ASSET REPOSITIONING FOR MEDIUM AND LARGE PHAs
(>250 UNITS)
An Illustration of Major Program Tools

Training Video
Narration

Gregory A. Byrne *(Instructor/Narrator)*
Director, Affordable Housing Transaction Division
Office of Recapitalization

Aisha R. Turner *(Training Video Illustrator)*
Transaction Manager
Office of Recapitalization

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PART I: INTRODUCTION

Welcome to *Asset Repositioning for Medium and Large PHAs – An Illustration of Major Program Tools*.

My name is Greg Byrne. I will be your instructor or narrator today. I am the Director of the Transaction Division for the Office of Recapitalization, which oversees the Rental Assistance Demonstration (RAD) program.

This presentation is part of a series of videos, webinars, and other program guidance offered by HUD to assist public housing agencies – PHAs – with repositioning their public housing.

This training lasts about 75 minutes. We'll be covering a lot of topics. Hence, please feel free to pause this video at any time, to replay any topic, and just generally to go at your own pace.

Today's training is targeted to PHAs with more than 250 public housing units. A similar video has been prepared specifically for small PHAs, who have very different organizational characteristics and who have different program requirements and flexibilities. We have also prepared a written text of this presentation, which, along with the small PHA video, you can find at: www.radresource.net .

The goal of this training is not to cover the very detailed instructions on the various programmatic requirements associated with each conversion option. We will not, for example, review the precise submission requirements for a Section 18 disposition application. Rather, the goal is to sketch out the available HUD options for medium and large PHAs to reposition their public housing – as well as how those tools can be used in combination. The idea is to provide a general overview of the different options. At the end of the presentation we will share links of where more detailed guidance can be found.

The training is divided into three parts: this introduction, a review of conversion options, and then a case study. Viewers who are familiar with the conversion options can choose to skip or skim the conversion options section and go directly to the case study (the accompanying narrative document will have video time marks).

Audience

This training is intended for any PHA staff who might be involved in repositioning planning. However, we also encourage PHA leadership to share this video, as appropriate, with:

- Board members, and
- Other local stakeholders

Case Study Approach

For this training, we will look at the fictitious Middleton Housing Authority, or MHA. MHA has a total of 750 public housing units but also administers a 1,000-unit voucher program. We'll talk more about MHA shortly. We wanted to create a PHA with a sufficient number of properties to demonstrate the range of tools and situations that medium and large PHAs may face with repositioning, but not something too large as to make the training unwieldly. The issues facing very large PHAs would essentially be the same; the only difference would really just be a matter of scale and sheer number of properties.

Repositioning (minute 3:15)

When we use the term public housing repositioning, we mean removing a project from the public housing program and placing it under the Section 8 housing assistance program. We also refer to it as a "conversion", as in converting from the public housing program to the Section 8 program.

Now, repositioning or conversion can often involve or be coupled with a "recapitalization" of a property. For example, a PHA may choose to convert a project to the Section 8 program and, simultaneously, take out a new first mortgage to pay for needed repairs. But, in other situations, a PHA may decide on a two-step process, where the project first converts to Section 8 but undertakes a larger recapitalization event at a later time. Therefore, while one of the main goals of repositioning is to make it easier for a project to raise proceeds to meet physical needs, such a refinancing does not necessarily have to occur at the same time as the project converts, with the caveat that, under RAD, a PHA must at least meet the capital needs identified in a third-party physical needs assessment.

Before we examine more why a PHA would want to convert to Section 8, let's take a moment to review what, programmatically, distinguishes public housing from Section 8.

What is Public Housing? (minute 4:40)

The public housing program was created with the Housing Act of 1937 to meet the housing needs of low-income households. Today, there are about 1.0 million public housing units across the country, administered by some 3,000 local PHAs.

PHAs enter into an Annual Contributions Contract, or ACC, with HUD but the ACC has no funding guarantee or agreed-upon funding levels. Initially, the Federal government paid the debt service on the bonds that financed the construction of public housing – and PHAs used tenant rents to cover operating expenses. Over time, as operating costs increased, as buildings aged, and as tenant incomes (and therefore rents) decreased, the Congress introduced various attempts to help subsidize the operating costs and capital repairs to public housing. Today, there are two main public housing funding programs – the Operating Fund Program and the Capital Fund

Program. Amounts under each are awarded based on formulas, and are subject to annual Congressional appropriations, meaning they can go up or down in any year.

In 2019, the Congress appropriated $4.7 billion for the Operating Fund Program and $2.8 billion for the Capital Fund Program. In addition, PHAs collected about $3.4 billion in tenant rents, for total public housing funding of about $10.9 billion in 2019.

PHAs also execute a use restriction, usually called a Declaration of Trust, or DOT, which ensures that the project is used for low-income housing. This DOT also restricts a PHA from placing any encumbrance or debt on public housing property without HUD approval. Although the DOT doesn't necessarily prevent a PHA from leveraging a public housing property, e.g., securing a mortgage, as long as it obtains HUD approval, it is more the case that the public housing program was never conceived to rely on private debt and equity; consequently, as will be described shortly, public housing's various program structures aren't conducive to private financing.

What is Section 8? (minute 6:57)

Now let's look at the Section 8 program. In 1974, after more than a decade of experimenting with different means of encouraging private ownership and development of low-income housing, i.e., alternatives to public ownership, the Congress created the Section 8 program (adding a new Section 8 to the Housing Act of 1937). It was the first true "deep subsidy" program, wherein HUD would make up the difference between an approved contract rent to the owner and the rent that low-income households would pay.

There were actually two Section 8 programs that Congress created.

- The first was Section 8 vouchers (called "certificates" back then), where tenants would find housing on the private market. Today, there are about 2.2 million vouchers in circulation nationally.
- The second was Section 8 project-based rental assistance, or what we refer to as PBRA, where the Section 8 subsidies were attached to specific buildings or developments. Today, there are about 1.2 million PBRA units, although that number has decreased substantially as long-term Section 8 contracts expired and some owners chose to op-out and not renew.

Initially, PBRA was the only "project-based" Section 8 program. But then in 1998, Congress authorized the Project-Based Voucher (PBV) program, allowing PHAs to use up to 20% of their voucher authority for "project-based vouchers", or PBVs. Today, there are around 200,000 PBV units nationwide, or about 10% of the voucher inventory. This new PBV program, however, also came with some restrictions not present in the PBRA program – most notably that (1) not more than 25% of the units in a project could be project-based, with exceptions for elderly, scattered sites, or units receiving supportive services and (2) all tenants, after one year, were given the option to move with the first available voucher, called Choice-Mobility. (Later, in 2016, Congress eased some of these restrictions, including eliminating the income-mixing requirement for PBV projects considered "previously assisted", which would include public housing conversions).

One of the key program differences, then, between Section 8 and public housing, is the availability of long-term Housing Assistance Payments contracts, or HAP contracts, with built in rent adjustments. These contract provisions have been essential to lenders in the underwriting of a project. Nothing remotely like it exists in public housing. In public housing, there really is no such thing as a contract rent; there is no long-term subsidy contract; and there is no automatic rent adjustment factor, all of which make mortgage lending difficult.

