



# TACOMA HOUSING AUTHORITY

## RESOLUTION 2013-10-23 (1)

DATE: October 23, 2013  
TO: Board of Commissioners  
FROM: Michael Mirra, Executive Director  
RE: Rental Assistance Demonstration (RAD) Application

### **Background**

This resolution will authorize staff to apply to HUD to convert THA's public housing units to project based section 8 units. Further board approvals will be necessary before this conversion completes. This resolution gets the conversion started.

I recommend that we seek this conversion. To help explain this recommendation, I attach the following documents:

- My September 11, 2013 memo to the board for its study session on this topic. It recounts what we hope RAD will do for us.
- A copy of our consultants' September 23<sup>rd</sup> memo.
- THA hosted meetings of residents at our public housing properties. It was a chance to explain what RAD would do and mean. Overall, the residents expressed support for the proposal largely because we explained that it would allow THA to better maintain the properties. I attach a summary of the questions and comments the residents posed about the RAD proposal, along with staff's response.
- A report prepared by our financial consultant, Recap Advisors, detailing the ten (10) RAD transactions that are included in our Phase I application and listing the remaining nine (9) transactions we will need to prepare in the next year.
- Rod Solomon of the Journal of Housing and Community Development released a report titled "The 2013 Public Housing Investment Update". I attach it here as well since it contains a very good description of the RAD program beginning on the second page.

At the September board meeting, the board indicated that its interest in RAD was strong enough to justify the staff's continued preparation of the application. We have been doing that, with our consultants. On July 24<sup>th</sup>, 2013, the Board of Commissioners approved a budget revision, which included funding for this work. (legal fees, consulting fees, and a sunset project manager for the Rental Assistance Demonstration (RAD) portfolio conversion.)

THA and its team assessed the feasibility of a RAD conversion and have concluded that it is both feasible and advisable. This conversion is the best chance for THA to fix up its current Public Housing portfolio and to provide supplemental funds to its tax credit properties to address meth remediation costs.

MTW funds will still remain necessary to supplement the RAD rents, as we now use them to supplement public housing funding. Another important advantage of RAD is that it would contractually oblige HUD to allow THA to use MTW funds in this way even if Congress allows MTW flexibility to expire in 2018.

As per HUD's guidelines, THA intends to apply for conversion for 50% of its projects now and to apply for the remaining projects within one year of the initial application. THA will continue with its initial plan to apply first for sites without significant long term capital needs in order to meet HUD's quickly approaching application cap of 60,000 units. HUD had received approximately 42,000 applications prior to the government shutdown on September 30, 2013. The table below highlights an overview of the portfolio conversion and timing.

PIC Dev. Num	Project Name	Units to be converted	Total Units	RAD Application Submitted?
WA005000010	Salishan One	55	90	10/24/2013
WA005000011	Salishan Two	55	90	10/24/2013
WA005000012	Salishan Three	45	90	10/24/2013
WA005000013	Salishan Four	45	90	10/24/2013
WA005000014	Salishan Five	45	90	10/24/2013
WA005000015	Salishan Six	45	90	10/24/2013
WA005000009	Hillside Terrace 1500 Block	4	16	10/24/2013
WA005000007	Hillside Phase I	21	21	10/24/2013
WA005000008	Hillside Phase II	12	25	10/24/2013
WA005000006	Scattered Sites	34	34	10/24/2013
WA005000002	Fawcett	30	30	2014
WA005000001	E. B. Wilson	77	77	2014
WA005000001	North G	40	40	2014
WA005000001	North K	43	43	2014
WA005000003	Ludwig	41	41	2014
WA005000002	Wright	58	58	2014
WA005000002	6th	64	64	2014
WA005000003	Bergerson	72	72	2014
WA005000003	Dixon	31	31	2014
<b>Totals</b>		<b>817</b>	<b>1092</b>	

### **Recommendation**

Approve Resolution 2013-10-23 (1), formally authorizing THA's RAD application and intent to convert Public Housing stock to Project Based Vouchers.





## TACOMA HOUSING AUTHORITY

### RESOLUTION 2013-10-23 (1)

#### RENTAL ASSISTANCE DEMONSTRATION (RAD) APPLICATION

**Whereas,** Public Housing funding continues to decline with insufficient capital funds to adequately meet THA's mounting portfolio capital needs;

**Whereas,** Contract renewal funding for tenant and project-based Section 8 has, in contrast, satisfactorily met the capital needs to effectively administer the program;

**Whereas,** RAD helps address the backlogged, immediate, short term and long term repairs needed to provide residents a safe and attractive home;

**Whereas,** A RAD conversion relinquishes THA from numerous Public Housing requirements, both reducing administrative burden and streamlining processes;

**Whereas,** Through a RAD conversion, THA retains the right to further supplement portfolio operations with MTW funding throughout the 15 year Project Based Voucher contract, regardless of MTW contract renewal in 2018;

**Whereas,** THA residents have voiced strong support during RAD community meetings, much of which stems from their recognition that THA needs to plan for immediate and long term repairs;

***Resolved by the Board of Commissioners of the Housing Authority of the City of Tacoma, Washington,***

1. The Executive Director has the authority to submit the Housing Authority of the City of Tacoma's Rental Assistance Demonstration (RAD) Portfolio Application to HUD.

Approved:    October 23, 2013

  
\_\_\_\_\_  
Greg Mowat, Chair



# TACOMA HOUSING AUTHORITY

To: THA Board of Commissioners  
From: Michael Mirra, Executive Director  
Date: September 11, 2013  
Re: RAD Conversion of THA's Public Housing

We look forward to Board's study session this Friday at Noon. (We will provide lunch.) We will cover two topics: (i) our MTW plan for next year; (ii) a proposal that THA's staff are preparing to convert THA's public housing units to Section 8 units. This memo provides detail about the conversion proposal. We would do this conversion by applying to HUD under its newly revised Rental Assistance Demonstration (RAD) project. Whether to apply will be a question we will ask the Board to decide in October. If we apply, we need to file the application by Halloween.

This application will require analysis and work that staff is presently doing, with the help of consultants. (Our 2013 budget includes the cost for this year.) Our preliminary assessment is that this conversion would be very worthwhile. Among other advantages, it has the potential to increase HUD's annual funding to THA by about **\$840,000**. The only direction we need now from the Board is to know that it is sufficiently interested in the proposal to justify the staff work.

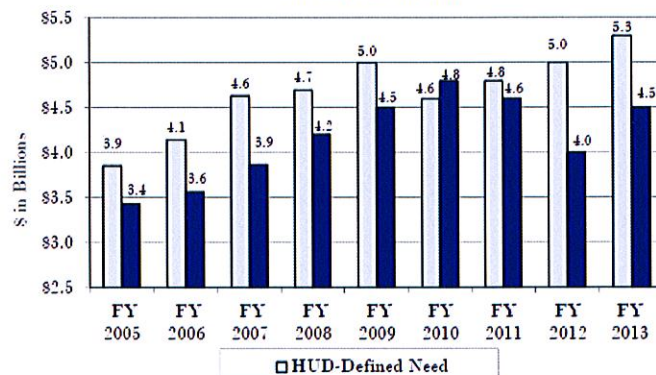
## The National Problem with Inadequate Public Housing Funding; Contrast with Section 8 Funding

### *Public Housing Funding Will Continue to Be Inadequate*

Congressional appropriations for public housing come in two forms: money for operations; money for capital needs such as major repairs and modernizations.) Congress has long underfunded both. A conservative way to measure the shortfall is to compare annual appropriations with what HUD calculates to be necessary. (NOTE: Some informed experts believe HUD understates the need). In recent years, except for 2010 which provided some stimulus funding, Congress has provided only between 80% to 95% of what HUD calculates to be necessary for public housing operations.

### Public Housing Operating Fund

Public Housing Operating Funds Fall Short of Need  
FY 2005 - FY 2013



Yearly shortfall of actual funding compared with HUD-defined need for Operating Funds.

In 2012, we received 72.5% of what HUD calculates we need, and in 2013, we project to receive

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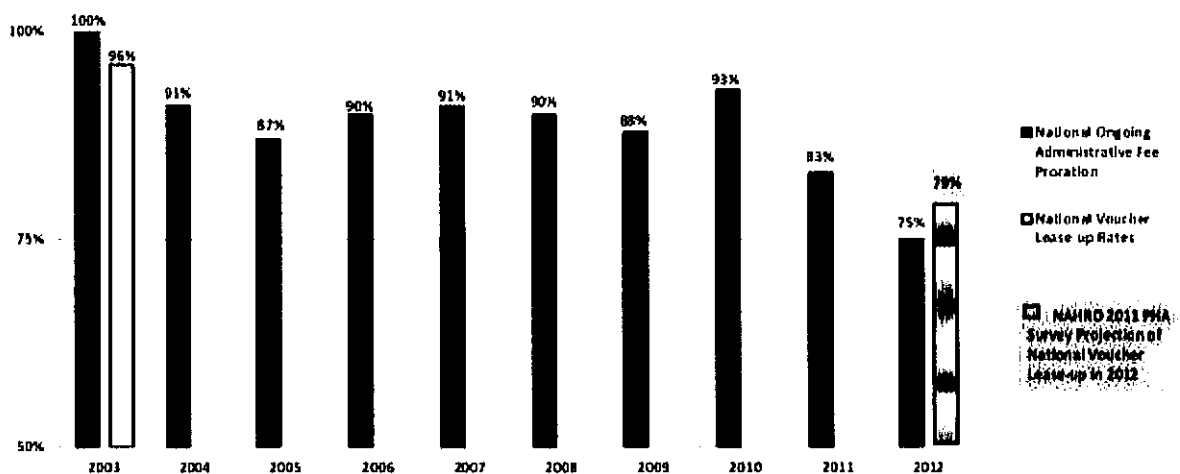


about 82% of what HUD calculates we need. This represents an annual shortfall for THA of about \$727,466 in 2012, and \$493,428 projected for 2013.

