

## Frequently Asked Questions (FAQ) on RAD Rent Levels for Applications Received by December 31, 2013

**Note:** As part of an on-going series on the setting of RAD rents and the associated budgetary impacts, the Department has prepared the following FAQ, which incorporates and expands on elements contained in previous FAQs posted on 3/15/13 and 9/13/13.

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**Question:** For applications received by December 31, 2013, how are the RAD rents calculated?

**Answer:** In our Initial RAD Notice (March 8, 2012), the Department indicated that the RAD rents would be equal to the sum of tenant rents plus the Operating Fund subsidy and Capital Fund subsidy appropriated for any project at the time of conversion. Thus, a project converting in 2013 would have used the FY 2013 appropriations. However, at the outset of 2013, we experienced both (1) an unusually long “short-term” continuing resolution and (2) the prospect that the final appropriations bill might carry forward the \$750 million Operating Fund Allocation Adjustment that was in the FY 2012 appropriations bill (and was intended as a one-year event) due to a prospective continuing resolution (CR) for the balance of the fiscal year. Among other concerns, these delays and uncertainties in the beginning of the calendar year were making it difficult for PHAs to properly plan to address their annual capital needs and prepare RAD financing plans that lenders and investors could assess.

After six months of uncertainty, in response to requests from PHAs and their partners, the Department decided to publish rent levels for CY 2013 applications that PHAs, investors, lenders and other partners could rely upon. Therefore, in an FAQ issued on March 15<sup>th</sup>, 2013, and reiterated in a revision to the initial RAD Notice published on July 7, 2013, HUD established that, for all applications received by December 31, 2013, and subsequently awarded, the RAD rents would be based on the FY 2012 funding levels, but with the anomalous \$750 million Allocation Adjustment restored to these funding levels.

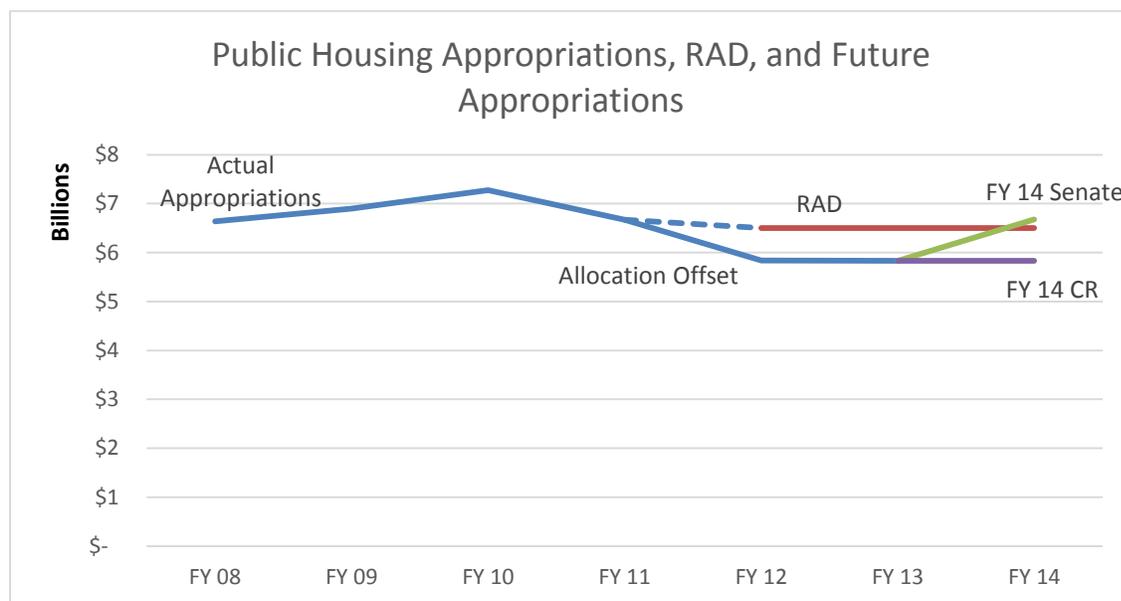
**Question:** Why did the Department use the FY 2012 funding levels, with the Allocation Adjustment restored, in establishing the RAD rents?

**Answer:** There were several reasons for this action. First, to assist PHAs in their planning efforts, in late 2011 HUD posted presumptive RAD rents that were based on the 2012 funding levels, absent the allocation adjustment; these funding amounts approximated the funding levels that were contained in the 2013 House- and Senate- appropriation “mark-up” bills at the time. Consequently, there was broad familiarity among PHAs and their partners with these funding amounts and rent levels derived from them.