Why Convert? (minute 9:55)

Although conversion to Section 8 is entirely voluntary, the Department believes that the Section 8 program can be a better vehicle for the long-term preservation of property that was developed under the public housing program. The reasons for this are mostly three-fold:

- First, Section 8 is a more reliable and stable funding platform – and, in some conversions, as will be demonstrated later in the presentation, the rents may actually be higher than in public housing.
- Second, Section 8 provides PHAs with a better ability to attract or leverage private debt, e.g., a first mortgage, as well as equity, as in low-income housing tax credits, to take care of "backlog" capital needs and also to ensure adequate reserves for future replacements of systems and equipment, and
- Third, the Section 8 program, from a regulatory perspective, is generally considered simpler to run and administer, which should lead to cost savings.

Again, conversion is entirely voluntary and a PHA can decide to convert one or all of its public housing assets. However, we generally advise PHAs to think of converting, if possible, all of their units so that they can consolidate operations. It is much easier to administer an agency operating only one housing subsidy program than two (or more). Hence, when we get to the case study, we will assume that the PHA is trying to find a way, or a path, to convert all of its units to Section 8 and not just one of its properties. Obviously, full conversion will be an easier exercise to accomplish the smaller the PHA's public housing inventory or the fewer the number of properties.

PART II: Conversion Options (minute 11:50)

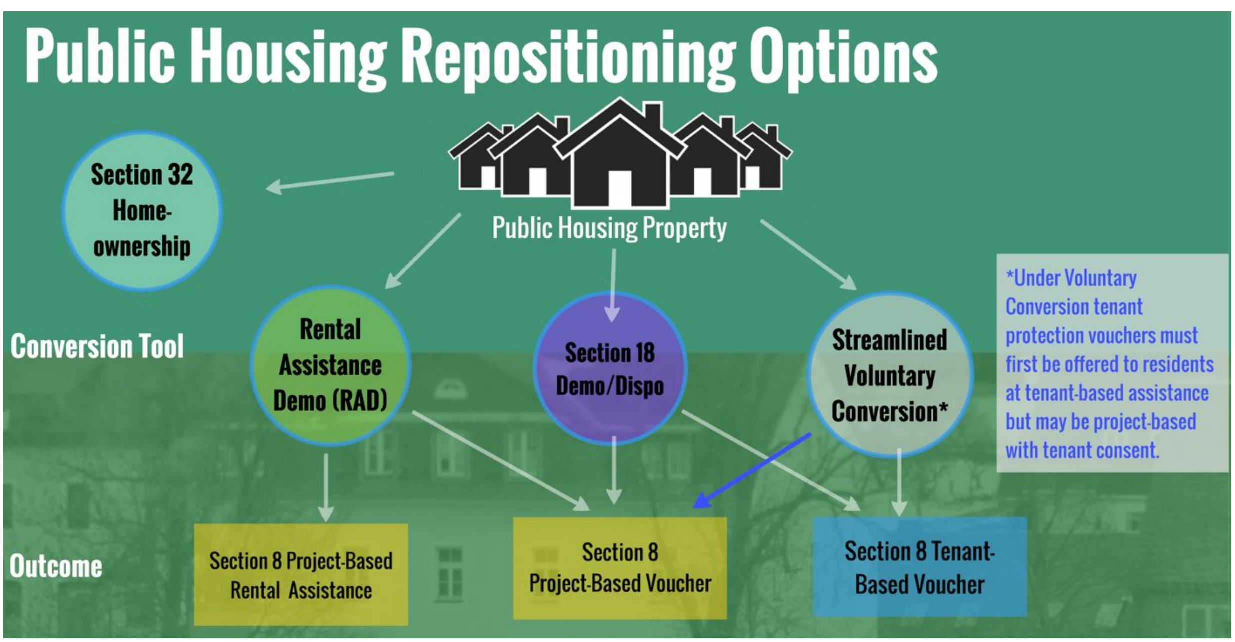
In this section, we are going to review the four main options for getting public housing onto the Section 8 platform. They are:

- The Rental Assistance Demonstration Program, or RAD,
- Section 18 Demolition or Disposition,
- Streamlined Voluntary Conversion, or SVC, and
- Section 32 Homeownership.

We're going to spend a few minutes running through each of these programs. But as a brief summary, as shown in the diagram, a PHA can:

- Convert under RAD to either Section 8 PBRA or PBV.
- Convert under Section 18, receive Section 8 Tenant Protection Vouchers (TPVs), and then either project-base those TPVs or issue the TPVs to the residents to rent housing in the private market (a PHA cannot convert to PBRA via Section 18).
- Convert under Streamlined Voluntary Conversion, receive TPVs, and then either project-base the TPVs, but with tenant consent, or issue the TPVs to the residents to rent housing in the private market (there is also no PBRA option under Streamlined Voluntary Conversion). However, a medium or large PHA must wait until it gets down to its last 250 units to be eligible for Streamlined Voluntary Conversion.
- Convert units to low-income homeownership under Section 32, wherein HUD will provide TPVs as replacement housing for that community as units are sold off.

Now for more of the specifics on each program.

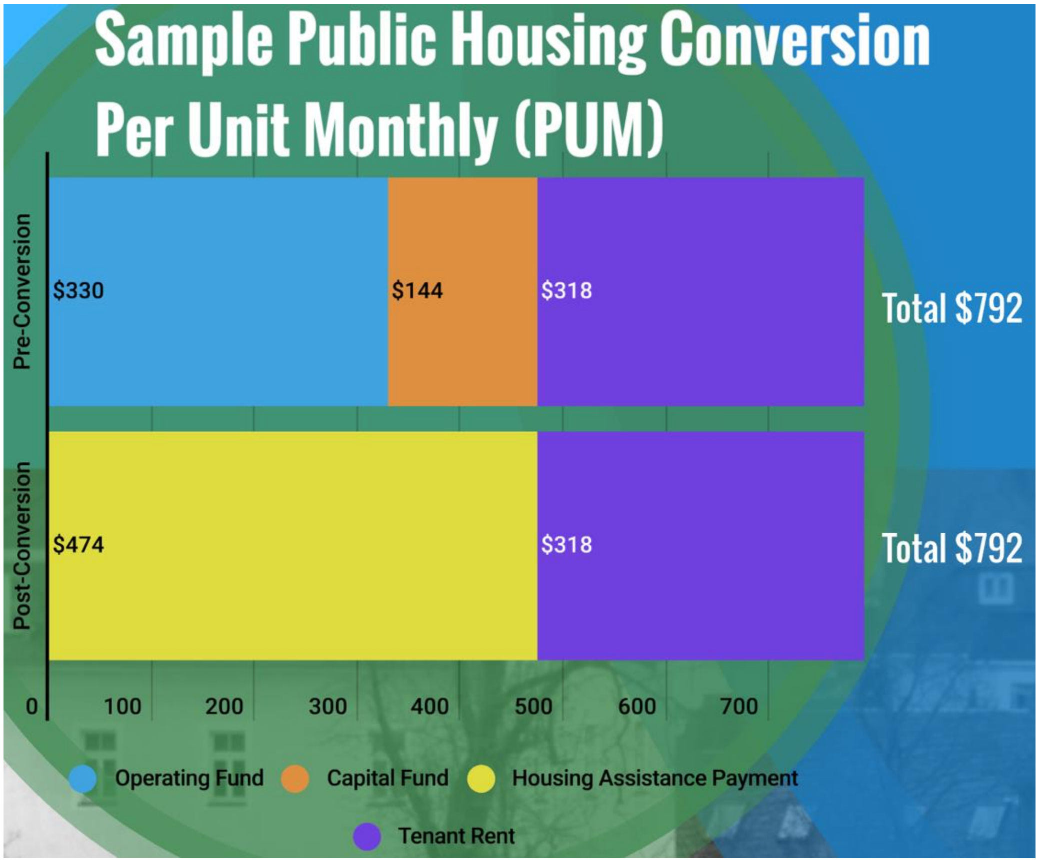


RAD (minute 13:40)