Congress has also underfunded the capital needs of public housing. NAHRO and CLPHA report that the national portfolio has a \$26 billion backlog of needed repairs. They propose an annual appropriation of capital dollars of \$5 billion. Generally, the appropriation level has been at or below \$2 billion. In FY 2014, the leading Senate version of the budget is proposing \$2 billion; the leading House's version is proposing \$ 1.5 billion.

#### *Section 8 Funding is Relatively More Stable*

In contrast, Congressional appropriations for the Section 8 programs have been relatively stable, with the exception of the funding for the administrative fee to manage the program. The main part of Section 8 funding pays the rent to the landlord. Congress has generally funded this part between 95% and 100% of what it needs for all vouchers in use. Congressional appropriations for the administrative fee have been less stable. We are now receiving about 80% of what is necessary:



#### *The Future*

Informed voices we have consulted do not expect appropriation levels for public housing or Section 8 to increase in the foreseeable future. Critically for our RAD assessment, they also do not expect the relative instability and stability between public housing and section 8 to change. Public housing will likely continue as the less favored program of the appropriation process.

#### **Rental Assistance Demonstration Program; What it Means for THA's Portfolio**

In response to the public housing funding shortfalls, PHAs have long sought to convert their public housing units to the section 8 funding stream. In seeking this conversion they make the judgment that the section 8 appropriations will continue to be more adequate and more stable than public housing appropriations.

HUD long has had processes by which PHAs could apply for this conversion. HUD has oscillated in its willingness to grant these applications. HUD has a newly revised program to allow for this conversion. It is called the Rental Assistance Demonstration (RAD) Program. Its main features are:

- Provide THA with more appropriated funds: **\$840,000 (current estimate)**
  - ~ increase appropriation proration: \$340,000
  - ~ administrative fee: \$485,000
  - \$840,000
- The commitment of the funds will appear in 15-20 year renewable contracts with our portfolio. HUD will honor those contracts even through later program changes.
- THA could extend its rent reforms to what would become our section 8 portfolio. This would result in further savings, although by reducing the subsidy to individual tenants.
- THA would retain the MTW ability to further supplement our portfolio operations with MTW dollars. Importantly, under RAD, we will retain this ability even if Congress ends MTW in 2018 when all the MTW contracts expire.
- The portfolio would gain the legal ability to carry debt and would have an increased cash flow to sustain debt.
- This increased financial strength will also make the property more appealing to tax credit investors allowing for the use of tax credits for major fix-ups.

This increased cash flow and access to capital funds will improve the quality of our housing units by better sustaining operations and allowing us to make capital improvements.

### **Effect on Residents**

RAD may affect residents. For this reason, HUD requires THA to consult with them in advance of our application and to address their concerns in the application. THA has already scheduled the tenant meetings. RAD will likely affect tenants in the following ways:

- The quality of their housing and of THA's operations will improve.
- THA's rent reform (e.g, fixed subsidies) are easier to apply to the portfolio. If THA does this, it may mean that some tenants will pay more in rent.
- Any rent increases paid by the tenant must be phased in over 3-5 years.
- THA must offer tenant based rental assistance of some kind to residents who do not wish to remain in the converted unit. HUD is clarifying the details of this requirement.



## Other Effects on THA, and Risks

- The obligation to provide tenants with a tenant based rental assistance may cause vacancies, weaken our HOP program, and stall our service to people on our HOP waiting list.
- Our tax credit investors and lenders may have concerns. We will find out.
- THA is repaying a capital bond for Salishan infrastructure: The current balance is \$3.1 million and it is due in 2025. . We are repaying it with specialized HUD funds. A RAD conversion may require us to pay it off early; if so, we anticipate needing \$2.1 million to pay it off in 2017, the date which we anticipate the RAD conversion may require. We may be able to borrow against the future receipt of those specialized HUD funds.

## Cost of a RAD Application

Preparing a RAD application is complicated and expensive. HUD requires some extensive analysis and study. We calculate the total cash expense for consultants and attorneys to be as follows:

<b>COST</b>	<b>2013</b>	<b>2014</b>	<b>Total</b>
Financial Consultants	\$60,500		\$60,500
Legal Consultants	\$40,000	\$20,000	\$60,000
Capital Needs Assessments	\$50,000	\$50,000	\$100,000
Special Project Staff	\$27,000	\$81,000	\$108,000
<b>TOTAL</b>	<b>\$177,500</b>	<b>\$151,000</b>	<b>\$328,500</b>

NOTE: The 2013 budget already provides for this year's expense.

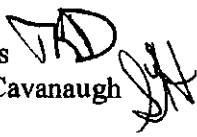
## Process and Schedule for RAD Application

Applications to convert 50% of THA's units are due to HUD prior to December 31, 2013. Applications for the entire portfolio conversion are due within one year of initial approval of the first 50%. HUD is presently allowing the conversion of 60,000 units nationwide. It is first come first serve. So we are planning to file our application by Halloween. Time is short.

Resident Outreach	September-October, 2013
Board Study Session	September 13, 2013
Capital Needs Assessments	September-December, 2013
Finalize Feasibility Analysis	September, 2013
Board Resolution	October 23, 2013
Submit Application for first 50% of units	October 31, 2013
Receive HUD approval of Application	December 31, 2013
Develop and implement financing plans for second 50% of units	2014
Submit Application for second 50% of units	October, 2014
Receive HUD approval of second Application	December 31, 2014
Refinance, recapitalize and rehab units with capital needs	2015-2017

## MEMORANDUM

To: Michael Mirra, Executive Director, THA  
THA Board of Commissioners

From: Tom Davis, Recap Advisors   
Steve Holmquist, Reno & Cavanaugh

Cc: Sandy Burgess, Asset Manager, THA  
Ken Shalik, Director of Finance, THA

Date: September 23, 2013

Subject: Views on the Rental Assistance Demonstration

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Recap Advisors and Reno & Cavanaugh have been pleased to work with you as THA explores the possibilities for converting some or all of its public housing units to Section 8 assistance under HUD's Rental Assistance Demonstration (RAD) program, in conjunction with THA's active participation in the Moving to Work (MTW) demonstration program. Both of our firms have had considerable experience working with other PHAs and HUD on RAD and on other non-RAD redevelopment and preservation projects. Thus, we are in a position to track developments in HUD funding and policy matters on a regular basis.

You have asked us both in our capacity as your RAD advisors and based on our general experience for our strategic views on converting to RAD at this time in the context of the federal funding environment now and as projected for the future. In brief, we share the view that for PHAs and public housing properties where a reasonable financial analysis shows that necessary capital needs can be addressed and long-term operations can be sustained through a RAD conversion, then pursuing RAD is clearly a better strategy than waiting for the public housing funding and regulatory environment to improve.

Funding for public housing has been in decline for many years. The recent federal budget cuts, including sequestration, did not begin that decline, but have certainly accelerated it. As you are aware, the public housing Operating Fund is based on a formula which estimates need and allocates funds based on a comparison with certain other assisted housing in a local market. Thus, each year the formula produces a figure which represents the need for public housing operating subsidies nationally. Yet, as you can see in the attached funding charts from the Council of Large Public Housing Authorities (CLPHA) and HUD, the typical pattern is that the public housing organizations request what they believe to be the full amount needed, HUD requests something less than that from Congress, and then Congress appropriates even less than that. Thus, the "proration" for the Operating Fund, which is the difference between the full need level and the actual appropriation has been deepening over time.



Funding cuts in the public housing Capital Fund have been even more dramatic, as the attached funding charts also show. The accumulated shortfalls in the Capital Fund, or “backlog needs” have been estimated by various organizations to be in the tens of billions of dollars nationwide. HUD itself estimates the backlog at close to \$26 billion. In FY 2013, Capital Fund appropriations hit a new low, at less than \$2 billion, falling far short of the annual need estimated by CLPHA of approximately \$5 billion and adding to the backlog. Thus, Congress would have to appropriate much more than \$5 billion a year for many years in the future to eliminate the backlog need.

By contrast, funding for contract renewals the Section 8 tenant-based and project-based programs has basically kept up with the need even in these difficult budget times, as the attached charts also show. The comparison between need and funds appropriated in the public housing and Section 8 programs, respectively, is dramatic and indicates a clear policy preference by Congress for Section 8.

That realization caused a number of PHAs in recent years to seek demolition or disposition of their public housing units in order to replace them with Section 8 subsidies. Eventually, the public housing organizations developed a proposal for a more formal approach to these conversions, which after negotiations with HUD and Congress has essentially been enacted in the form of RAD. A major reason for the wide interest in converting from public housing to Section 8 is that the more stable funding history and more flexible regulatory structure provide new opportunities for PHAs to access private financing of capital improvements.

The RAD structure does require THA to make a significant capital investment at the time of the RAD conversion – from debt and equity funds leveraged for the project or, if necessary, from THA funds if there is a gap. This HUD requirement is designed to address any capital needs backlog and to allow the properties to fund their capital needs over the next 15 years solely from routine deposits into replacement reserve accounts. The THA staff is currently estimating the amount of the up-front capital investment, but they have provided to us preliminary numbers in the \$20 million range. To the extent THA funds are needed to close the funding gap, this requirement could represent a major draw on THA’s reserves and MTW resources. While the necessary investment totals a significant amount, it is primarily an acceleration of investments which will need to be made over the next 5 years in order to responsibly steward the portfolio, with or without the RAD conversion. The RAD conversion makes it easier to leverage THA’s resources with debt and low income housing tax credit financing and makes it easier to access non-THA funds to cover some of these capital needs which THA’s declining capital fund allocations from HUD would otherwise have needed to cover in their entirety.

