

HOUSING
RENTAL ASSISTANCE DEMONSTRATION PROGRAM
2015 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>
2013 Appropriation .....	...	...	...	...	...	...
2014 Appropriation/Request .....	...	...	...	...	...	...
2015 Request	<u>\$10,000^a</u>	<u>...</u>	<u>...</u>	<u>\$10,000</u>	<u>\$10,000</u>	<u>...</u>
Program Improvements/Offsets	+10,000	...	...	+10,000	+10,000	...

a/ This number includes an estimated Transformation Initiative (TI) transfer that may be up to 0.5 percent or \$15 million, whichever is less, of Budget Authority.

1. What is this request?

HUD requests \$10 million to expand the Rental Assistance Demonstration (RAD) program of 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. This request will cover the incremental subsidy cost of converting approximately 5,000 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 2015 by making use of funds requested for: 1) the existing Public Housing Operating Fund and Capital Fund programs; and 2) Tenant Protection Vouchers (TPVs) that otherwise would be issued to tenants upon expiration or termination of Moderate Rehabilitation (MR), Rent Supplement (RS) and Rental Assistance Payment (RAP) contracts (see Rent Supplement and Rental Assistance Payment justification). 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 several changes to the 2012 enacted RAD appropriations language to facilitate additional conversions without incremental subsidy, including eliminating the 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; making Section 8 MR Single Room Occupancy (SRO) properties eligible for RAD; and extending the sunset date for RS and RAP conversions while also providing an option to convert to long-term Project-Based Rental Assistance (PBRA) contracts. See Section 5 for additional details on the legislative proposals related to RAD.

Rental Assistance Demonstration Program

The main goal of RAD is to test 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.

Salaries and Expenses (S&E) and Full-Time Equivalents (FTE) Request

In fiscal year 2015, the Office of Housing will implement RAD transactions through the Office of Recapitalization. In fiscal year 2014, the Office of Affordable Housing Preservation was repurposed into the Office of Recapitalization. This Office is processing multiple financing-related activities related to mandated or needed refinancing, restructuring, recapitalization and preservation of assisted multifamily properties, including RAD and other complex financial multifamily recapitalization transactions undertaken in the Office of Housing. Fifteen FTE are currently completing RAD transactions.

2. What is this program?

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

1. Public Housing (PH) and MR properties to convert assistance to long-term Section 8 rental assistance contracts (capped at 60,000 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.

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 38,000 units assisted under the MR, 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 PH, 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:

- 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.

Rental Assistance Demonstration Program

Funding Conversions

Public housing units that converted in 2013 are now reflected in the Project Based Rental Assistance (PBRA) and Tenant-Based Rental Assistance (TBRA) budget requests. In Calendar Year 2013, an estimated 497 public housing units completed conversion to project-based Section 8 contracts (either PBRA or PBV). These conversions represent approximately \$2 million in funds that will be shifted from the public housing operating and capital accounts to PBRA and TBRA in 2014.

Public housing units that may convert in 2014 are still reflected in the fiscal year 2015 funding requests for the public housing Operating Fund and Capital Fund. In fiscal year 2015, 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 \$140 million will be transferred in fiscal year 2015.

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.

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 21,500 units assisted under MR are limited to short-term renewals and constrained rent levels that inhibit recapitalization. Further, the approximately 16,000 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.

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

Rental Assistance Demonstration Program

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 \$10 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 \$10 million in incremental subsidies will support the conversion and redevelopment of approximately 5,000 public housing units that otherwise could not convert, thereby increasing private investment in targeted projects and surrounding neighborhoods.

In addition to the funding request, each of the RAD legislative proposals in the general provisions are designed 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. In the first component of RAD, removing the cap on the number of units and the date by which HUD must receive applications allows HUD to preserve and improve the maximum number of public housing projects within funding constraints.

Furthermore, allowing currently ineligible MR SRO projects to convert under RAD on the same "without additional incremental subsidy" basis would give owners of these approximately 400 (mostly small) projects (totaling approximately 13,000 units) a new option for preservation, recapitalization, and repositioning in communities across the country. The addition of these projects among eligible participants also allows for a more consistent policy within the Department (i.e., *all* Section 8 MR projects would have the option to convert assistance to long-term contracts).