In 2011, Congress authorized the RAD program, which allows PHAs to convert their public housing to Section 8 assistance. With subsequent Congressional authorizations, HUD now has the authority to convert 455,000 public housing units to Section 8 under RAD. To-date, some 130,000 units have already converted, proving that converting to Section 8 is an effective means of attracting private capital to preserve public housing.

RAD is known as a "no-cost" or "no new funding" program. The Congress did not appropriate any additional funds for RAD. Instead, a PHA combines its current Operating Fund with its Capital Fund amounts (by project) and adds this combined subsidy (Housing Assistance Payment) to the tenant rents to create the Section 8 Contract Rent.

Let's look at an example of how this works. The top bar on the chart on the screen shows the current public housing funding for a hypothetical public housing project. Here, the Tenant Rents (purple) are $318, Operating Subsidies (light blue) are $330, and Capital Funds (orange) are $144 – all expressed in 'per unit monthly' amounts, or PUMs. Combined, these add up to $792. Under RAD, the project will leave or be removed from the public housing program and will have a Section 8 contract rent of the same amount, $792. The Operating Fund and Capital Fund get replaced with Section 8 Housing Assistance Payments (shown in yellow). The project will also enter into a long-term HAP contract, which provides annual rent adjustments, and it will execute a RAD Use Agreement, which ensures that the property is maintained as low-income housing. As with other Section 8 contracts, if tenant rents go down in any year, the HAP subsidy goes up. If tenant rents rise, the HAP subsidy goes down.



What, then, is the significance of converting public housing rents and subsidies into a Section 8 Contract Rent? Why does it really matter? The primary advantage is that these Section 8 contract rents, and long-term contracts, facilitate lending. The public housing program doesn't have the equivalent of a "contract rent." Yes, a PHA collects tenants rents, which represent about one-third nationally of a PHA's budget. But then a PHA also receives, under separate program rules and calculations, operating subsidies and capital subsidies. Therefore, there is not a specific "contract rent" in public housing, which means that a PHA can't easily sit down with a lender and assess a project's "rental income." A public housing project's income is more nebulous and not as reliable as a Section 8 contract rent. Moreover, the public housing funding levels fluctuate from year to year whereas, in Section 8, there is a long-term assistance contract with built-in adjustments for inflation. That's huge. It's hard for a lender to get sufficiently comfortable with the public housing funding "system", no less understand it, to commit to long-term mortgage capital. On the other hand, lenders understand how to finance (and refinance) Section 8 housing.

Under RAD, a PHA has the option of converting to two forms of long-term project-based Section 8 assistance:

- **Project-Based Rental Assistance, or PBRA**. This program is administered by HUD's office of Multifamily Housing. As mentioned earlier, it was the first Section 8 project-based program created by the Congress. It is also by far the largest.
- **Project-Based Vouchers, or PBVs**. This is the newer, alternative form of project-based Section 8, authorized by Congress in 1998. It's a component of the voucher program. Here, a local voucher agency is the contract administrator and the Office of Public and Indian Housing oversees the voucher agency (but is not a direct administrator of the PBV contract). Additionally, if a PHA does not operate a voucher program, it will need to partner with a current voucher agency to administer the PBVs.

Although we generally talk about RAD rents equal to current funding, there are some RAD rent caps:

- If a PHA is converting to PBRA and the RAD rents exceed 120% of the FMR (very rare), the PHA must provide a Rent Comparability Study to support those rents, up to 150% of FMR.
- If the PHA is converting to PBV, the RAD rents can never exceed the lower of the reasonable rent or 110% of the FMR, which are the basic rent rules under the PBV program.

Other key features of RAD include:

- RAD is a preservation program. Hence, it has a requirement for one-for-one replacement, with exceptions for certain de minimis reductions.
- Under RAD, the converted project must be owned or controlled by a public or non-profit entity, which could take the form of direct PHA ownership or, often in the case of tax credits, a long-term ground lease with the tax credit partnership.
- Residents also have an absolute right to return, including any households that, today, might be over-income,
- RAD requires long-term HAP contracts and use agreements, which HUD must offer to renew and which the PHA must accept, essentially creating low-income housing in perpetuity.
- RAD also allows a PHA to "transfer the assistance", what is called a TOA, to another site or property if such transfer is in the best interests of the PHA and residents. And,
- RAD allows a PHA to "bundle" rents across properties to facilitate conversion. For example, a PHA could reduce rents at a project with lower needs and increase rents at a project with higher needs, as long as, overall, these actions were revenue-neutral.

In terms of transaction processing, under RAD a PHA applies (through a very simple on-line application) and then gets awarded a CHAP, or Commitment to Enter into a Housing Assistance Payments (CHAP) contract. A PHA then has nine months, with opportunities for extensions, to submit a Financing Plan. As part of that Financing Plan, the PHA must obtain a third-party Capital Needs Assessment, or CNA, that looks at both existing needs and needs over the next 20 years (with streamlined CNA requirements for certain classes of properties, e.g., projects recently constructed or financed with low-income housing tax credits). Before a PHA can actually submit a Financing Plan, it must first request a Concept Call, wherein it explains how it plans to address the capital needs over the 20 years, whether through annual replacement reserve deposits or through up-front sources, e.g., mortgage proceeds, public housing funds, tax credit equity, etc. It is then invited to submit the Financing Plan, which, once approved, results in the issuance of a RAD Conversion Commitment, or RCC, allowing the PHA to convert or close and, if needed, to begin rehabilitation. Upon closing, the property is removed from public housing (thereby releasing it from the current Declaration of Trust), a RAD use agreement is executed and recorded, and the PHA enters into a long-term HAP contract. At this point, the project has "converted."

Now, just a note to say that some PHAs may demonstrate that they can meet the 20-year capital needs through, say, setting aside a large annual deposit to reserves, or what we refer to as a "no debt" deal. Indeed, some PHAs will convert but still plan to undertake a larger recapitalization in a few years. Under RAD, that's fine. A PHA just needs to show us that it can meet all items identified in the capital needs assessment – if they want to do more work down the road, that's up to them.