Based on our experience and current discussions with HUD and other parties, we believe that existing funding and policy trends will continue. Public housing funding will remain inadequate, particularly with respect to capital backlog needs, while Section 8 renewal funding will keep pace with need or at least come much closer to it than public housing funding. It is telling, for example, that despite other cuts it proposed, HUD requested \$10

million in new funds from Congress in FY 2014 for RAD. In addition, as you are aware, HUD is now permitting RAD projects to convert at the higher FY 2012 subsidy levels rather than the post-sequester FY 2013 subsidy levels which non-RAD public housing properties will receive, which again illustrates a preference for Section 8 over public housing. Finally, we believe that RAD has broad political support. RAD is the only significant housing legislation authorized by Congress in recent years, and it passed without controversy despite the highly partisan tone in Washington, D.C. these days.

We hope this provides some context for THA's deliberations. Please let us know if you have questions or need further information.



April 10, 2013

	FY12 Final	FY13 Final	FY13 Post-Sequestration	FY14 CLPHA Request	FY14 HUD Request
<b>Operating Fund</b>	\$3.962 billion	\$4.262 billion	\$4.054 billion	\$5.150 billion	\$4.6 billion
<b>Capital Fund</b> [Emergency Capital Needs] [Resident Opportunity and Supportive Services] [Service Coordinators for the Elderly and Disabled] [Jobs Plus]	\$1.875 billion [\$20 million] [\$50 million] [\$0] [n/a]	\$1.875 billion [\$20 million] [\$50 million] [\$0] [n/a]	\$1.777 billion [\$19 million] [\$47 million] [\$0] [n/a]	\$5.072 billion [as needed] [\$55 million] [\$50 million] [n/a]	\$2.0 billion [\$20 million] [\$0] [\$0] [\$15 million] <sup>4</sup>
<b>Housing Choice Voucher Renewals</b>	\$17.242 billion	\$17.242 billion	\$16.348 billion <sup>3</sup>	\$18.409 billion	\$17.968 billion
<b>HCV Administrative Fees</b>	\$1.35 billion	\$1.375 billion	\$1.305 billion <sup>3</sup>	\$1.968 billion	\$1.685 billion
<b>VASH Vouchers</b>	\$75 million	\$75 million	\$75 million <sup>3</sup>	\$75 million	\$75 million
<b>Section 8 Family Self Sufficiency Program</b>	\$60 million	\$60 million	\$57 million	\$60 million	\$0
<b>Consolidated Family Self Sufficiency Program for Public Housing and the Housing Choice Voucher Program</b>	n/a	\$0	\$0	n/a	\$75 million <sup>5</sup>
<b>Tenant Protection Vouchers</b>	\$75 million	\$75 million	\$71 million	Fully Fund	\$150 million
<b>HOPE VI</b>	\$0	\$0	\$0	\$300 million	\$0
<b>Choice Neighborhoods Initiative</b>	\$120 million [\$80 million] <sup>1</sup>	\$120 million [\$80 million] <sup>1</sup>	\$114 million [\$80 million] <sup>1</sup>	\$400 million	\$400 million
<b>Rental Assistance Demonstration</b>	\$0 <sup>2</sup>	\$0 <sup>2</sup>	\$0 <sup>2</sup>	\$40 million	\$10 million

<sup>1</sup> Not less than this amount shall be awarded to public housing authorities.

<sup>2</sup> A Rental Assistance Demonstration Program was authorized with no funds appropriated.

<sup>3</sup> The VASH program is exempt from sequestration, so estimated VASH amounts were held harmless on the HCV Renewal, HCV Administrative Fees, and VASH lines.

<sup>4</sup> A new Jobs Plus initiative is proposed in FY14.

<sup>5</sup> A new consolidated FSS program for public housing and Section 8 is proposed in FY14, with no new funding for ROSS or the Section 8 FSS programs.



July 2, 2013

	FY 2013 Final	FY 2013 Post-Sequestration	FY 2014 CLPHA Request	FY 2014 HUD Request	FY 2014 House Committee (6-27-13)	FY 2014 Senate Committee (6-27-13)
<b>Operating Fund</b>	\$4.262 billion	\$4.054 billion	\$5.150 billion	\$4.6 billion	\$4.262 billion	\$4.6 billion
<b>Capital Fund</b> [Emergency Capital Needs] [Resident Opportunity and Supportive Services] [Service Coordinators for the Elderly and Disabled] [Jobs Plus]	\$1.875 billion [\$20 million] [\$50 million] [\$0] [n/a]	\$1.777 billion [\$19 million] [\$47 million] [\$0] [n/a]	\$5.072 billion [as needed] [\$55 million] [\$50 million] [n/a]	\$2.0 billion [\$20 million] [\$0] [\$0] [\$15 million] <sup>4</sup>	\$1.5 billion [\$20 million] [\$0] [\$0] [\$15 million] <sup>4</sup>	\$2.0 billion [\$20 million] [\$50 million] [\$0] [\$15 million] <sup>4</sup>
<b>Housing Choice Voucher Renewals</b>	\$17.242 billion	\$16.348 billion <sup>3</sup>	\$18.409 billion	\$17.968 billion	\$17.0 billion	\$17.568 billion
<b>HCV Administrative Fees</b>	\$1.375 billion	\$1.305 billion <sup>3</sup>	\$1.968 billion	\$1.685 billion	\$1.35 billion	\$1.685 billion
<b>VASH Vouchers</b>	\$75 million	\$75 million <sup>3</sup>	\$75 million	\$75 million	\$75 million	\$78 million <sup>7</sup>
<b>HCV Family Self Sufficiency Program</b>	\$60 million	\$57 million	\$60 million	\$0	\$0	\$0
<b>Consolidated Family Self Sufficiency Program for Public Housing and HCV</b>	n/a	n/a	n/a	\$75 million <sup>5</sup>	\$60 million	\$75 million
<b>Tenant Protection Vouchers</b>	\$75 million	\$71 million	Fully Fund	\$150 million	\$75 million	\$150 million
<b>HOPE VI</b>	\$0	\$0	\$300 million	\$0	\$0	\$0
<b>Choice Neighborhoods Initiative</b>	\$120 million [\$80 million] <sup>1</sup>	\$114 million [\$80 million] <sup>1</sup>		\$400 million	-\$120 million <sup>6</sup>	\$250 million
<b>Rental Assistance Demonstration</b>	\$0 <sup>2</sup>	\$0 <sup>2</sup>	\$40 million	\$10 million	\$0	\$10 million

1 Not less than this amount shall be awarded to public housing authorities.

2 A Rental Assistance Demonstration Program was authorized with no funds appropriated.

3 The VASH program is exempt from sequestration, so estimated VASH amounts were held harmless on the HCV Renewal, HCV Administrative Fees, and VASH lines.

4 A new Jobs Plus initiative is proposed in FY14.

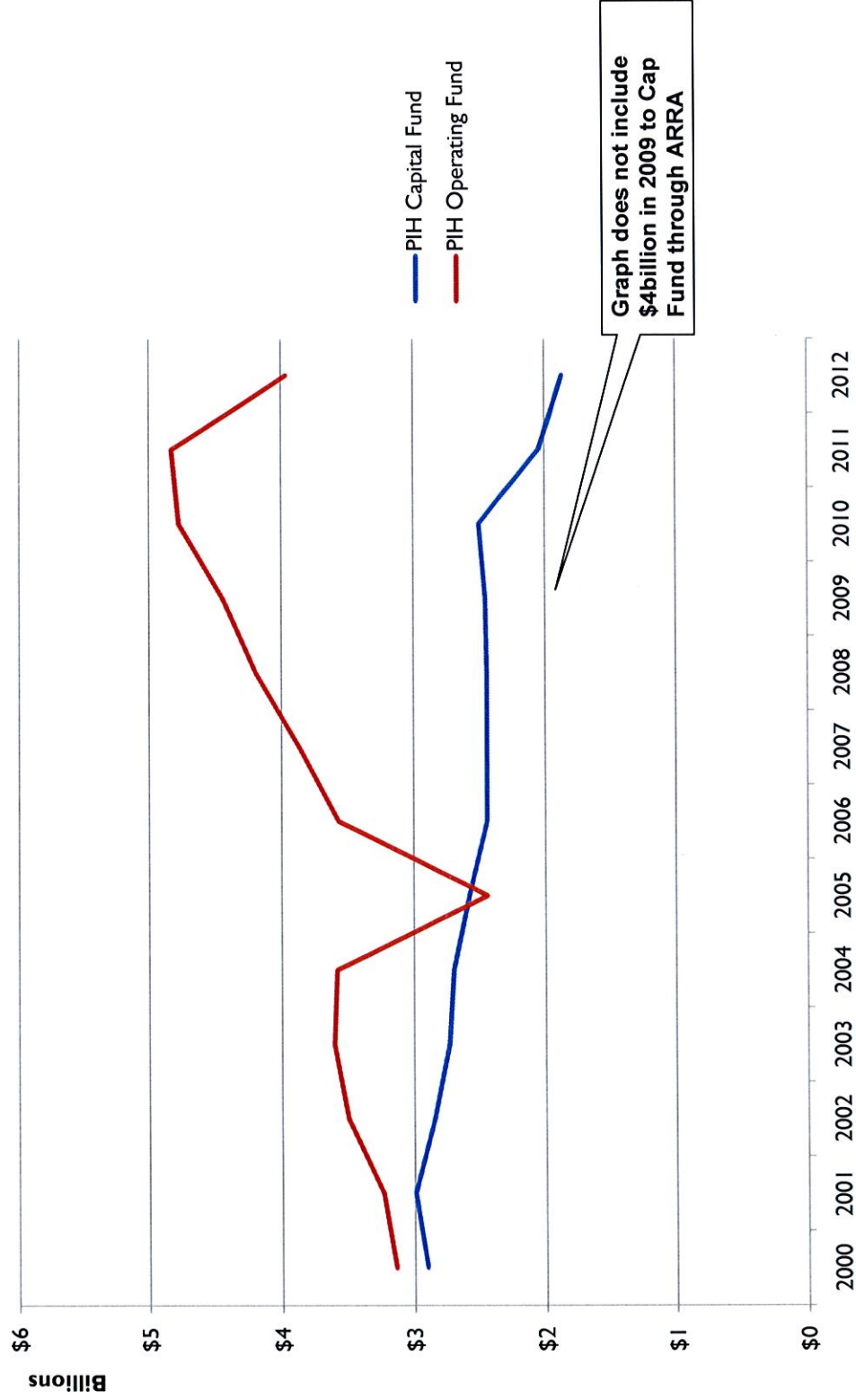
5 A new consolidated FSS program for public housing and the HCV program is proposed in FY14, with no new funding for ROSS or the HCV FSS programs.