For the second component of RAD, the request to continue the work to convert RS and RAP contracts to long term rental assistance, including PBV or PBRA contracts, allows the Department to continue working with private owners of projects to consolidate these legacy programs into the PBRA and PBV programs. This builds on the tremendous success of the second component in fiscal year 2013, where the Department has converted to long-term PBV contracts more than 75 contracts that would have otherwise expired or been terminated in fiscal year 2013, and received responses from more than two-thirds of all RS and RAP project owners in the form of a letter of interest or a RAD application. This request enables the Department to preserve projects where contracts would otherwise expire or terminate beyond December 31, 2014; it also allows the Department to more effectively prioritize and more seamlessly execute the conversion of these projects in conjunction with other preservation-related transactions on these properties (such as prepayments and Interest Reduction Payment de-couplings); finally, it allows for consistency between the first and second components of RAD.

Rental Assistance Demonstration Program

Promise Zones

The President's 2015 Budget would expand the contribution of RAD to the Administration's Promise Zones initiative, which is creating partnerships between the Federal government, local communities and businesses to create jobs, increase economic activity, reduce violence and expand educational opportunities. The President announced the first five Promise Zone communities in January 2014 and will designate up to an additional 15 Promise Zones in the year ahead. The Budget includes companion investments of \$120 million in Choice Neighborhoods, \$100 million in the Department of Education's Promise Neighborhoods program and \$29.5 million in the Department of Justice's Byrne Criminal Justice Innovation Grants program, as well as tax incentives to promote investment and economic growth in the Zones.

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 1.1 million units of affordable housing through the Office of Multifamily Housing's Project-Based Section 8 program. Property owners in that program have leveraged billions in public and private investment in order to make life-cycle property improvements while maintaining a historically 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 multifamily programs for decades.

Indeed, as of February 2014, HUD has conditionally approved applications for conversion for nearly 60,000 public housing units. The estimated private sector capital leverage that can be achieved once these projects receive final approval exceeds \$2.7 billion. Further, HUD has received applications representing another 115,000 units of public housing from PHAs that have concluded that these units 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 and RAP projects that would have otherwise expired or been terminated in fiscal year 2013, and has received responses from more than two-thirds of all RS and RAP project owners in the form of a letter of interest or a RAD application.

Rental Assistance Demonstration Program

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. Legislative/Regulatory Proposals

Below are the proposals included in the 2015 request:

- eliminating the 60,000 unit cap on public housing and MR projects that could convert assistance to long-term Section 8 rental assistance contracts,
- extending the application deadline for such conversions to September 30, 2018;
- making Section 8 MR Single Room Occupancy (SRO) properties eligible for RAD;
- allowing remaining Rent Supplement and RAP properties to convert to long-term Project-Based Rental Assistance (PBRA) contracts in fiscal years 2015 and 2016, 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 converting to PBRA contracts must be equal to transfers from the Rent Supp/RAP and/or TBRA accounts; and
- extending the sunset date for Rent Supp and RAP conversions to September 30, 2016.

Rental Assistance Demonstration Program

HOUSING
RENTAL ASSISTANCE DEMONSTRATION PROGRAM
Summary of Resources by Program
(Dollars in Thousands)

<u>Budget Activity</u>	<u>2013 Budget Authority</u>	<u>2012 Carryover Into 2013</u>	<u>2013 Total Resources</u>	<u>2013 Obligations</u>	<u>2014 Budget Authority/ Request</u>	<u>2013 Carryover Into 2014</u>	<u>2014 Total Resources</u>	<u>2015 Request</u>
Incremental Conversion								
Cost	\$10,000
Transformation								
Initiative (transfer)	[50]
Total	10,000

Rental Assistance Demonstration Program

HOUSING
RENTAL ASSISTANCE DEMONSTRATION PROGRAM
Summary of Resources by Program
(Dollars in Thousands)

The fiscal year 2015 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, \$10,000,000, to remain available through September 30, [2017] 2018: 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).