<u>Section 18</u> (minute 22:28)

The next conversion option is the Section 18 program, referring to Section 18 of the Housing Act of 1937, which governs the demolition and disposition of public housing. It was created in 1998. Prior to that time, a PHA had to replace every public housing unit demolished or disposed with a "hard" unit. This one-for-one replacement proved challenging and, therefore, resulted in lots of severely distressed properties stuck in a state of limbo, with no funds to adequately restore the project but not allowed to remove it. Section 18 eliminates the one-for-one requirement, provided that the project meets certain criteria. Before we get to that criteria, let's talk about what happens when you get approved for Section 18:

- First, unless a PHA simply wants to demolish the structures and retain title, it must actually dispose of the asset. It can either sell the property at Fair Market Value, in which case the proceeds must be used for public housing or Section 8 purposes. Or, it can dispose of the units for less than fair market value for "commensurate public benefit", which generally means the provision of housing for low-income households. Very often, PHAs will dispose of Section 18 properties to a non-profit arm of the PHA and then redevelop the property as affordable housing.
- Second, with its Section 18 approval, a PHA gets Section 8 Tenant Protection Vouchers, or TPVs, for every unit that has been occupied within 24 months of the Section 18 approval. Subject to appropriations, HUD essentially makes the community "whole" in terms of the number of assisted housing units (replacing these lost public housing units with vouchers).

Now, in some cases the property is in such poor condition that a PHA is happy just to rid itself of the property, via demolition or disposition. But other times, particularly when the property is removed for non-obsolescence reasons, which we'll explain shortly, PHAs are able to project-base the TPVs to salvage or preserve the buildings. And, the PBV rents may be higher than what the PHA was getting under the public housing program (because the rents will be based on what HUD would pay under the voucher program and not the public housing program).

Section 18 Criteria

There are six basic criteria under Section 18 (PIH Notice 2018-04):

1. **Obsolescence**. To meet the obsolescence test, a property must have existing capital needs (including those projected over the next three years) equal to 57.14% of HUD's Total Development Costs, or TDCs, for non-elevator structures and 62.5% for elevator structures. In other words, the PHA must be able to demonstrate that the property is in pretty poor physical condition.

2. **Health and safety**. A project can also qualify for Section 18 if it presents clear health and safety risks to tenants that cannot reasonably be abated, such as a property located adjacent to a large electrical transformer station that emits loud noise disturbances.

3. **Scattered Sites**. A PHA can remove any scattered site units that are operationally unsustainable. Indeed, for most PHAs, scattered sites have proven hard to maintain effectively, especially at public housing funding levels. For the purposes of Section 18, a scattered site is defined as any non-contiguous property with four or fewer units. For example, the picture shown on the left meets this definition of a scattered site but the picture on the right does not.

4. **50 or Fewer Public Housing Units**. When a PHA has only 50 or fewer units, or when a larger PHA gets down to its last 50 public housing units, it is automatically eligible to remove those last 50 units via Section 18, including combined RAD and Section 18 transactions that involve the last public housing units. For example, if a PHA has 70 remaining public housing units, it could, as long as it was part of one transaction, convert 20 units through RAD and remove the remaining 50 units via Section 18.

5. **RAD/Section 18 Blend**. HUD also allows PHAs to substitute 25% of the units in a RAD transaction for Section 18, with accompanying TPVs, provided the transaction is undertaking substantial rehab and provided the project is not being financed with 9% tax credits. The rehab hard costs must equal or exceed 60% of HUD's Housing Construction Cost (HCC) number for the type of units involved (or what generally works out to about 36% of TDC).

6. **Efficient/Effective**. The final criterion for Section 18 disposition is when a PHA can demonstrate that removal of the units can result in the creation of more efficient and effective housing, without any test of obsolescence. However, HUD will only provide TPVs for 25% of the units. The actual number of units that the PHA will create, i.e., the more "efficient and effective units", is negotiated between the PHA and HUD on a case-by-case basis. For example, assume that a PHA has a generally undesirable 100-unit project but it doesn't meet the obsolescence test. The PHA would like to tear it down and build 50 units. Because it does

not meet obsolescence, HUD will only provide 25 vouchers (25%). The PHA will contribute 25 vouchers from its own voucher program, which it will project-base. Not many PHAs, understandably, have pursued this criterion. It is usually saved for an asset that a PHA finds very undesirable, that does not meet the obsolescence test, but where the PHA would be willing to remove it even when HUD will only provide TPVs for 25% of the units.

Streamlined Voluntary Conversion (SVC) (minute 29:18)

The third major repositioning option is Streamlined Voluntary Conversion, or SVC. In 1998, Congress added Section 22 to the Housing Act of 1937, allowing any PHA to replace public housing with vouchers whenever it could demonstrate that it was cheaper to give each family a voucher, i.e., Voluntary Conversion. However, the associated methodology and cost test has proven extremely challenging for small PHAs to master. Hence, in early 2019, PIH issued a Notice (PIH Notice 2019-05) providing for a streamlined approval for Voluntary Conversion, applicable to PHAs with 250 or fewer units, which waived the cost test.

As with Section 18, under SVC a PHA receives a TPV for each unit occupied during the past 24 months since HUD's Section 22 approval. If the subject property, following conversion, will continue as rental housing, the PHA must offer the TPVs to the residents to rent in-place. But a PHA can also project-base the TPVs provided it obtains tenant consent. Otherwise, the PHA must provide the TPVs to the residents.

For medium and large PHAs, Streamlined Voluntary Conversion becomes an option once the PHA gets down to 250 or fewer units.

Section 32 Homeownership (minute 30:48)

The final main repositioning option for PHAs is Section 32 Homeownership, which refers to Section 32 of the Housing Act of 1937. It allows a PHA to sell public housing units to low-income households, based on a PHA-adopted Homeownership Plan.

Section 32 is actually a quite flexible program. Other than the basic program requirement that the purchasers must be low-income, the PHA largely determines program eligibility and other participation requirements. Any sales proceeds generated must be used for public housing or Section 8 purposes. And, any units sold that were occupied in the past 24 months receive a Section 8 TPV.

Of course, not all – in fact few – public housing properties make good homeownership projects. A PHA, for example, is not likely to convert a mid-rise family project to homeownership. But scattered sites, on the other hand, might be something worth considering, if a PHA has interest in a homeownership program. But it's also the case that a PHA could also do homeownership under Section 18. For instance, if a PHA were interested in converting scattered sites to homeownership, the PHA could also qualify for Section 18 and then create its own homeownership program, outside of Section 32.

Although Section 32 is a path to Section 8 TPVs, it is not a path to project-based Section 8 because, obviously, the units have been sold off.