Second, the carry-forward of the Allocation Adjustment in the 2013 continuing resolution was considered an anomaly and it would have been unreasonable to expect PHAs to lock in rents in

long-term contracts carrying what was intended as a limited appropriation measure to address excess reserves.

Third, as shown in the chart below, the FY 2012 funding levels, with the Allocation Adjustment restored, were in line with recent historical public housing funding levels. The RAD rents equate to a \$4.712 billion appropriation for the Operating Fund (95% of 2012 eligibility) and \$1.790 billion appropriation for the Capital Fund. These amounts are lower than actual appropriations for public housing in FY08-FY11. They would also be slightly lower than the funding levels included in the FY 2014 Senate-passed appropriations mark-up bill (but, obviously, higher than the funding that would be included in a FY 2014 Continuing Resolution, i.e., continuing the funding levels of FY 2013).



**Question: Does the RAD statute allow HUD to set rents in the ways described in the above question?**

**Answer:** Yes. The RAD statute does not actually dictate how rents are to be established. Instead, it requires that the housing assistance payments for the converted projects be equal to the amounts transferred from the public housing account. Statutorily, the Department could have established higher (or lower) rent levels for converting projects. The Department was only constrained in making sure that the subsidy amounts associated with those rent levels will be transferred from the public housing account to the PBRA or TBRA accounts.

Although the Department has wide flexibility in setting RAD rents, the Department adopted a methodology it considered sensible and fair. PHAs could not be expected to lock-in long-term rent levels derived from appropriations levels that included both the anomalous Allocation Adjustment and what most anticipated as a temporary sequestration approach to Federal

appropriations. And, it would not have been fair if projects converting assistance under RAD received rents that were not generally consistent with historical funding levels.

**Question: When do the RAD rents become effective, and how are public housing funds effectively transferred to Section 8 accounts?**

**Answer:** After an application has been given initial approval, it must meet a series of milestones before it is given final approval and “converts” to the Section 8 platform by being granted a long-term Section 8 contract, generally taking 9-12 months. Once converted, for the remaining months in the calendar year in which conversion occurs, projects are funded from the unadjusted public housing obligations for that project in that partial year as that is the amount of public housing funding that is known and available for the year in which a project converts. The RAD rents become effective only in the first full calendar year following conversion, as the exact amount of public housing funds needed for an entire fiscal year to sustain RAD rent levels for all projects converting assistance the year prior is known beforehand and can be precisely transferred to the relevant Section 8 accounts. Basically, RAD rents are funded when a transfer amount can be precisely calculated then re-apportioned from public housing appropriations in any given year, which is the most effective way to satisfy the RAD statutory requirements described above. This ensures that HUD does not prematurely request budget authority into the section 8 accounts without knowing the precise universe of converted properties.

**Question: During the life of the project, does HUD transfer funds from the public housing account to the TBRA or PBRA account each year?**

**Answer:** No. As indicated, in the first year of conversion, the project is funded only with the funds appropriated for that project for that year. In the second year of conversion, the estimated housing assistance payments, based on the RAD rents, are transferred at the beginning of the calendar year from the public housing account to the PBRA or TBRA account. By the third year, the costs are included in the PBRA or TBRA budget requests. These converted units will have been removed from PIC and, therefore, no longer part of the Administration’s budget request for public housing. Instead, they would become part of the PBRA or TBRA renewal account.

**Question: How many units does the Department estimate will convert over the next several years and what is the amount of funds associated with those transfers?**

**Answer:** As shown in the table below, the Department anticipates that 3,000 units will convert in CY 2013, representing the first wave of conversions from awards made in late CY 2012. Another 30,000 units are estimated to convert in CY 2014, and then 25,000 units in CY 2015 and finally 2,000 units in CY 2016.

Also shown in the table is the estimated funding authority associated with those transfers. For the initial 3,000 units anticipated to convert in CY 2013, a full year of housing assistance

payments for these projects is estimated to be \$16 million. However, as described in the FAQ above, in the initial calendar year of conversion a project simply continues to be funded from appropriations provided in that year. Funds are not transferred to the PBRA or TBRA account until the second calendar year of conversion. Consequently, for the estimated 3,000 units that will convert in CY 2013, the Department will transfer approximately \$16 million in FY 2014. Then, in FY 2015, the Department will transfer approximately \$163 million for the 30,000 units that convert in CY 2014, and so on.