6 FY13 CNI funding would be rescinded.

7 Up to \$3 million is set aside for a rental assistance/ supportive housing demonstration program for homeless or at-risk Native American veterans living on or near a reservation.



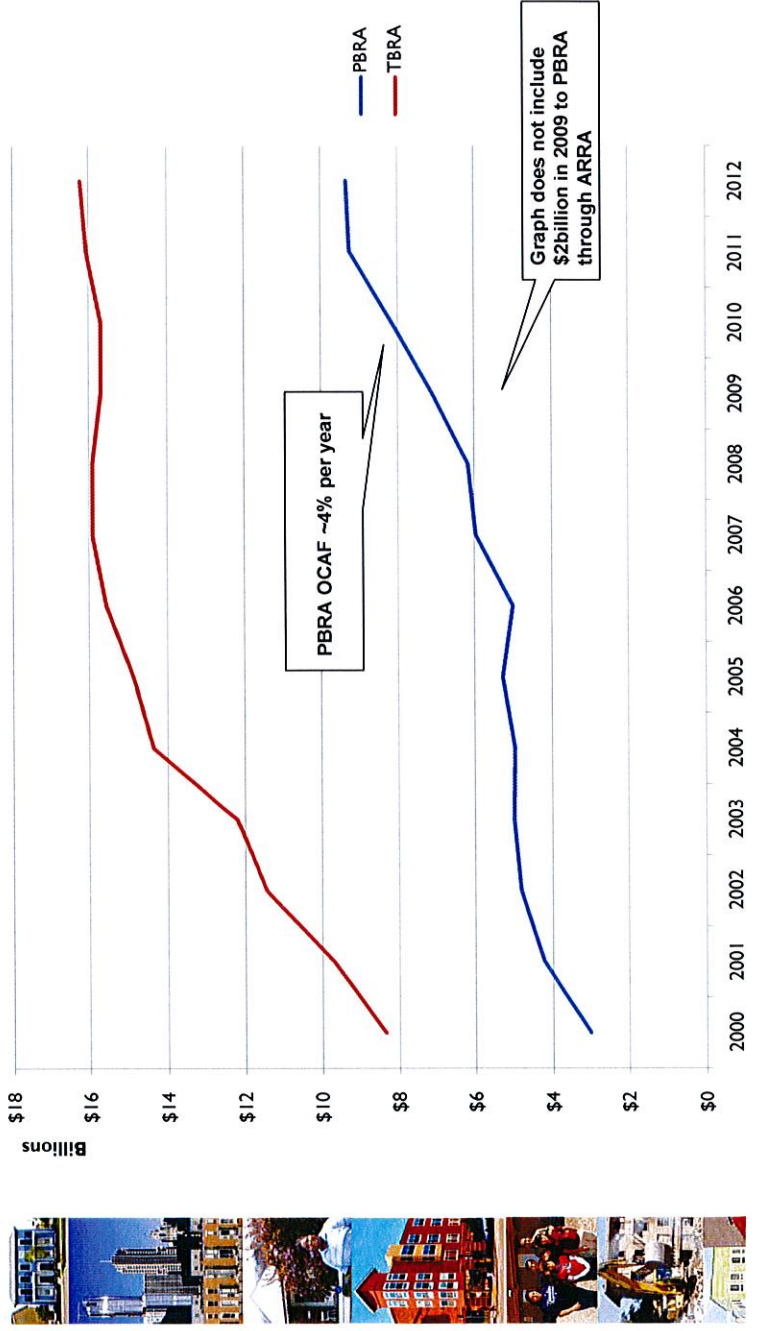
# TALE OF THE CURVES—SECTION 9







## TALE OF THE CURVES—SECTION 8





# TACOMA HOUSING AUTHORITY

## RAD RESIDENT MEETING COMMENTS

SOURCE OF COMMENT	DATE	RAD Activity	Resident Question	THA Response
Salishan	9/17/2013	Conversion	If I'm already in public housing, how do I change over?	There will be about a one year conversion process but there is nothing residents need to do to convert.
Salishan	9/17/2013	Timing	How long will it take to convert?	We are applying for the first 50% of the portfolio at the end of October. HUD is expected to respond by the end of the year. In 2014, we will apply for the second half. The conversion process will take about one and one half years.
Salishan	9/17/2013	Conversion	I'm in a 3 bedroom unit. If I qualify for a 3 bedroom unit, will I have to move to a 2 bedroom?	No, you will not have to change bedroom size due to RAD.
Salishan	9/17/2013	Capital Needs	What types of improvements will be completed?	The funding will be used for large concerns such as structural improvements; not as much for maintenance related cosmetic repairs.
Salishan	9/17/2013	Capital Needs	None of the units in Salishan need that type of repair. How does this affect us?	It will allow Salishan to make repairs in the future as they become necessary.
Salishan	9/17/2013	Rent	My income hasn't changed, but my rent has gone up.	This may be because of a minimum rent issue, but a RAD conversion will not change the way your rent is calculated.
Salishan	9/17/2013	Rent	Will the implementation of RAD make it easier for THA to raise rents?	A RAD conversion will not change the way your rent is calculated, but future rent reform is unrelated to the RAD conversion.
Salishan	9/17/2013	Capital Needs	Do I have to wait two years before my unit will be fixed?	No. Submit work orders as you would regularly do.
Fawcett	9/20/2013	HOP	Will we have the option to move between states?	HOP Vouchers will only be able to be used in Tacoma if they are an option.
Fawcett	9/20/2013	HOP	I am disabled, I have a fixed income, and my daughter lives with me. Is there a five year time limit for me?	There is no time limit for disabled residents.
Fawcett	9/20/2013	HOP	When can I move?	If HOP is provided for residents, one year after the conversion residents may request to be placed at the top of the waiting list.
Fawcett	9/20/2013	HOP	Will I need to pay an out of pocket deposit?	Refer to HOP program rules.
Fawcett	9/20/2013	Conversion	Do you suggest that I move or stay in my building?	This depends on your income and situation.
Fawcett	9/20/2013	Rent	If my income increases, will my rent go up?	Yes, your rent is still calculated the same way.

<b>SOURCE OF COMMENT</b>	<b>DATE</b>	<b>RAD Activity</b>	<b>Resident Question</b>	<b>THA Response</b>
Fawcett	9/20/2013	Unrelated	Are they going to consider placing cameras inside the buildings?	RAD will not place cameras in the building
Fawcett	9/20/2013	Conversion	Is the RAD conversion definitely going to happen?	No, we have not applied yet.
Fawcett	9/20/2013	Conversion	Will this be a permanent change?	It will permanently convert all public housing units into project based vouchers.
Fawcett	9/20/2013	Conversion	Will the RAD conversion privatize the agency?	The agency will not be privatized, but there will be private investors at some properties
Fawcett	9/20/2013	Conversion	Does this relate to private renters on Section 8?	No. It only affects public housing.
Fawcett	9/20/2013	HOP	Will there be a list of apartments that will accept the HOP vouchers?	Yes.
Fawcett	9/20/2013	Timing	What happens if HUD does not approve the conversion?	We will apply again.
Fawcett	9/20/2013	Unrelated	Is THA under the control of the federal government?	The majority of funding THA receives is from HUD
Fawcett	9/20/2013	Unrelated	Who has the final call with major decisions?	The Board of Commissioners as appointed by the Tacoma City Council.
Wright	9/26/2013	Conversion	With the conversion, will this still be a senior and disabled property?	Yes. The RAD conversion will not change that.
Wright	9/26/2013	Unrelated	With the meth contamination of so many units here can we move to Hillside?	The RAD conversion does not pertain to the meth situation. I would suggest that you speak with property management about your situation and what the process is for moving.
Wright	9/26/2013	HOP	How does the HOP voucher help people that are senior or disabled?	For individuals that are senior or disabled there is no time limit, all other would have a 5 year limit. But there is a fixed amount for the HOP voucher.
Wright	9/26/2013	Capital Needs	You mentioned "improvements". What kind of improvements would be made?	The improvements would be for big items. We are in the analysis phase and working with investors to assess improvement that would be needed.
Wright	9/26/2013	HOP	Do you suggest that I move or stay in my building?	Everyone's financial situation is different, I would wait to hear what the options are when the time comes.
Wright	9/26/2013	Capital Needs	In the past THA has not done a good job of completing repairs, will they do the same this time?	I'm not aware of what you are referring to but once we select an improvement to a plan of how to carry it out will be made.
Wright	9/26/2013	HOP	What is the difference between senior and disabled rent calculation and HOP?	Currently at our senior and disabled properties rent is based on income. With the HOP voucher it is a fixed amount.