Repositioning Program Summary

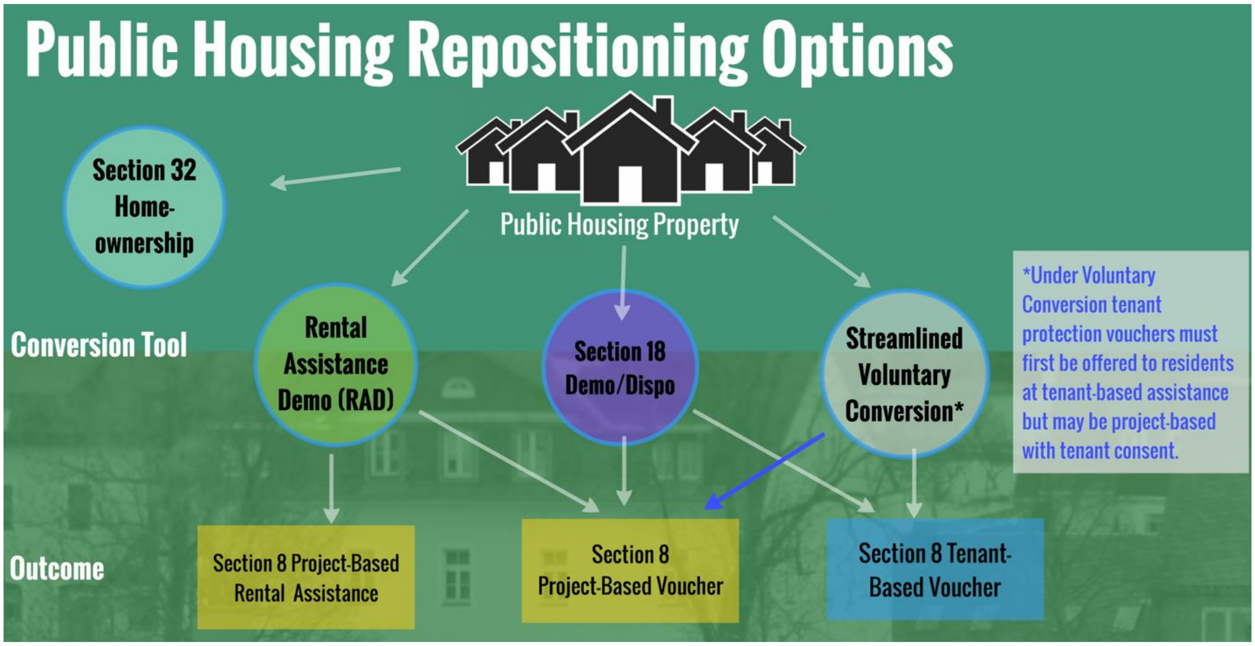
Let’s go over the master repositioning chart one more time to summarize where we are in terms of conversion options.

- Under RAD, a PHA can convert to Section 8 PBRA or PBV; however, it will be capped at current funding (which is converted to a RAD contract rent). But there is no required disposition of the asset and no requirement for tenant consent. Of course, resident consultation is required for all repositioning options.

- Under Section 18, if a project qualifies, the PHA will be eligible for TPVs for all units occupied in the past 24 months, which, if feasible, the PHA can elect to project-base, *without tenant consent*. But the PHA must also dispose of the property, which it could do by disposing to a non-profit subsidiary (sometimes an “instrumentality” or “affiliate”) of the PHA.

- Under Streamlined Voluntary Conversion, once down to its last 250 units, a PHA can remove the units from public housing and will receive a TPV for any unit occupied in the past 24 months. No disposition is required; *however, if the PHA wants to project-base the TPVs on the converting units, tenant consent is required*.

- Under Section 32, a PHA can sell units under a homeownership program for low-income households, in which HUD will make available Section 8 TPVs as replacement housing.



Miscellaneous Provisions (minute 34:05)

Now, before we move to our case study, we need to review five more program rules or requirements that can greatly affect repositioning planning.

<u>PBV Rent Rules</u> (minute 34:17)

Under the PBV program, rents are set according to the lowest of:

- The rent requested by the owner,
- 110% of the FMR (adjusted by any utility allowances for the project), and
- The reasonable rent for the unit.

The above rules have two major implications in repositioning planning.

First, in the case of conversions under Section 18 or Streamlined Voluntary Conversion, the PBV rents (via project-basing the TPVs) can potentially be higher than the RAD rents. That's because the RAD rents are based on current public housing funding levels whereas the non-RAD PBV rents are based on FMRs and rent reasonableness. In areas with FMRs that are higher than public housing funding, the PHA may be better off financially by converting to Section 18 or Streamlined Voluntary Conversion than if it converted under RAD, if it's eligible.

Second, the opposite can occur, i.e., where the public housing funding is actually higher than market rents. In these cases, the RAD rents will be capped by market (under the PBV program, an owner never gets more than the market or reasonable rent). When this happens, the PHA may want to consider converting to RAD PBRA, where a PHA is allowed to keep the current funding as long as it does not exceed 120% of the FMR (which rarely occurs).

Phase-out Funding (minute 35:57)

Under the public housing program, a PHA is eligible for certain phase-out (or phase-down funding) of the Operating Fund or Capital Fund, depending on the method of removal.

- **DDTF Funding**. DDTF stands for Demolition/Disposition Transition Funding. Under DDTF, a PHA is eligible for five additional years of Capital Funding whenever a unit is removed through Section 18, but not through RAD or SVC.
- **ARF funding**. ARF stands for Asset Repositioning Fee. Under ARF, a PHA is eligible for three years of reduced operating funds whenever a unit is removed through a Section 18 demolition action (and two years for a disposition action). No ARF funds are available under RAD or SVC.

Faircloth Authority (minute 36:55)

In 1999, Congress added a provision that prohibits a PHA from building public housing units in excess of then-current levels, named after the legislation's sponsor, Senator Lauch Faircloth of North Carolina. When a PHA removes units from public housing through either SVC or Section 18, it retains that "Faircloth" authority, meaning that it has the authority to return those units to the public housing program if it finds a way to get the units built, although, technically, a PHA that repositions through Streamlined Voluntary Conversion can only transfer that Faircloth Authority to another PHA before close-out. A PHA does not keep its Faircloth authority if it converts to RAD (based on the reasoning that these units have already been replaced under RAD).

Public Housing Operating Reserves (minute 37:50)

At conversion, RAD is the only program that allows a PHA to convey its operating reserves to the converted project at conversion, using them either as a development budget Source, or to establish a reserve for the converted project, or both. (The RAD legislation included specific language authorizing the use of public housing funds to facilitate conversion.) But for Section 18 or SVC, a PHA cannot use its reserves for use in a converting project. Under Section 18 or Streamlined Voluntary Conversion actions, those operating reserves must, prior to close-out of the public housing program, either be spent down or transferred to another PHA – otherwise, they must be returned to Treasury.

Over-Income Households (minute 38:41)

From time to time, PHAs may have families that moved into public housing who obviously were income-eligible but now have seen their incomes increase such that they would not be eligible if they applied anew. In the RAD statute, the Congress specifically "grandfathered" existing public housing tenants. All existing tenants have a guaranteed right to return, even if, at conversion, they might otherwise be over-income for the Section 8 program. That special legislative provision doesn't exist when a PHA converts via Section 18 or Streamlined Voluntary Conversion. A PHA could have some households who are over-income and would not be eligible to be receive Section 8 assistance. In these circumstances, a PHA either may want to convert to RAD (to ensure a tenant's right to remain at the project with Section 8 assistance) or the PHA will need to find other ways of accommodating the household with comparable assisted housing (generally for a period of three years), e.g., allowing the family to remain in their unit at current rent levels.