Calendar Year of Conversion	Unit Estimates	Fiscal Year in which HUD Will Transfer and Reapportion Funds	Estimated Amount of Funds Transferred and Reapportioned
2013	3,000	2014	\$16,000,000
2014	30,000	2015	\$163,000,000
2015	25,000	2016	\$138,300,000
2016	2,000	2017	\$11,300,000

**Question: What impact will the Department’s decision to use FY 2012 funding levels to set RAD rents have on non-converting PHAs?**

**Answer:** Although the answer to this question depends largely on what happens with future appropriations for the public housing Operating and Capital Funds, any possible impact is likely to be minimal. Below, we compare the impact on non-converting PHAs using two future funding scenarios: (1) an amount equal to the FY 2014 Senate-passed appropriations mark-up bill or (2) an amount equal to what would be found in a Continuing Resolution (i.e., continuing the funding contained in the actual FY 2013 appropriations bill).

As noted earlier, in the first calendar year of conversion, no funds are being transferred and PHAs must use the funds already appropriated for that project. The first fiscal year in which funds are transferred will be 2014, where, as shown above, only approximately \$16 million will be transferred from the public housing account to the PBRA or TBRA account. Therefore, regardless of the two scenarios, the impact on non-converting PHAs in that year will be extremely limited. Under the FY 2014 Senate-passed scenario, non-converting PHAs would receive 0.01% (i.e., one-hundredth of one percent) *more* than they would receive had the 3,000 units not converted (this is because the FY 2014 Senate-passed levels are slightly higher than the amounts reflected in the RAD rents). Under the Continuing Resolution scenario, non-converting PHAs would receive 0.03% *less* had the 3,000 units not converted. In FY 2015, when the largest transfer might occur (approximately \$163 million), PHAs not participating in RAD would receive 0.1% *more* in funding compared to those with projects that have converted assistance under RAD if appropriations in FY 2015 are approximate to the level of the FY 2014 Senate-passed appropriations mark-up bill or 0.275% *less* if appropriations continue to equal the FY 2013 continuing resolution. And so on.

### Possible Impact on Subsidy Received by Non-Converting Public Housing Units

Appropriations Scenario	FY 14 (3,000 units converted in 2013)	FY 15 (30,000 units converted in 2014)	FY 16 (25,000 units converted in 2015)	FY 17 (2,000 units converted in 2016)
<b>Senate Mark-up</b>	+0.01%	+0.11%	+0.09%	+0.01%
<b>Continuing Resolution</b>	-0.03%	-0.27%	-0.23%	-0.02%

In making the decision to set RAD rents as described above, the Department balanced the need to be reasonable with the desire to be fair. Thus, even in the worst-case scenario depicted above, the impact on non-converting PHAs, while non-zero, equates to just a few dollars per unit per year. Meanwhile, if funding levels are restored to levels more consistent with historical public housing funding accounts, the impact is lessened and possibly results in a very small benefit to all units remaining in the traditional public housing inventory.

**Question: What happens if the Department receives applications for more than the statutorily-defined 60,000 unit cap for public housing and Mod Rehab housing projects?**

**Answer:** The Department only has the authority to convert 60,000 units under RAD. The Administration's FY 2014 Budget requested an increase to 150,000 units, and the FY 2014 Senate-passed THUD appropriations bill would increase the cap to 120,000 units. But until the demonstration's cap is lifted, the Department will not issue awards to more than 60,000 units. Applications will be selected off a waiting list if awards are revoked or withdrawn. In the event that the Department receives authorization to increase the cap beyond 60,000 units, it will provide new instructions for applicants and for new awards.

**Question: Once converted, if tenant rents decrease due to unforeseen circumstances, will housing assistance payments increase similar to the rest of the Section 8 program?**

**Answer:** Yes. In the Section 8 program, the actual amount of subsidy is based on the difference between contract rent levels and actual tenant contributions to the established rent levels. Thus, if tenant rents decrease, housing assistance payments will increase. However, if tenant payments increase, then housing assistance payments will decrease.

An exception occurs for the remaining months in the calendar year in which a conversion occurs. During this period, projects are funded from the unadjusted public housing obligations for that project in that partial year as that is the amount of public housing funding that is known and available for the year in which a project converts.

**Question: When will converted projects be eligible for Operating Cost Adjustment Factors (OCAFs)?**

**Answer:** For any project converted in CY 2013, the OCAF will be applied at the first annual anniversary date of the contract (and all subsequent anniversary dates). For any project that

receives an award in CY 2013, but will not be closed until CY 2014, the project will receive an OCAF at closing and, thereafter, at each annual anniversary date. Projects closing in CY 2015 and beyond will also receive an OCAF for each year, beginning in CY 2014, until closing.

**Previously Posted FAQs on Rent Setting and Funding**

3/15/13. "FAQs on the Impact of the Potential Full-Year Continuing Resolution and Recently Enacted Sequestration Action" <http://www.radresource.net/output.cfm?id=Sequester>

9/13/13. "Funding Instructions for Project Converting in CY 13"  
<http://www.radresource.net/output.cfm?id=fund13>