SOURCE OF COMMENT	DATE	RAD Activity	Resident Question	THA Response
Wright	9/26/2013	Unrelated	I'm not sure if my question is related but I have kidney failure and received a letter from HUD and I thought it mentioned RAD. Does this have anything to do with RAD?	I'm not familiar with which letter you are referring to, but my guess is that this is unrelated from the RAD program.
Wright	9/26/2013	Capital Needs	Will asbestos be an item?	Good point! Asbestos abatement is part of the Physical Conditions Assessment and could possibly be a capital need.
Wright	9/26/2013	HOP	Would it be better to stay here or get a voucher?	That is personal decision you would have to make based on your finances. We would like you to stay here, but wait and see what the options are.
Wright	9/26/2013	Unrelated	If I wanted to move to a place because I need a bathtub, how would I do that?	This sounds like a Reasonable Accommodation request. I would suggest speaking with property management since this is unrelated to the RAD program.
Wright	9/26/2013	HOP	How much time do we have to choose whether we want to accept the voucher or not.	We currently do not have all the details regarding HOP as an option but will let residents know.
Wright	9/26/2013	HOP	How long does it take to get a HOP voucher?	I don't have an exact time frame time to give you. But your name would go to the top of the waitlist and with the 5 year time limit for work able families that list would probably move much quicker.
E. B. Wilson	9/27/2013	HOP	What will happen if we decide to convert to HOP?	If it is an option, you will be placed at the top of HOP waiting list.
E. B. Wilson	9/27/2013	Conversion	What if we like where we are at?	You do not have to move.
E. B. Wilson	9/27/2013	Unrelated	When will the heater be fixed?	Request a work order
E. B. Wilson	9/27/2013	Conversion	If half of the people stay on public housing and the other convert to RAD, how will HUD fund it?	The entire building will convert to RAD.
E. B. Wilson	9/27/2013	HOP	If I decide to transfer to HOP, will I be displaced until my HOP voucher is ready to use?	No.
E. B. Wilson	9/27/2013	Conversion	Will this building remain senior/disabled?	Yes.
Ludwig	10/01/2013	Rent	Will my rent increase?	Future rent reform may still take place but RAD will not change your current rent calculated at 28.5% of your income.
Ludwig	10/01/2013	Conversion	What if the Government stays shutdown?	THA believes the Government will reopen shortly but we will continue to submit our application regardless.
Ludwig	10/01/2013	Capital Needs	What kind of improvement will be made?	Capital Needs are separate from maintenance and resemble repairs such as HVAC, elevators, roofing etc.
Ludwig	10/01/2013	HOP	When can we move?	We currently do not have all the details regarding HOP as an option but will let residents know.



SOURCE OF COMMENT	DATE	RAD Activity	Resident Question	THA Response
Ludwig	10/01/2013	HOP	What if our Social Security decreases?	The HOP program is a fixed subsidy and is not based on income. If your income decreases, your rent will remain the same.
Ludwig	10/01/2013	Capital Needs	Can residents participate in the Physical Conditions Assessment?	THA will likely host resident meetings throughout the PCA's and solicit input from residents.
Salishan	10/03/2013	Conversion	Does everyone have to fill out an application for RAD?	No, THA applies.
Salishan	10/03/2013	HOP	If I don't want to go on HOP do I have to?	No, it would only be an option.
Salishan	10/03/2013	HOP	Can I switch to Tenant Based Section 8?	No, only the HOP program if it is an option.
Salishan	10/03/2013	Conversion	The conversion will make the program better?	Yes, Section 8 historically receives more adequate appropriations.
Salishan	10/03/2013	HOP	What if I want to move to California?	Neither PBV's nor HOP vouchers are portable.
6 <sup>th</sup> Ave	10/04/2013	Rent	Will we have to start paying utilities?	If you stay in your unit your utilities will remain the same. The HOP program uses a utility allowance.
6 <sup>th</sup> Ave	10/04/2013	Conversion	Do we have to move if we do not want a HOP voucher?	No, you may remain in your unit, HOP is only an option.
6 <sup>th</sup> Ave	10/04/2013	Capital Needs	Will they install dishwashers?	The Capital Needs are larger items, not maintenance related.
6 <sup>th</sup> Ave	10/04/2013	HOP	Can I change bedroom size on HOP?	Bedroom eligibility will remain the same.
6 <sup>th</sup> Ave	10/04/2013	Timing	How long before we convert to RAD?	We should get approval by the end of the year and it takes an additional year to convert for the first properties, and an additional year for the second half.
6 <sup>th</sup> Ave	10/04/2013	HOP	How much will my rent be if I choose HOP?	50% of the payment standard. Currently for a 1 bedroom that would be \$390.
6 <sup>th</sup> Ave	10/04/2013	Capital Needs	Will residents have input on what is repaired?	THA may hold meetings during the PCA's to solicit input.
6 <sup>th</sup> Ave	10/04/2013	Conversion	Will THA still be a Public Housing Authority?	Yes, even though THA will no longer have a Public Housing portfolio, the nomenclature will not change meaning. THA still provides affordable and subsidized housing.
North G St.	10/08/2013	Capital Needs	Will RAD improve work orders and maintenance repairs?	No, Maintenance repairs and unit turnovers are separate from capital needs.
North G St.	10/08/2013	Capital Needs	Will we have to move in order to make repairs?	At the moment you do not know the extent of the repairs needed, but there will most likely not be any relocation during rehabilitation.

<b>SOURCE OF COMMENT</b>	<b>DATE</b>	<b>RAD Activity</b>	<b>Resident Question</b>	<b>THA Response</b>
North G St.	10/08/2013	Rent	Do we need a new deposit?	Not if you stay in your unit.
North G St.	10/08/2013	HOP	How much to I pay for rent under the HOP program?	50% of the Voucher Payment Standard.
North G St.	10/08/2013	HOP	How come some residents pay only \$90 with a voucher?	That is Tenant Based Section 8 and is different than HOP.
North G St.	10/08/2013	Timing	How long does it take to convert?	About one year for the first 50% of units, and an additional year for the second 50%.
North G St.	10/08/2013	Capital Needs	If THA isn't getting enough funding from HUD for capital needs, why are they building new properties?	THA receives funding from various sources to build new properties including private investors, unlike Public Housing properties.
North G St.	10/08/2013	Rent	Will our rent increase in the future?	Rent reform is possible in the future, but not as a result of RAD.
North K St.	10/10/2013	Capital Needs	Will we still have regular inspections in addition to the PCA?	Yes.
North K St.	10/10/2013	HOP	What is the difference in rent between Tenant Based Section 8 and HOP?	HOP is 50% of the voucher payment standard and Tenant Based Section 8 is income based.
North K St.	10/10/2013	Conversion	Will Tenant Based Section 8 change?	Current Tenant Based Section 8 residents will not be effected by RAD.
North K St.	10/10/2013	HOP	How will HOP work with my Social Security?	The HOP program is not income based so it will not change.
North K St.	10/10/2013	HOP	Will THA pay for moving costs to transition to HOP?	We do not have an answer on that at this point.
North K St.	10/10/2013	HOP	Will HOP allow my service animal?	Pet rules are determined by the landlord but there are certain rights for residents with service animals.
North K St.	10/10/2013	HOP	Can we move into a house with HOP?	Yes, so long as the bedroom size matches your voucher program size.
North K St.	10/10/2013	HOP	What is MTW?	MTW is another Demonstration program from HUD, like RAD, and it allows the Housing Authority more flexibility on program rules like the HOP program.
North K St.	10/10/2013	Capital Needs	I live on the first floor and my carpet is placed directly on the ground and there is no foundation, will the PCA look into this?	The PCA will examine large structural issues, if there is no foundation then they will in fact take that into consideration.



October 16, 2013

To: Michael Mirra, Executive Director, THA  
THA Board of Commissioners

From: Tom Davis  
Zoe Weinrobe  
Jenny Fauth

Re: RAD Feasibility Report

Recap Real Estate Advisors ("Recap") has been engaged by the Tacoma Housing Authority ("THA") to evaluate the feasibility and applicability of the U.S. Department of Housing and Urban Development's ("HUD") Rental Assistance Demonstration ("RAD") program for all of the properties in THA's portfolio. RAD allows public housing properties to convert to long-term Project-Based Section 8 rental assistance contracts, while maintaining public ownership and control.

After discussions with THA staff, Recap reviewed all 19 of THA's properties totaling 817 public housing units, for viability as RAD transactions. Recap modeled the properties using three different revenue scenarios: the standard RAD rents, increased RAD rents using THA's MTW authority to the minimum level necessary for each deal to balance, and increased RAD rents across the portfolio at either 82.5% or 100% of THA's payment standard. Through conversations with THA, it was decided that a standard rent boost of either 82.5% or 100% would be the most effective approach from an operating and administrative perspective.

Of the 19 THA properties, Recap found that the nine (9) mixed-finance properties would make good candidates for straight RAD conversions and the remaining ten (10) traditional public housing properties could be converted to RAD through a combination of 4% and 9% low-income housing tax credit (LIHTC) transactions.

### **RAD Background**

Congress has allocated funding for the conversion of 60,000 public housing units to Project-Based Section 8 RAD units. HUD has requested authority for an additional 100,000 units, however Congress has not yet allocated funding for the extension of the program. Allocations are made on a first come, first serve basis for the initial 60,000 units, and as of early October 2013, approximately 42,000 units had already been reserved. A portfolio application reserves the allocation of RAD units for the entire portfolio at current rent levels, but only requires the housing agency to submit detailed applications for 50 percent of the proposed transactions in the initial submission.

### **RAD Assessment**

Recap developed a financial model, which is attached as a reference point, to analyze potential transaction scenarios to take place at each of the 19 THA properties. Given the recent unexpected additional maintenance costs upon turnover related to remediation of methamphetamine contamination in units, all of the transactions assume a capitalized methamphetamine remediation

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reserve and replacement reserve deposits have been sized at \$800/unit/year. Recap's analysis used immediate and long term physical needs, and capitalized reserves assumptions for each property as provided by THA. Operating costs were determined by the lesser of the current 2013 operating expenses, net of replacement reserve contributions, or \$7,000 per unit. If the property was unable to maintain positive cash flow after debt service, the operating expenses were lowered to the amount necessary for the site to make its projected debt service payments. Both of the financial models assume expenses inflate at a rate of 3% each year, while incomes trend at 2%, both of which are industry standards.

