

Preservation of assisted properties is part of reinvesting in communities that have been underserved, neglected, or excluded from economic and housing opportunity in the past, often in continuation of racial segregation. Preservation is also a way to ensure affordable housing options in places of high or rising housing costs to reduce past patterns of exclusion. RAD conversions have proven to be a versatile and effective preservation tool that also promotes sustainable communities through energy efficiency improvements, eliminates environmental hazards, and creates the opportunity to place and secure deep rental assistance in racially integrated neighborhoods (2023 President's Budget, Sec 232).

This Budget includes several proposals to improve and expand the Rental Assistance Demonstration.

First Component – Conversion of Public Housing Properties

- Eliminate the sunset date for participation in RAD: HUD is currently authorized to receive applications from PHAs to convert public housing properties through RAD until September 30, 2024. RAD conversions are a proven and desired tool for repositioning and recapitalizing public housing. The sunset date constrains the ability of PHAs to plan portfolio transformations that may require more time to implement, reduces PHAs' ability to utilize leverage for improving properties, and introduces uncertainty for plans to improve public housing developments.
- Eliminate the cap on the number of public housing units allowed to convert under RAD: HUD is currently authorized to convert 455,000 public housing units through RAD. RAD is a proven strategy which public housing authorities (PHAs) can use to generate capital, improve properties, and improve conditions for residents. RAD has produced sustainable affordable housing opportunities and preserved them for the long-term. The cap constrains the number of cost-effective conversions allowable under the program. Elimination of the cap makes this tool available to all PHAs wishing to participate in the program.
- RAD for Section 18 Preservation Activities: PHAs routinely blend the use of RAD and Section 18 disposition towards the preservation and recapitalization of public housing assets. However, the units approved through Section 18 can only result in a separate PBV contract that does not contain long-term affordability protections as exist in RAD. This authority would permit the units leaving public housing through Section 18 to be folded into the RAD PBV or RAD PBRA contract to guarantee the long-term affordability of the assisted units and to simplify program administration for owners and PHAs. This authority would also permit properties that currently have some units assisted under a RAD PBRA contract and some units assisted under a PBV contract to place their property on a single Section 8 platform. The 2023 budget modestly expands the 2022 proposal to allow conversion of properties onto a single Section 8 platform (PBV or PBRA) regardless of each property's current assistance profile.
- Jobs Plus, ROSS, and CHSP Continuation: This proposal would expand the Jobs Plus program to allow PBV and PBRA properties to be eligible for the program. Jobs Plus is currently only available to public housing residents. The program has a demonstrated impact

on employment outcomes. This proposal would ensure that resident services funding awarded to public housing properties prior to conversion may continue to operate fully and, as appropriate, be eligible for renewal at the completion of the grant term.

- Jobs Plus. Allow a property with a Jobs Plus grant that converts under RAD to continue to enroll participants in the Jobs Plus rent incentive for the duration of grant's period of performance.
- ROSS. Allow properties with an existing ROSS grant prior to RAD conversion to not only complete the grant term, but also apply for renewal of the grant.
- CHSP. Allow grantees receiving renewal CHSP grants for elderly properties prior to conversion to remain eligible for such renewal grants after conversion.

2nd Component - Conversion of Multifamily Housing Properties

- <u>RAD for Section 811:</u> Authorize the budget-neutral conversion of Section 811 PRAC properties under RAD. Much like the Section 202 PRACs, the 30,000 units assisted through Section 811 PRACs are an aging stock with growing capital needs, but with limited access to private and public financing. These properties also experience unique challenges as owners seek alignment with community integration mandates and supportive service program requirements, which may require distinct authorizing language to make best use of the deep rental assistance, and which will be recognized in the planned conversion process. These changes will ultimately improve properties and benefit disabled tenants.
- <u>RAD for SPRAC:</u> Authorize the budget-neutral conversion for properties assisted under SPRACs under RAD. SPRACs were authorized in 2010 as a preservation solution for affordable senior properties that were refinancing their pre-1974 Section 202 Direct Loans. However, with limited funding from Congress and alternative preservation solutions identified by HUD, the stock is unlikely to grow much beyond the 1,450 units supported by SPRACs today. The proposed change will consolidate the SPRACs, which, by statute, already operate very similarly to PBRA, onto the Section 8 platform.
- <u>Avoid Disincentives to Conversion and exclude existing service coordinator and service costs from the 120 percent of Fair Market Rent (FMR) rent cap for new Section 8 contracts under RAD:</u> As Section 202 PRAC and, as proposed, SPRAC contracts convert under RAD, they are subject to Section 8 initial contract rent caps, which restrict initial contract rents to 120 percent of FMR. However, for some properties, this represents a reduction from their current rent levels. For example, Section 202 PRAC and SPRAC rents include the cost of a service coordinator and services, which are not accounted for in HUD's calculation of FMRs since service coordinators and these services are typically not provided in market rate housing. To avoid disincentives to conversion and to ensure properties can continue providing service coordination and services following a conversion through RAD, HUD requests authority to waive the 120 percent of FMR limitation for PRAC and SPRAC contracts converting under RAD. This proposal would have no cost since affected properties already receive funding above 120 percent of FMR.

