Rental Assistance Demonstration

RAD Spotlight on Cambridge, Massachusetts

U.S. Department of Housing and Urban Development

Secretary Julián Castro

RAD Spotlight on Cambridge, MA:

Combining RAD and Moving to Work

The Cambridge Housing Authority (CHA) was one of the first agencies in the country to be selected as a Moving To Work (MTW) Demonstration program participant. Since 1999, the agency has used its MTW authority to conceive, model, and implement reforms in the Housing Choice Voucher and public housing programs to: (1) reduce cost and increase administrative efficiency, (2) offer residents incentives for education and employment, and (3) increase housing choice.

MTW enabled reforms have yielded steady administrative savings in a variety of areas and substantially improved services to residents. Additionally, MTW has allowed CHA to completely revamp its energy profile and generate additional energy related savings. However, even with these efficiencies, the physical repair needs in public housing greatly exceed available funding, thereby threatening long-term preservation. After an extensive planning process that unfolded over several years, involving multiple stakeholders, CHA decided to convert its entire public housing inventory to long-term project-based vouchers (PBVs) under RAD so that it could leverage the more than $200 million in capital necessary to preserve those units.

"MTW has allowed us to "balance" our housing programs against a very difficult, high cost market. Our high rents make staying in Cambridge difficult even when we provide a family with voucher assistance and the out-migration of families is a concern, about 37% of our vouchers are already located outside of Cambridge. For CHA this means that we had to focus on a hard unit preservation strategy, keeping hard unit options in the City for low-income families. We considered preservation a necessary approach, but even with our MTW efficiencies and capital enhancement efforts we still couldn't solve the long-term capital gap," says Greg Russ, Executive Director. "Although all are stable properties, we have a lot of very old buildings and many outdated building systems. We also have very high construction costs in the Boston area. We needed to find a vehicle to finance these improvements over time, just like other owners of affordable housing. The long-term Section 8 project-based assistance contracts under RAD were the essential tool we needed to pull it off. At the same time, by converting to PBVs, we were able to maintain our MTW occupancy reforms, which provide both tenant protections and options for assisting residents on the road to self-sufficiency."

What is RAD?

The **Rental Assistance Demonstration (RAD)** allows public housing agencies (PHAs) and owners of HUD-assisted properties to convert units to project-based Section 8 programs, providing an opportunity to invest billions into properties at risk of being lost from the nation's affordable housing inventory. The first component of the program allows properties funded under the Public Housing program and Section 8 Mod Rehab to convert their assistance to long-term, project-based Section 8 contracts. The second component of RAD allows owners of projects funded under HUD's legacy programs (Rental Supplement, Rental Assistance Payment, and Moderate Rehabilitation) to convert units to Section 8 project-based vouchers.

The 1.2 million units in the Public Housing program have a documented capital needs backlog of nearly $26 billion. As a result, the public housing inventory has been losing an average of 10,000 units annually through demolitions and dispositions. Meanwhile, the 38,000 units assisted under HUD's legacy programs are ineligible to renew their contracts on terms that favor modernization and long-term preservation. The current conditions of many of these properties inhibit investment and recapitalization efforts in the communities with the most need. By drawing on an established industry of lenders, owners, and stakeholders, RAD allows PHAs and owners of HUD-assisted housing to preserve affordable housing units which would otherwise be subject to vouchers and demolition. RAD creates greater funding certainty while allowing increased operational flexibility to empower PHAs and owners to serve their communities.

As of August 2014, 58 RAD applications have closed, covering some 5,123 units and representing over $150 million in new investment. PHAs have submitted over 1,000 applications covering close to 185,000 units. RAD's initial statutory authority set a cap of 60,000 units of public housing and Mod Rehab housing that could seek to convert under RAD's first component. PHA demand exceeds RAD's current authority and HUD has requested that Congress lift the cap on eligible units to allow more PHAs to participate in the program.

Developing a Portfolio Strategy: The CHA was interested in a whole-agency solution, not just a fix for a handful of properties. Ultimately the agency decided to convert all 2,133 public housing units in three phases.

- The first phase, including five properties and 441 units, is expected to close later this year. Four of these properties, with 319 units, were previously redeveloped using ARRA or HOPE VI along with Low Income Housing Tax Credit (LIHTC) funding and, therefore, can quickly and easily be converted from the public housing subsidy model to the project-based RAD subsidy model. Putnam Gardens, the fifth property, is a 122-unit family housing development that will be redeveloped through a 4% LIHTC transaction.
- The second phase, covering four properties and 709 units, is scheduled to close in 2015. All of these properties will be redeveloped using 4% LIHTCs.
- The final phase includes the remaining nine projects, totaling 983 units, and will close in late 2015 or early 2016. These properties will also be redeveloped using 4% LIHTCs.

The agency decided to phase the work in the above manner in order to ease the impact on staff and residents but also to ensure the availability of tax-exempt bonds (see below). Altogether, the agency anticipates the total construction activity will exceed $200 million, or about $95,000 per unit.

Continued PHA Ownership: The CHA has extensive experience in developing affordable housing using tax credits and will create new single purpose legal entities to own all of the public housing developments converting to PBV subsidies. As with its other tax credit transactions, the CHA, through one of its non-profit affiliates, will act as the sole managing member of those partnerships and will also continue to manage the properties.

Tax-exempt Bond Financing: In order to receive 4% tax credits, a project must use tax-exempt bond financing. The CHA has received approval for an allocation of tax-exempt bonds issued by MassDevelopment to finance the construction of all properties in its first two phases. When the projects convert from construction financing to permanent financing, those bonds will be paid off (with new permanent financing) and the properties will receive 4% tax credits. In the coming months, the CHA will submit financing applications for the properties in the final phase.

Relocation Planning: Due to the level of construction required, apartments must be vacant at two developments (one in Phase 1 and one in Phase 2). CHA has worked closely with residents at both developments as well as housing advocates to craft relocation plans to minimize the impact construction will have on residents. Both Relocation Plans include detailed phasing schedules and allow residents to choose to stay on-site during construction, move to another CHA site or utilize a mobile HCV voucher. For those households who choose to move off-site, an option to move back to their development after construction is guaranteed.

MTW Reforms: MTW agencies have two critical decisions under RAD. First, they must choose the form of conversion. They can either convert to project-based rental assistance (PBRA), which is administered by the Office of Housing, or they can convert to PBVs, which is administered by the Office of Public and Indian Housing. If they convert to PBRA, they must give up their MTW status. But if they convert to PBV, they can remain as an MTW agency and retain their MTW rent and occupancy freedoms (provided they are not in conflict with RAD). Second, because MTW agencies have single fund flexibility, "fungiblity," across public housing and voucher accounts, MTW agencies can supplement the RAD contract rents with their MTW funding, provided they continue to serve the same number of families and provided they otherwise don't exceed the RAD rent caps.

"Clearly, we wanted to continue our MTW rent and occupancy reforms," said Russ. "Consequently, PBVs made the most sense. Using MTW allowed us to address resident and advocate concerns that RAD might somehow compromise tenant protections so we are migrating most of our public housing occupancy policies and the lease into RAD. So we have this extra policy benefit of MTW plus we can use MTW single fund flexibility to increase the RAD contract rents, allowing us to leverage more private debt and equity while at the same time serving the same number of families. It's a win for everyone."