For the ten (10) public housing sites, Recap focused on the three most likely transaction scenarios: FHA, 4% low income housing tax credits ("4% LIHTC"), and 9% low income housing tax credits ("9% LIHTC"). Each scenario includes transaction costs appropriate to the nature of the transaction. (For example, legal fees in the two LIHTC scenarios are higher than in the FHA scenario.) Typically, the FHA scenario would generate the least amount of funds for capital improvements and the 9% LIHTC scenario would generate the greatest amount, with the 4% LIHTC scenario falling in between. The FHA scenario is a debt-only scenario, assuming FHA-insured financing. The two LIHTC scenarios assume both debt and a syndication of low income housing tax credits. The 4% tax credits rely on the use of tax exempt bond financing and are generally available when needed. (The analysis assumes that the tax exempt bonds will be used for construction funding in order to generate the tax credits, but may not remain outstanding at the full amount after permanent debt conversion.) The 9% tax credits are a competitive and scarce resource so cannot be assumed to be available for all properties.

For the nine (9) mixed finance properties, Recap built a separate financial model assessing two scenarios: a capitalized methamphetamine remediation reserve with reduced anticipated operating expenses, and a straight conversion with higher operating expenses intended to cover remediation costs over time. Recap anticipates all of the mixed finance properties will undergo a RAD conversion through the capitalized reserve transaction scenario with THA covering the transaction gaps through a combination of housing authority funds and remediation grants. In most cases, the straight conversion with higher operating expenses required a lower amount of transaction support up front, but did not produce enough revenue to cover the operating expenses over time, putting the property on an unsustainable operating path.

After discussions with the THA team over the past weeks regarding THA's desire to convert the entire portfolio through RAD, and to keep the transactions for the mixed finance projects as simple as possible, Recap recommends the transactions described below. In order to qualify for the RAD portfolio application, THA must submit applications for at least 50 percent of the proposed transactions. With this in mind, Recap has focused on nine (9) mixed-financed properties (Hillside 1, 2, 1500, and Salishan 1-6) and one (1) scattered site property, for a total of ten (10) RAD applications. The RAD applications for the remaining nine (9) public housing transactions will need to be submitted within one year of receiving the portfolio reservation.

### **Phase 1 RAD Transaction Descriptions**

1. **Scattered Site (WA005000006) Transaction 1** is a 4% LIHTC deal to be submitted for RAD conversion in 2013. The Scattered Sites property has a projected \$1,684,000 surplus as a 4% LIHTC transaction, and this surplus can be used as a source to fill transaction gaps in the mixed finance transactions described below. The 4% transaction assumes LIHTC pricing of \$0.92 per credit, so the surplus could be even greater if actual



pricing rises. The project, comprised of scattered sites assumes a rent boost of 100% of the payment standard.

2. **Hillside 1 (WA005000007) Transaction 2** is a soft debt transaction to be submitted for RAD conversion in 2013. The property, Hillside Phase 1, needs rents to be boosted to 100% of the payment standard in order to maintain a positive cash flow and be able to fund the necessary capital needs out of reserves for the next 15 years. We have the transaction gap of approximately \$61,250 being filled by THA with soft debt, potentially funded from the surplus from the Scattered Sites Transaction 1. These funds can be repaid through cash flow within four years of the RAD conversion. We assumed any property with a gap of less than \$150,000 could be converted without outside capital ("straight conversion"). All of the mixed finance projects can be straight conversions.
3. **Hillside 2 (WA005000008) Transaction 3** is a soft debt transaction to be submitted for RAD conversion in 2013. The property, Hillside Phase 2, needs rents to be boosted to 100% of the payment standard in order to maintain a positive cash flow and be able to fund the necessary capital needs out of reserves and excess cash flow for the next 15 years. We have the transaction gap of approximately \$64,250 being filled by THA with a soft debt, potentially funded from the surplus from the Scattered Sites Transaction 1. These funds can be repaid through cash flow within two years of the RAD conversion.
4. **Hillside 1500 (WA005000009) Transaction 4** is a soft debt transaction to be submitted for RAD conversion in 2013. The property, Hillside 1500, needs rents to be boosted to 100% of the payment standard in order to maintain a positive cash flow and be able to fund the necessary capital needs out of reserves and excess cash flow for the next 15 years. We have the transaction gap of approximately \$57,500 being filled by THA with soft debt, potentially funded from the surplus from the Scattered Sites Transaction 1. These funds can be repaid through cash flow within two years of the RAD conversion.
5. **Salishan 1 (WA005000010) Transaction 5** is a soft debt transaction to be submitted for RAD conversion in 2013. The property, Salishan 1, needs rents to be boosted to 82.5% of the payment standard in order to maintain a positive cash flow and be able to fund the necessary capital needs out of reserves and excess cash flow for the next 15 years. We have the transaction gap of approximately \$113,000 being filled by THA with soft debt, potentially funded from the surplus from the Scattered Sites Transaction 1. These funds can be repaid through cash flow within three years of the RAD conversion.
6. **Salishan 2 (WA005000011) Transaction 6** is a soft debt transaction to be submitted for RAD conversion in 2013. The property, Salishan 2, needs rents to be boosted to 82.5% of the payment standard in order to maintain a positive cash flow and be able to fund the necessary capital needs out of reserves and excess cash flow for the next 15 years. We have the transaction gap of approximately \$113,000 being filled by THA with soft debt, potentially funded from the surplus from the Scattered Sites Transaction 1. These funds can be repaid through cash flow within two years of the RAD conversion.
7. **Salishan 3 (WA005000012) Transaction 7** is a soft debt transaction to be submitted for RAD conversion in 2013. The property, Salishan 3, needs rents boosted to 82.5% of the payment standard in order to maintain a positive cash flow and be able to fund the necessary capital needs out of reserves and excess cash flow for the next 15 years.

Salishan 3 was unable to cover its debt service with a \$7,000 per unit operating expense, so the model sized the operating expenses net of replacement reserves at \$6,300 per unit. We have the transaction gap of approximately \$113,000 being filled by THA with soft debt, potentially funded from the surplus from the Scattered Sites Transaction 1. These funds can be repaid through cash flow within five years of the RAD conversion.

8. **Salishan 4 (WA005000013) Transaction 8** is a soft debt transaction to be submitted for RAD conversion in 2013. The property, Salishan 4, needs rents to be boosted to 82.5% of the payment standard in order to maintain a positive cash flow and be able to fund the necessary capital needs out of reserves and excess cash flow for the next 15 years. We have the transaction gap of approximately \$113,000 being filled by THA with soft debt, potentially funded from the surplus from the Scattered Sites Transaction 1. These funds can be repaid through cash flow within two years of the RAD conversion.
9. **Salishan 5 (WA005000014) Transaction 9** is a soft debt transaction to be submitted for RAD conversion in 2013. The property, Salishan 5, needs rents to be boosted to 82.5% of the payment standard in order to maintain a positive cash flow and be able to fund the necessary capital needs out of reserves and excess cash flow for the next 15 years. Salishan 5 was unable to cover its debt service with a \$7,000 per unit operating expense, so the model sized the operating expenses net of replacement reserves at \$6,400 per unit. We have the transaction gap of approximately \$113,000 being filled by THA with soft debt, potentially funded from the surplus from the Scattered Sites Transaction 1. These funds can be repaid through cash flow within nine years of the RAD conversion if it is prioritized over the existing THA cash flow contingent debt.
10. **Salishan 6 (WA005000015) Transaction 10** is a soft debt transaction to be submitted for RAD conversion in 2013. The property, Salishan 6, needs rents to be boosted to 82.5% of the payment standard in order to maintain a positive cash flow and be able to fund the necessary capital needs out of reserves and excess cash flow for the next 15 years. Salishan 6 was unable to cover its debt service with a \$7,000 per unit operating expense, so the model sized the operating expenses net of replacement reserves at \$6,400 per unit. We have the transaction gap of approximately \$113,000 being filled by THA with soft debt, potentially funded from the surplus from the Scattered Sites Transaction 1. These funds can be repaid through cash flow within 15 years of the RAD conversion if it is prioritized over the existing THA cash flow contingent debt.

### **Conclusion & Next Steps**

After evaluating the operating income, expenses, capital needs and estimated RAD contract rents along with the THA payment standards, Recap concurs with THA's initial plan to submit a RAD portfolio application for all 19 THA properties and ten (10) detailed RAD application for the mixed-finance tax credit properties and Scattered Site public housing site.

Submitting ten (10) RAD applications allows for the simplest conversions to take place in the near term while complying with the RAD requirement that 50% of the transactions (not properties or units) in the portfolio application be submitted in order for HUD to approve a portfolio award and ensure the reservation of an allocation for the remaining units in THA's portfolio. In addition, the estimated \$1.68 million transaction surplus raised by the public housing Scattered Site 4% LIHTC transaction will cover the transaction gap required for the mixed finance RAD conversions. It is

important to note that these ten (10) transactions will require a significant amount of THA funds to support the increase of the RAD contract rents to either 82.5% or 100% of the THA payment standard. In the first year after the RAD conversion for these ten properties, Recap anticipates the total rent boost support to be approximately \$1.4 million.

As described above, Recap anticipates all of the mixed finance properties will undergo a RAD conversion through the capitalized reserve transaction scenario with THA covering the transaction gaps through a combination of housing authority funds and remediation grants. In most cases, the straight conversion with higher operating expenses did not produce enough revenue to cover the operating expenses over time, putting the property on an unsustainable operating path.

The following chart shows the anticipated transactions and costs anticipated for THA's Phase 1 RAD nine (9) mixed finance and one (1) public housing site conversions.