<u>Mark-to-Market (2023 President's Budget, Sec 234)</u>

- <u>Fund rent adjustments for at-risk post-M2M properties and for other PBRA properties with health and safety deficiencies.</u> This would grant the Secretary authority to provide budget-based rent increases (BBRIs), consistent with program requirements that the property rents remain at or below comparable market rents, to post-M2M properties that are at risk of becoming or already are physically or operationally distressed or to other PBRA properties with health and safety concerns. This budget would allow a BBRI adjustment for those properties to set rents at or below market, based on a current rent comparability assessment.

This funding would stabilize operating budgets of the affected properties and, where needed, provide for rehabilitation and/or transfer of ownership. This will ensure quality management of the properties, achieve greater sustainability, and increase the availability of affordable rental homes by preserving these affordable housing investments for the future and preventing default on FHA-insured mortgages and Section 8 contracts.

- Extend the Mark-to-Market program through September 30, 2027. The authority to run the M2M program under Section 579 of the Multifamily Assisted Housing Reform and Affordability Act of 1997 (42 U.S.C. 1437f note) ("MAHRA") expires September 30, 2022; and this provision would extend that authority through September 30, 2027. A property enters the M2M program when the project's rents have been determined to be above market levels and must consequently be decreased. Without the M2M program to restructure a project's debt, there is a risk of default on the FHA-insured Section 8 properties if, because of reduced Section 8 rents, owners of these properties can no longer pay for property maintenance and mortgage payments. Further, an extension of the M2M program is needed to continue to execute post-M2M debt assignment or forgiveness in Qualified Non-Profit preservation transactions and to ensure authority for asset management of post-M2M debt. Historically, Congress has extended the M2M program each time it has reached expiration.

Sunset the Section 8 Moderate Rehabilitation and McKinney-Vento Single Room Occupancy programs

The PBRA account continues to renew approximately 25,000 affordable units through the Mod Rehab and SRO programs on year-to-year contracts. Through RAD, these properties have a path to enter long-term Section 8 contracts. Alternatively, an owner may choose to opt out of their contract and secure tenant protection vouchers to issue to residents. The budget proposes a sunset of the Mod Rehab and SRO programs in five years to give owners time to develop plans for transition to one of the two alternative platforms (i.e. PBRA or PBV). This proposal would protect residents, produce and secure long-term affordable housing opportunities, streamline HUD and PHA administration, and result in improved properties within HUD's portfolio. (2023 President's Budget, Sec 236)

Resolve Interest Reduction Payments (IRPs) Deficiency

HUD will transfer $1.3 million of previously appropriated amounts in order to liquidate obligations incurred in 2018 in connection with the provision of IRPs authorized under section 236(a) of the National Housing Act (12 U.S.C 1715z-1(a)). (2023 President's Budget, Sec 238)

Legislative Proposals

The 2023 Budget supports the following legislative proposal(s) and will seek changes through the authorization process:

Triennial recertification to promote family wealth building: Under current law, a tenant's income must be verified, and their tenant rent contribution calculated annually, unless they are elderly or disabled on fixed income, in which case it is every three years. HUD proposes to extend every-three-year recertification to all families.

APPROPRIATIONS LANGUAGE

The 2023 President's Budget includes the appropriation language listed below.