Key Program Characteristics					
Program	**Use of Public Housing Reserves**	**DDTF**	**ARF**	**Faircloth**	**Over-Income Exemption**
RAD	Yes	No	No	No	Yes
Section 18	No	Yes	Yes	Yes	No
SVC	No	No	No	Yes	No
Section 32	No	No	Yes	Yes	N/A

PART III: Case Study (minute 39:55)

Now let's see how this all plays out via a case study. As indicated earlier, our case study PHA is called the Middleton Housing Authority, or MHA. MHA has seven properties. At this stage in the PHA's planning efforts, it has not yet undertaken a comprehensive physical needs assessment of each property. So, the physical description that follows is based on the MHA's own knowledge of its properties, which is typical of where most PHAs will be starting off as they begin repositioning planning.

- **Abbot Heights** is a 3-story senior property of 80 units with an elevator that was built in 1972, has never been renovated, and, as a result, needs moderate to major rehab. It also has ten households who today are paying a public housing flat rent and would be "over-income" for the Section 8 program (RAD's grandfather provision would allow these units to remain under HAP contract).
- **Heritage Towers** is the agency's other senior property. It consists of two 100-unit towers (200 units in total) in downtown Middleton. The complex was built in 1962 and has not been rehabbed. It has electric baseboard heat (costly, high maintenance), its plumbing systems need complete replacement, and 80 of the units are efficiency apartments, which have proven very difficult to lease. It does not comply with current handicap accessibility standards, which they would be required to meet if the project is renovated. Also, it does not meet current codes for sprinklers/fire suppression, which would be triggered for any major modernization.
- **Northside Duplexes** includes of total of 30 units in 15 duplex buildings that were constructed in in the late 1980s. These 15 buildings are on separate, non-contiguous sites. They are in "fair" condition but are a challenge to operate.
- **Renaissance Homes** is a 60-unit property that was built under the public housing mixed-finance program in 2002 and is in good condition but needs some updating or refreshing. When MHA built these mixed-finance units, it also created a non-profit subsidiary, Middleton Affordable Housing, or MAH, which is the controlling general partner of the owner entity.
- **Village Square** consists of 40 "quadruplex" units (10 buildings) on one site arranged around a cul-de-sac. MHA fully renovated these units in 2012 with ARRA stimulus funds and is in very good condition.
- **Westlawn Gardens** is a 20-unit low-rise general occupancy property that was built in 1964 and is in very poor physical condition. The property was built on the side of a hill and there are a host of structural problems that cannot be readily corrected. The property also has an existing Energy Performance Contract (EPC) from 2015 which has another 10 years and $150,000 in outstanding principal.
- **Washington Courts** is a 220-unit general occupancy property built in 1965 and covering 25 acres in the near downtown area of Middleton. The property is in fair condition, but the site is considered to have redevelopment potential, with major interest from the City.

For ease of illustration, we are also going to assume that the Section 18 or Streamlined Voluntary Conversion rents, i.e., the rents that each project would command if they "project-based" the TPVs, would be on the order of $150 PUM higher than the RAD rents. This means that, all else being equal, MHA would prefer conversion under Section 18 over RAD, if it can find a way to qualify for Section 18. (Section 18 and Streamlined Voluntary Conversion would result in the same rent levels but, as we will learn shortly, Section 18 is the PHA's preferred choice because in this program the TPVs can be project-based without obtaining tenant consent.)

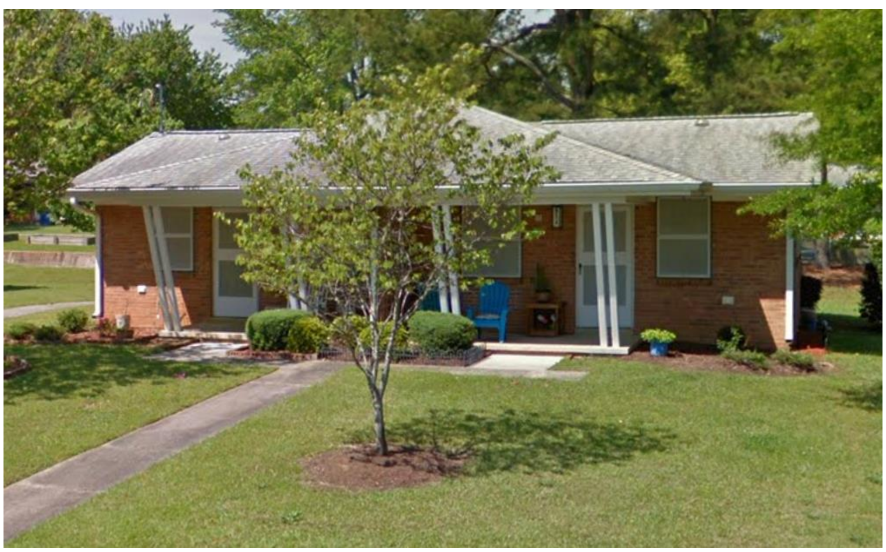
So, in total, MHA has 7 properties and 750 public housing units.

Property	Population	Existing PH Type	Units	Condition	RAD Rents (PBV/PBRA)	Non-RAD Rents (S18/22)
Abbott Heights	Senior	Traditional PH	80	Needs substantial rehab	$600	$750
Heritage Towers	Senior	Traditional PH	200	Needs substantial rehab	$525	$675
Northside Duplexes	General occupancy	Traditional PH	30	Fair-to-good	$750	$900
Renaissance Homes	General occupancy	Mixed-finance	60	Good	$700	$850
Village Square	General occupancy	Traditional PH	40	Very good	$850	$1,000
Washington Courts	General occupancy	Traditional PH	220	Fair	$900	$1,050
Westlawn Gardens	General occupancy	Traditional PH	20	Distressed	$850	$1,000

1. **Abbott Heights. Mid-rise Senior, 80 units. Needs Substantial Rehab.**

2. **Heritage Towers, Hi-Rise Senior, 200 units, Poor Condition.**

3. **Northside Duplexes, Scattered, General occupancy. 30 Units. Fair to Good.**



4. **Renaissance Homes. Mixed-Finance, General occupancy. 60 units. Good condition.**

5. **Village Square, Low-rise, General occupancy. 40 units. Very good condition.**

6. **Washington Courts. Garden Apartments, general occupancy, 220 units. Fair condition.**

7. **Westlawn Gardens, Garden Apartments, General Occupancy. 20 Units. Distressed.**

For ease of instruction, we're going to take some liberties in introducing the following assumptions or additional summary information.

- The agency also owns a parcel of land, of approximately 5 acres, that remains from a 50-unit project that they demolished in 2019 called Kerry Village. The land is assessed at $30,000/acre. It is located in a non-minority impacted area where the City is also building a new "magnet" school.
- As a result of this demolition of Kerry Village, the PHA has 50 unused "Faircloth" units and has five years of future DDTF Funding, estimated at $120,000/year or $600,000 total.
- Also because of the demolition of Kerry Village, the PHA is receiving the first of three years of ARF funding, which, in total, is estimated at $325,000.
- The agency has $3,000,000 in public housing operating reserves, which amounts to $4,000/unit, somewhat typical for an agency of its size.
- Finally, as a reminder, MHA also administers a 1000-unit voucher program.