**Phase 1 RAD Applications:**

	AMP	Development Name	Total Units	Public Hsg/ RAD Units	Capital Needs Per Unit	2014 Model Op Costs PUPY	Recommended Transaction	Transaction Surplus / (Gap)	Transaction Surplus / (Gap) Per Unit
1.	WA005000006	Scattered Site	34	34	\$41,451	\$6,541	4% LIHTC	\$1,684,106	\$49,533
2.	WA005000007	Hillside 1	21	21	\$24,676	\$6,993	Soft Debt/Reserves	(\$61,250)	(\$2,917)
3.	WA005000008	Hillside 2	25	12	\$22,793	\$6,679	Soft Debt/Reserves	(\$64,250)	(\$2,570)
4.	WA005000009	Hillside 1500	16	4	\$25,172	\$7,000	Soft Debt/Reserves	(\$57,500)	(\$3,594)
5.	WA005000010	Salishan 1	90	55	\$19,461	\$6,628	Soft Debt/Reserves	(\$113,000)	(\$1,256)
6.	WA005000011	Salishan 2	90	55	\$19,906	\$7,000	Soft Debt/Reserves	(\$113,000)	(\$1,256)
7.	WA005000012	Salishan 3	90	45	\$15,260	\$6,300	Soft Debt/Reserves	(\$113,000)	(\$1,256)
8.	WA005000013	Salishan 4	90	45	\$16,360	\$7,000	Soft Debt/Reserves	(\$113,000)	(\$1,256)
9.	WA005000014	Salishan 5	90	45	\$13,333	\$6,400	Soft Debt/Reserves	(\$113,000)	(\$1,256)
10.	WA005000015	Salishan 6	90	45	\$13,230	\$6,400	Soft Debt/Reserves	(\$113,000)	(\$1,256)
<b>Subtotals/Averages</b>			<b>636</b>	<b>361</b>	<b>\$21,164</b>	<b>\$6,694</b>		<b>\$823,106</b>	<b>\$2,280</b>

After the completion of the RAD portfolio application and Phase 1 RAD applications, Recap and THA will begin the more detailed analysis of the remaining nine (9) public housing properties targeted for the Phase 2 RAD applications in 2014.

As described above, Recap's analysis of THA's public housing properties included a comparison of an FHA debt-only scenario and 4% and 9% low income housing tax credit scenarios. Typically, Recap would recommend recapitalizations using 4% LIHTC with some additional transaction subsidy. The 4% tax credits rely on the use of tax exempt bond financing and are generally available when needed and are not dependent on competitive funding awards. However, a number of THA's public housing properties are relatively small and do not yield a significant amount of tax credit equity (less than \$1 million), which would make them challenging to be considered as a stand-alone tax credit transaction.

Therefore, Recap recommends working with THA to determine which public housing properties could be consolidated for the purposes of undertaking a larger LIHTC recapitalization, which could reduce some transaction costs and yield higher equity returns. Recap also recommends further

analysis of the use of 9% LIHTC for some of the RAD transactions, as opposed to only considering 4% LIHTC, which would yield significantly more LIHTC equity and lower the need for additional transaction subsidy. Finally, Recap and THA will continue to explore the feasibility of a Section 18 Demolition/ Disposition application for Dixon Village.

The following chart shows the anticipated capital needs, operating costs, and a comparison of the transactions gaps or surpluses for a 4% LIHTC versus a 9% LIHTC transaction for each of THA's Phase 2 RAD public housing conversions.

**Phase 2 RAD Applications:**

AMP	Development Name	Total Units	Public Hsg/ RAD Units	Capital Needs Per Unit	2014 Model Op Costs PUPY	4% LIHTC Transaction Surplus / (Gap)	9% LIHTC Transaction Surplus / (Gap)
1. WA005000002	Fawcett	30	30	\$25,050	\$7,000	(\$937,368)	(\$405,806)
2. WA005000002	Wright	58	58	\$49,015	\$5,800	(\$3,161,497)	(\$1,290,425)
3. WA005000002	6th Ave	64	64	\$25,018	\$6,009	(\$1,789,263)	(\$730,584)
4. WA005000001	K Street	43	43	\$25,376	\$6,415	(\$1,279,107)	(\$534,044)
5. WA005000001	G Street	40	40	\$26,567	\$7,000	(\$1,266,064)	(\$540,103)
6. WA005000001	Wilson	77	77	\$23,996	\$6,159	(\$1,767,159)	(\$195,232)
7. WA005000003	Ludwig	41	41	\$25,463	\$6,229	(\$1,226,868)	(\$511,683)
8. WA005000003	Bergerson Terrace	72	72	\$36,622	\$6,041	(\$2,331,708)	(\$72,969)
9. WA005000003	Dixon Village	31	31	\$75,689	\$7,000	\$499,834	\$2,316,553
<b>Subtotals/Averages</b>		<b>456</b>	<b>456</b>	<b>\$34,755</b>	<b>\$6,406</b>	<b>(\$13,259,201)</b>	<b>(\$1,964,294)</b>



# The 2013 Public Housing Investment Update

BY ROD SOLOMON

**T**HERE WERE SOME bright spots during the past year for preservation or replacement of the \$100 billion public housing stock—the invigorating launching of the Rental Assistance Demonstration (RAD), a very large Capital Fund financing for the New York City Housing Authority (NYCHA), awards of large Choice Neighborhoods grants to the housing authorities of San Antonio (Tex.), Seattle (Wash.) and Tampa (Fla.), and continued contribution of low-income housing tax credits (Tax Credits). The abject failure of Congress to provide adequate funding for low-income and particularly public housing, however, counteracts the accomplishments.

## Appropriations Drop Impedes Progress

Last year's report highlighted a substantial drop in public housing capital appropriations over the past 20-plus years, largely interrupted only by the \$4 billion injection of American Reinvestment and

Recovery Act stimulus funds in 2009. A total meltdown has been avoided and important progress made only as a result of funding for replacement with mixed-income communities through over \$6 billion from the HOPE VI program and over \$10 billion of associated Tax Credit and other leveraging; leveraging of other funds including substantial additional dollars through Tax Credits; large-scale voucher funding that agencies participating in the Moving to Work demonstration (MTW agencies) including Atlanta, Chicago, Philadelphia, Washington, D.C. and others used for public housing revitalization or replacement; and \$4 billion raised through the Capital Fund Financing Program (CFFP) to accelerate the impact of future Capital Fund appropriations.

While the 2013 appropriation of approximately \$1.875 billion is the lowest since 1989, the 2014 appropriation could be the same or worse: the Senate proposes an increase to \$2 billion, but the House proposes a cut to \$1.5 billion. The July 2013 implosion on

the House floor of a Transportation/HUD spending bill with draconian further spending cuts gives hope that further steep cuts will be avoided. Nevertheless, given that a 2010 report for HUD estimated a \$26 billion capital backlog for 1.1 million public housing units and annual new capital needs of \$3.4 billion, reliance on future public housing appropriations is clearly not a viable strategy.

## Impact of Appropriations Meltdown on Leveraging

The public housing leveraging tool tied most closely to these appropriations, the CFFP, generated little new funding apart from the NYCHA transaction. CFFP allows public housing authorities (PHAs) to borrow capital for public housing by pledging typically up to one third of their future annual Capital Fund formula grants. Cuts in appropriations thus mean less money available to leverage bor-





rowing and to address other annual capital needs with funds remaining after debt service payments. Further Capital Fund cuts after a CFFP borrowing all would come from those remaining funds, because the obligation to pay debt service must be met irrespective of such cuts.

In the 12 months ending June 2013, HUD approved under \$6 million in new CFFP borrowings. Some of the reduced demand is a result of PHAs already having used their borrowing capacity, but reduced appropriations also forced PHAs to think harder whether they should obligate themselves to long-term CFFP borrowing.

Lower interest rates relative to those of outstanding borrowings, increased funding pressure on shrinking annual Capital Fund allocations and in some cases expiration of prepayment "locks" or

penalties built into the original financings caused several PHAs to consider refinancing of current CFFP obligations. Refinancing could reduce annual PHA debt service payments by taking advantage of reduced interest rates, thus leaving more room to fund annual renovations or additional borrowing. The Chicago Housing Authority defeased its large bond issue in early 2013 (defeasance is necessary until current bonds can be retired); other PHAs or bond issuers who had indicated that they were exploring refinancing included Philadelphia, Puerto Rico, and Maryland, Illinois and Alabama on behalf of pools of PHA borrowers. The situation is evolving, however; the recent increase in interest rates has reduced projected savings from refinancing, and some PHAs may decide that projected savings do not justify going forward.

The NYCHA bond issue that HUD approved in August 2013 has generated approximately \$200 million for defeasance and approximately \$475 million for new work, in significant part for critical and legally required façade work. The transaction is a reminder of the efficiency of the CFFP mechanism for generating large capital amounts.

Tax Credits are unaffected directly by annual appropriations levels, although the program is slated for review as Congress takes up tax reform. Tax Credits continued to provide vital assistance to public housing stock preservation transactions. The impact continued to be greater in large metropolitan areas where investors need Community Reinvestment Act credits and thus paid higher prices for use of the Tax Credits.

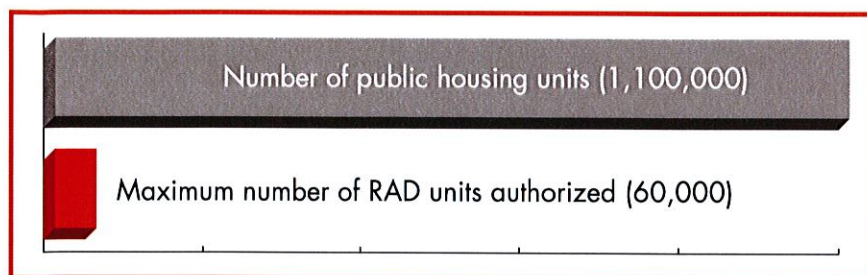
## The RAD Lifeboat

RAD allows PHAs to convert public housing subsidies to Section 8 project-based subsidies on an individual development basis, so that these developments can borrow funds for renovations, accumulate reserves and otherwise support themselves in the same manner as other subsidized rental housing. The hope also is that Section 8 will continue to be supported in the appropriations process, and thus that conversion will place the former public housing stock on a better long-term financial footing than remaining in the public housing program.

The Obama administration's proposed predecessor legislation to RAD included funding for higher per-unit Section 8 subsidies than current public housing subsidies, to increase the number of instances where conversion could generate Section 8 rents high enough to support borrowing for necessary capital improvements. Congress,



## Relative Size of RAD Demonstration



however, limited subsidies to the public housing subsidy levels. Thus, a unit's initial RAD rent is capped by the sum of public housing operating funds, public housing capital funds and tenant rents provided for the unit.