For activities and assistance for the provision of project-based subsidy contracts under the United States Housing Act of 1937 (42 U.S.C. 1437 et seq.) ("the Act"), not otherwise provided for, $14,600,000,000, to remain available until expended, shall be available on October 1, 2022 (in addition to the $400,000,000 previously appropriated under this heading that became available October 1, 2022), and $400,000,000, to remain available until expended, shall be available on October 1, 2023: Provided, That the amounts made available under this heading shall be available for expiring or terminating section 8 project-based subsidy contracts (including section 8 moderate rehabilitation contracts), for amendments to section 8 project-based subsidy contracts (including section 8 moderate rehabilitation contracts), for contracts entered into pursuant to section 441 of the McKinney-Vento Homeless Assistance Act (42 U.S.C. 11401), for renewal of section 8 contracts for units in projects that are subject to approved plans of action under the Emergency Low Income Housing Preservation Act of 1987 or the Low-Income Housing Preservation and Resident Homeownership Act of 1990, and for administrative and other expenses associated with project-based activities and assistance funded under this heading: Provided further, That the amount of any forgone increases in tenant rent payments due to the implementation of rent incentives as authorized pursuant to waivers or alternative requirements of the Jobs-Plus initiative as described under the heading "Self-Sufficiency Programs" shall be factored into housing assistance payments under project-based subsidy contracts: Provided further, That of the total amounts provided under this heading, not to exceed $375,000,000 shall be available for performance based contract administrators or contractors for section 8 project-based assistance, for carrying out 42 U.S.C. 1437(f): Provided further, That the Secretary may also use such amounts in the previous proviso for performance-based contract administrators or contractors for the administration of: interest reduction payments pursuant to section 236(a) of the National Housing Act (12 U.S.C. 1715z–1(a)); rent supplement payments pursuant to section 101 of the Housing and Urban Development Act of 1965 (12 U.S.C. 1701s); section 236(f)(2) rental assistance payments (12 U.S.C. 1715z–1(f)(2)); project rental assistance contracts for the elderly under section 202(c)(2) of the Housing Act of 1959 (12 U.S.C. 1701q); project rental assistance contracts for supportive housing for persons with disabilities under section 811(d)(2) of the Cranston-Gonzalez National Affordable Housing Act (42 U.S.C. 8013(d)(2)); project assistance contracts pursuant to section 202(h) of the Housing Act of 1959 (Public Law 86–372; 73 Stat. 667); and loans under section 202 of the Housing Act of 1959 (Public Law 86–372; 73 Stat. 667): Provided further, That amounts recaptured under this heading, the heading "Annual Contributions for Assisted Housing", or the heading "Housing Certificate Fund", may be used for renewals of or amendments to section 8 project-based contracts or for performance-based contract administrators or contractors, notwithstanding the purposes for which such amounts were appropriated: Provided further, That, notwithstanding any other provision of law, upon the request of the Secretary, project funds that are held in residual receipts accounts for any project subject to a section 8 project-based Housing Assistance Payments contract that authorizes the Department or a housing finance agency to require that surplus project funds be deposited in an interest-bearing residual receipts account and that are in excess of an amount to be determined by the Secretary, shall be remitted to the Department and deposited in this account, to be available until expended: Provided further, That amounts deposited pursuant to the previous proviso shall be available in addition to the amount otherwise provided by this heading for uses authorized under this heading: Provided further, That of the total amount provided under this heading, up to $50,000,000 shall be available to supplement funds transferred from the heading "Public Housing Fund" to fund contracts for properties converting from assistance under section 9 of the United States Housing Act of 1937 (42 U.S.C. 1437g) under the heading "Rental Assistance Demonstration" in the Department of Housing and Urban Development Appropriations Act, 2012 (title II of division C of Public Law 112–55) to further long-term financial stability and promote the energy or water efficiency, climate resilience, or preservation of such *properties: Provided further, That the amounts under the previous proviso may also be available, without additional competition, for cooperative agreements with Participating Administrative Entities that have been previously or newly selected under section 513(b) of the Multifamily Assisted Housing Reform and Affordability Act of 1997 (42 U.S.C. 1437f note) (MAHRAA) to provide direct support, including carrying out due diligence and underwriting functions for owners and for technical assistance activities, on conditions established by the Secretary for small properties and owners entering into any conversion contract under the First Component: Provided further, That of the total amount provided under this heading, up to $10,000,000 shall be available to supplement funds transferred from the heading "Housing for the Elderly" to fund contracts for properties converting from assistance under section 202(c)(2) of the Housing Act of 1959 (12 U.S.C. 1701q(c)(2)) under the heading "Rental Assistance Demonstration" in the Department of Housing and Urban Development Appropriations Act, 2012 (title II of division C of Public Law 112–55) to further long-term financial stability and promote the energy or water efficiency, climate resilience, or preservation of such properties: Provided further, That the amounts under the previous proviso may also be available, without additional competition, for cooperative agreements with Participating Administrative Entities that have been previously or newly selected under section 513(b) of MAHRAA to provide direct support, including carrying out due diligence and underwriting functions for owners and for technical assistance activities, on conditions established by the Secretary for small properties and owners entering into any conversion contract under the Second Component: Provided further, That of the total amounts provided under this heading, not to exceed $275,000,000 shall be available for rent adjustments as added by section 234 of this Act, of which no less than $25,000,000 of such amounts shall be available for adjustments added by section 234(b) necessary to address health and safety deficiencies: Provided further, That up to 2 percent of the total amount made available in the previous proviso shall be for administrative contract costs, including for carrying out due diligence and underwriting functions for evaluating owners' requests and for technical assistance activities: Provided further, That of the total amounts provided under this heading, not to exceed $31,000,000 shall be available for budget-based adjustments for service coordinators for the elderly: Provided further, That any additional amounts for rent adjustments or supplemental contract funding authorized under the seven previous provisos shall be combined with other amounts obligated to such contracts and the combined total amount shall be available for all purposes under such contracts.*

Note.—A full-year 2022 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 Act, 2022 (Division A of P.L. 117-43, as amended). The amounts included for 2022 reflect the annualized level provided by the continuing resolution.