Miscellaneous MHA Information

- Vacant Land at Kelly Village – 5 acres assessed at $30,000/acre in a non-minority impacted neighborhood
- Faircloth Authority – 50 units from Kelly Village
- Future DDTF– $600,000 in future (5 years) from Kerry Village
- Future ARF – three-year phase-out funding totaling $325,000
- Operating Reserves -- $3,000,000
- Voucher program – 1,000 units

Collectively, the list above, along with the 7 public housing properties, represents the "assets" of the PHA.

<u>MHA's Goals</u> (minute 45:40)

As with any PHA preparing to embark on a repositioning exercise, we have to understand what MHA's underlying goals are, i.e., what is the PHA attempting to accomplish with repositioning?

In this case, and remembering that this will be different from PHA to PHA, the MHA's main goal is to preserve as many hard units as is feasible. It is not interested in simply "vouchering-out." However, for its most distressed property, Westlawn Gardens, if there is no reasonable plan either to preserve the units, or create new replacement units, it would be willing to have the site demolished and the residents issued TPVs in order for those families get better housing and in order to better stabilize the neighborhood. It is also not interested in homeownership (even though the Northside Duplexes might otherwise be good candidates).

Now in terms of secondary goals, the MHA would like to:

1. Maintain, via any preservation option, control of the asset and not seek to transfer the asset to another PHA, non-profit, or other mission-oriented ownership entity.
2. Avoid any staff reductions. Although the primary goal is the preservation of long-term affordable housing, it would prefer not to undertake any action that might affect current staffing.
3. Find a vehicle to preserve each unit that would not require the additional complication of having to obtain tenant consent to project-base the assistance. Thus, while MHA would be eligible for Streamlined Voluntary Conversion once it gets down, through various means, to its last 250 units, it would prefer to find another conversion option – either RAD or Section 18 – than SVC.
4. Convert everything to Section 8 (get everything on one subsidy platform), if feasible.

Portfolio Options (minute 47:58)

With the stage now set, let's look at the options.

The first place to begin is to scan MHA's portfolio to see if there are any obvious solutions/answers to their portfolio goals. Are there?

Northside Duplexes

Well, the most obvious candidate is Northside Duplexes, which appears to qualify under Section 18 as Scattered Sites. The units are challenging to operate, particularly at the public housing funding levels, and they consist of 4 or fewer units on non-contiguous sites. Now, although the MHA could just sell the units at FMV, it would like to retain the units in its portfolio as long-term assisted housing. In time, it would like to take out a mortgage on these units to undertake some needed recapitalization, but it feels that, for now, the higher Section 8 funding will help stabilize the units and hold them over until they are ready to more formally refinance.

For these scattered site units, to comply with Section 18, MHA will need to "dispose" of the units. Well, the PHA created a non-profit subsidiary back when it built its mixed-finance project, Middleton Affordable Housing, or MAH. So, it will dispose of the scattered sites for $1 to MAH, which is permitted under the "commensurate public benefit" provision, since the units will be used as affordable housing.

Also, in order for the units to be placed under a Section 8 HAP contract, the units must substantially meet the voucher program's Housing Quality Standards, or HQS. In this case, the units are not in deteriorated condition. The PHA has identified some immediate repairs that it will undertake, but nothing significant and nothing that would prevent it from passing HQS. And, moreover, this strategy doesn't require any relocation of tenants – and all tenants meet the Section 8 eligibility requirements.

Because this property is being removed through Section 18, it will also receive both DDTF and ARF funds. And, it will be able to retain its Faircloth Units.

We have one down, with six to go.

Renaissance Homes

Next, we'll turn to Renaissance Homes. This recently completed mixed-finance property is a great candidate for RAD. Because the property is in good physical condition, it should easily be able to convert at the RAD rents. In fact, the property might even be able to donate, under rent-bundling, some of its rents to a property with higher capital needs.

Because it will convert via RAD, it will not be eligible for DDTF, ARF, or Faircloth.

For now, we'll set it aside, then, as a RAD conversion.

Abbott Heights

The next property we'll examine is Abbott Heights. This property needs substantial rehab, but, at least from the PHA's understanding of repair needs, would not meet Section 18's obsolescence test, which would be 62.5% of TDC for an elevator building. Abbott Heights also has the 10 households who would be over-income for Section 8 (and thus the PHA could not put those units under a HAP contract under any repositioning option other than RAD).

Let's try to run through the traditional Section 18 options:

- It's not obsolete.
- There are no urgent health and safety issues.
- It's not scattered sites.
- MHA is interested in preserving as many units as possible so "Efficient/Effective" is not of interest to it (because HUD would only provide 25% replacement vouchers).
- And, it's not the last 50 units in the agency's inventory.

Consequently, the most likely conversion option for this property would either be 100% RAD or a RAD/Section 18 Blend, with 75% of the units as RAD and 25% as Section 18 (with the higher rents on the Section 18 units). To qualify, the PHA would need to undertake repairs of at least 60% of HCC (or around 36% of TDC) without relying on 9% tax credits.

Clearly, MHA will need to prepare additional feasibility analyses, but, based on the experience other RAD transactions from around the country, this property appears to fit the profile of a property that could be financed with 4% low-income housing tax credits.

And, by converting the units to RAD, the PHA can solve the issue of the over-income households. If it pursued this path, it would likely consider developing the project utilizing its non-profit, MAH, as the developer/owner.

We'll put down for now, at least, that Abbott Heights will convert under either standard RAD or RAD/Section 18 Blend (with 60 units converting under RAD and 20 under Section 18). At 80 units, it should be large enough to be attractive to lenders/investors as a stand-alone 4% tax credit project, but the PHA might also want to think about possibly combining it with one or another property to make it even more enticing to lenders/investors, i.e., to create a better economy of scale.

By converting via the RAD/Section 18 blend, it would only be eligible for ARF, DDTF, or Faircloth for the 20 units that would be removed through Section 18.

Village Square

Next, let's turn to the 40-units at Village Square, which was fully renovated just a few years ago. It's not eligible for any of the Section 18 options (not scattered sites, not obsolete, not requiring sufficient rehab to qualify for RAD/Section 18 blend, etc.). The obvious answer is to convert to RAD but at the same time MHA will want to conduct more analysis to see whether it has "extra" rents that it could donate to another property or whether it could generate excess mortgage proceeds to support other RAD transactions.

By converting to RAD, it is not eligible for ARF, DDTF, or Faircloth.

Westlawn Gardens

At this stage, we've really have had no heavy lifting. The choices have been pretty logical/feasible. We have four properties, totaling 210 units, that have a strategy (although we've not firmed-up the financing sources). But we think we've on the right path in those cases.

That leaves us with three properties remaining -- Westlawn Gardens, Washington Courts, and Heritage Towers – representing a total of 540 units.

Westlawn Gardens includes 20 very deteriorated units on a bad site. Although MHA doesn't yet have an independent physical needs assessment for Westlawn Gardens (or for any property), MHA feels reasonably certain that the project will qualify under obsolescence (capital needs exceeding 57.14% of TDC). In that case, it would be eligible for Section 8 TPVs for all units occupied in the past 24 months. (Despite the fact that the project is distressed, the MHA has been able to keep it fully occupied, which means that it would receive TPVs for each unit.)