This limitation eliminated many PHA applications, but other PHAs proceeded. Some PHAs proposed conversions that require little capital work, to expose properties to Section 8 rather than public housing annual appropriations and to reduce regulation in some respects. Other PHAs found that Section 8 more easily can facilitate leveraging than public housing, among other reasons because the Section 8 units unlike public housing units can carry debt, and thus proposed RAD transactions that might not have been viable as public housing mixed-finance. Still others took advantage of the additional flexibility HUD is offering as part of RAD—for example, to use HOME funds provided to state or local governments or “Replacement Housing Factor” (RHF) public housing funds that otherwise are not permitted to be used for public housing renovations.

HUD undertook extensive RAD marketing and an effective effort to provide training and technical assistance of all kinds. The effort included publication of an “Inventory Assessment Tool” that allows PHAs to see the RAD rent for each individual development and plug in a few assumptions that

yield the amount of borrowing the rents would support. Despite this push, the initial RAD month-long competitive period in the fall of 2012 yielded only 11,910 HUD-approved units of the 60,000-unit ceiling Congress has authorized.

HUD, however, continued its efforts and liberalized RAD rules in July 2013. Most importantly, for applications submitted this year, HUD is applying the statutory limitation on subsidies to public housing levels by using 2012 rather than reduced 2013 public housing appropriations. Other important changes provide for advance RAD commitments on a portfolio rather than individual project basis, which will extend even further the rent caps based on 2012 public housing appropriations; variation in RAD rents for converting individual developments from cost-neutral rents relative to public housing, as long as the average for a group of developments converted by the PHA will be cost neutral; ability for MTW agencies to supplement RAD rents on an ongoing basis with available MTW funds; and use of RHF funds projected to be received in future years for replacement public housing instead to supplement the annual RAD rents.

Shortly after HUD announced the changes, Secretary Shaun Donovan estimated approximately 70,000 public housing units for which PHAs had expressed interest in conversions and urged PHAs not to delay submitting applications,

given that HUD is approving them on a first-come, first-served basis and could hit the statutory ceiling. HUD also asked Congress for a substantial increase in the ceiling. The liberalized rules have had an effect; as of late September 2013, HUD had received applications for over 32,000 units.

## RAD Pending Issues—Funding and Leveraging

The most fundamental issue ultimately will be the extent to which RAD can fulfill its goal of providing an effective means of preserving the public housing stock. HUD reported that just the initially approved RAD applications proposed to generate \$660 million in capital apart from PHA-supplied and secondary financing, including \$257 million in loans and \$409 million in Tax Credit equity.

Because the first RAD transactions are just reaching closing and actual leverage will differ from projections, RAD's initial leveraging record is not yet established. Apart from leveraging, the extent to which RAD preserves housing by achieving better sustained funding than public housing will have to be judged over the long term. Also, RAD may in some instances substitute for financing that could have occurred through HUD's Energy Performance Contract (EPC) initiative, because RAD like EPCs can capitalize the value of future energy savings generated by capital improvements; and CFFP, because RAD conversions reduce a PHA's public housing inventory and thus the projected future annual capital grants that could secure CFFP debt.

It has been clear all along that RAD with rents capped by public housing subsidies would not enable PHAs even with borrowing



and other leveraging to address the capital backlog needs of a substantial percentage of public housing units. HUD thus proposed that \$10 million be appropriated in 2014 to supplement RAD rents for developments in high-poverty neighborhoods where the government is supporting comprehensive revitalization. Because the funding would supplement current subsidies to make more transactions viable, even this relatively small amount would have a significant impact.

## RAD Administration

Both HUD and PHAs are grappling with the administrative issues arising from launching a program that addresses developments' financial needs individually and changes their subsidy platform. HUD is doing its best to resolve many regulatory issues, both foreseen and unforeseen, in a timely fashion. PHAs have to take the steps needed so that RAD developments will stand on their own financially; in many instances, cope with a new experience of obtaining Federal Housing Administration (FHA) insurance, including related requirements such as detailed physical conditions assessments; and address the expectations of a different division of HUD.

PHAs also have to make the choice, incorporated in the RAD statute in part to obtain consensus for passage, whether to convert public housing to Section 8 project-based vouchers (PBV) or project-based rental assistance (PBRA). PBV is administered by PHAs and funded as part of their overall voucher funding. Under PBRA, HUD or a contract administrator for HUD contracts with the owner and appropriations are through a separate project-based assistance account.

Each choice has advantages (see chart). PHAs generally have had more experience with PBV and the program structure allows the PHA to administer the subsidy and earn an administrative fee. Voucher

renewal appropriations, however, have been shakier historically than PBRA appropriations—for 2013, a funding pro-rata of 94 percent of voucher needs versus full funding for PBRA (achieved, though, by funding contracts only through the fiscal year and counting on new appropriations). The PBV statute also has more prescriptive rules as to provision of local vouchers to residents who want to move and provision of supportive services to non-elderly, non-disabled families than PBRA, which HUD largely has maintained for the RAD demonstration to address concentrations of low-income families. HUD reports that thus far, PHAs have been fairly evenly split in their chance of PBV or PBRA.

## Considerations in Choosing PBRA vs. PBV

Item	PBRA	PBV
<b>1. Rent Caps</b>	Current funding cannot exceed 120% of the fair market rent (FMR), unless the current funding is less than market, in which case the current funding cannot exceed 150% of FMR. Initial funding capped at public housing level.	Current funding cannot exceed the lower of (1) reasonable rent or (2) 110% of FMR. Initial funding capped at public housing level.
<b>2. Choice Mobility</b>	Resident may request next available voucher after two years; however, voucher agency may limit to not more than 15% of project in any year and not more than 33% of voucher turnover due to RAD.	Resident may request next available voucher after one year, with no limitations.
<b>3. Voucher Admin Fee</b>	N/A	PHA earns Section 8 voucher admin fee for all units converted to PBV.
<b>4. Appropriations</b>	Annual funding subject to appropriations; however, the Congress has never failed to renew a PBRA contract	An agency's voucher funding is subject to annual appropriations. Because of the required RAD Use Agreement, if Congress provides less than full funding for the Voucher program (i.e., proration), the PHA administering the voucher program may well likely need to absorb the cuts from its non-RAD voucher units.
<b>5. Income Mixing</b>	N/A	Under normal PBV rules, not more than 25% of units in a project can be assisted, unless the units are elderly or disabled, scattered site, or receiving supportive services. RAD increased the threshold to 50%, with the same exceptions.

SOURCE: ADAPTED FROM HUD MATERIALS



## Alternatives Where RAD Does Not Work Financially

A number of PHAs have preserved public housing stock during the past few years by obtaining HUD approval for disposition based on inability to sustain the developments with public housing funding, project-basing the replacement vouchers HUD awarded as a result of the disposition to the developments, and then financing the necessary rehabilitation. The funding difference between RAD rents and voucher program rents leaves a substantial number of public housing units where rehabilitation sufficient to provide long-term viability could be financed with rents at allowable voucher levels and using 4 percent Tax Credits, but not with RAD and 4 percent Tax Credits.

HUD largely stopped such disposition approvals last year, by issuing a notice that declared that insufficient public housing funding would not be accepted as a reason for disposition. The predictable result has been that PHAs no longer have an avenue to obtain fully-funded vouchers for preservation of housing that could attain long-term viability with reasonable investment.

HUD should modify this policy to be more consistent with the Administration's otherwise strong emphasis on preserving low-income housing, even though the impact of the change will be limited by the availability of appropriated vouchers that could be used in this manner. With such a change, for example, HUD sometimes could broker innovative solutions that combine RAD for some of a PHA's units with replacement vouchers for others. HUD approved such a "partial RAD" solution to a disposition proposed before the Notice became effective, under which the Housing Authority of the City of Santa Barbara (CA)

**RAD provides a promising new option, but the bigger picture remains that the public housing resource needs more money if the stock is to be preserved.**

will be able to preserve all of its public housing through RAD and a limited HUD commitment of replacement vouchers.

Thanks to progress under the HOPE VI program and other initiatives over many years, the legendary severely distressed public housing projects (e.g., Chicago gallery-style family high-rises) are largely gone and in many cases replaced with viable mixed-income housing. But there is a significant amount of public housing still needs to be replaced. The funding need is substantial; current sources consist basically of 9 percent Tax Credits or the Administration's Choice Neighborhoods Initiative. The latter builds upon and broadens HOPE VI by emphasis on aspects of revitalization other than housing, including education from early childhood forward, crime prevention and transportation. Congress, however, has limited funding thus far so that only a handful of annual grants can be supported.

## Needed Federal Action and Local Ingenuity

The actions needed at the federal level to support preservation or

replacement of public housing include obtaining the best possible Capital Fund and Operating Fund, which will continue to support most of the public housing stock, as well as Section 8, appropriations; supportive RAD changes including enactment of at least the Administration's proposed modest appropriation and increase in allowable RAD units, as well as HUD's continued prioritization of RAD's administrative development and a more supportive policy regarding supplemental use of tenant protection vouchers; enactment after many years of trying of program deregulation measures including ability of additional capable PHAs to access MTW; and assurance of continued availability of the Tax Credit program to harness additional resources.

Particularly given likely mixed success at best regarding appropriations, PHAs will have to continue to turn over every stone to salvage, preserve and even improve the public housing stock. They will have to evaluate options carefully; for example, whether RAD would work financially and whether Section 8 could be a better option financially and administratively in the long run than CFFP, even though CFFP may be easier for promptly raising large sums of capital.

RAD provides a promising new option, but the bigger picture remains that the public housing resource needs more money if the stock is to be preserved. We must continue our work as citizens to achieve support for a government that will give the preservation of low-income housing a higher priority. ■

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