Unlike Abbott Heights, Westlawn Gardens is really not a candidate for rehab, even at higher TPV rents. And, the topography of the site doesn't lend itself to rebuilding. Ideally, the site should be razed. In fact, an abutting owner has indicated interest in the property as an apple orchard, but the property really has only modest value.

The question is whether the PHA can build replacement units elsewhere – and how it would do that. The PHA could go RAD and try to transfer the assistance, either to a new construction site (say, the vacant land at the former Kerry Village) or to some existing (non-subsidized) property, maybe an owner of a tax credit project that would like to have 20 deep subsidy units. But the rents would be less than if the PHA went Section 18 and got TPVs. Most likely, then, the preferred option would be to go Section 18 (higher rents). If the PHA wanted to hold those TPVs for the new construction units, it would either need to stage the removal so that families are relocated once the new units are built or the PHA would need to find other vacant units throughout its stock to move current residents and then "bank" the TPVs for the future development.

If MHA decided to replace these 20 "hard" units, as opposed to simply vouchering-out, it would likely need to seek significant additional capital beyond what either the RAD rents or the TPV rents would support in first mortgage proceeds to make the deal work, e.g., CDBG funds, HOME funds, a grant under the Federal Home Loan Bank's Affordable Housing Program, or some combination thereof. Or, it will need to secure 9% low-income housing tax credits, which are extremely competitive.

Anyway, at this stage of the planning process, it's probably best to consider disposing of the property for Fair Market Value under Section 18 obsolescence, but with more due diligence needed before the agency decides whether it has a reasonable chance of replacing these hard units or whether it should simply voucher-out the property with the Section 18 TPVs. However, remember that Westlawn Gardens also has an EPC with $150,000 in principal that it will most likely need to pay off at conversion, probably through sales proceeds (selling the land) or with existing public housing reserves.

If the PHA removes the units through Section 18, it will receive ARF, DDTF, and will retain Faircloth authority.

Heritage Towers

This property appears also to be a classic for Section 18 obsolescence, given the condition of the systems and the need for code and handicap accessibility upgrades. So, the PHA would be eligible for TPVs, which it would likely want to project-base back on the property and couple with 4% tax credits to preserve the property. But there are problems/considerations:

- First, the PHA needs to get rid of the efficiency units, which not only will increase project costs (these so-called "breakthroughs" can be expensive) but will reduce the total number of units and, also, the gross rental income. (Under RAD, if you do consolidate efficiencies, you can either ask for the funding to be re-spread or you can put those "lost units" into a Converted Awaiting Transfer (CAT) agreement and then try to transfer those units elsewhere.)

- Second, even if the PHA were to obtain Section 18 approval, can the building be rehabbed by project-basing the TPVs? Will the numbers actually work?
- Third, what would happen if the PHA can't rehab the building? Would the agency want to try to preserve hard units either on site or elsewhere and, if so, using what funding program? Or, would it need simply to voucher out this project?

These are some tough questions. For our first pass at things, we are going to assume that the PHA will pursue Section 18 obsolescence and look to preserve the property by project-basing the TPVs and seeking 4% tax credits, but reducing the number of units by 40 (for a new total of 160 units).

Under Section 18 removal, it would be eligible for ARF, DDTF, and it would retain its Faircloth Authority.

Washington Courts

We are now down to our last property, Washington Courts, which has a total of 220 units and is in stable condition. Normally, this would indicate that it would be a strong candidate for a fairly straightforward RAD conversion, either with debt or no debt. But other things are in play:

- First, as the last property, and having less than 250 units, it would be eligible for SVC, although the agency has indicated that Streamlined Voluntary Conversion is not a preferred option
- Second, also, as the last property, it would be eligible for the RAD/Section 18 Close-out Blend (with 170 units converting under RAD and 50 under Section 18), and
- Third, as previously described, the property has some potential for redevelopment. It's a large site near the downtown that likely could be rebuilt at much higher densities. But at the same time, where would the PHA get the money to replace the units if it redeveloped the site? Although there is strong interest from the City, Middleton is not, say, Boston, where land values are so high that any market units could greatly subsidize the affordable units. Hence, any redevelopment would still require significant public investment.

For now, until more conversations can be had with the City, the best placeholder would be to reposition it through RAD/Section 18 Close-Out Blend, where 170 units convert via RAD and 50 convert via Section 18, with the higher TPV funding on those 50 units.

By removing units through the RAD/Section 18 Close-out Blend, it would receive ARF, DDTF, and retain its Faircloth Authority for just the 50 units.

First Cut

So, there we have it. We've got the makings of an initial portfolio strategy, with plans for each property that would eventually close out MHA's public housing program and convert to Section 8.

Preliminary Portfolio Strategy - MHA			
Property	**Condition**	**Option**	**Notes**
Northside Duplexes	Fair	Section 18 Scattered Sites	Future refinancing of this site (with TPVs/PBVs) could possibly generate excess proceeds and developer fee that could be used elsewhere in portfolio.
Abbott Heights	Needs substantial rehab	RAD/Section 18 Blend	Likely 4% transaction, with additional rent boost via DDTF funds from Kelly Village.
Renaissance Homes	Good	RAD	Possible "donating" site for rent bundling.
Westlawn Gardens	Distressed	Section 18 Obsolescence	Need to determine whether to build back elsewhere (possibly on Kelly Village site) or use the TPVs to voucher-out. If Kelly Village site is disposed, those proceeds can be used to help fund replacement units elsewhere. But the PHA must also pay-off its EPC loan of $150,000.
Village Square	Very good	RAD	This property could also possibly serve as a "donating property for rent bundling, or for generating excess mortgage proceeds to help support other portfolio needs.
Heritage Towers	Needs substantial rehab	Section 18 "Obsolescence"	Need to determine if rehab is financially feasible.
Washington Courts	Fair	RAD/Section 18 Close-out Blend	Need to have more discussions with City on larger plans for this neighborhood.

Loose Ends (minute 1:04:36)

But we still have a few other items to clean up.

- **Future DDTF Funds for Kerry Village**. The PHA has some $600,000 in future DDTF funds that are due it as a result of the 2019 demolition of Kerry Village. Obviously, it doesn't want to lose these funds. The best choice would be to use these funds to increase the RAD rents at Abbott Heights. Under RAD, a PHA can trade in future DDTF funds for a contract rent boost, which, in this case, would amount to around a $42 PUM increase in rents for the 60 units at Abbott Heights that would be converting to RAD (assuming the remaining 20 units convert to Section 18 under the RAD/Section 18 Blend). (To calculate the contract rent boost, we take the $600,000 in future estimated DDTF funds and then divide by 20 years (the term of the HAP contract), and then divide again by 60 units, and then divide by 12 months in a year).

- **$3,000,000 in operating reserves**. Once a PHA closes out is public housing program, it can't take its reserves with it. But MHA is still a long way from closing out its inventory. So, by the time it works through the first half of its portfolio, more of these reserves will have been spent, say, on RAD deals. But eventually, if the PHA gets down to it last project, it will want to plan on how to use those reserves before it actually closes everything out.

- **Vacant land from demolition of Kerry Village**. This land is valued at $150,000 in total. The land is still under a Declaration of Trust (DOT). There are several options here. First, depending on the budgets for the other properties, MHA might need to sell this land to fill a gap in funding, which, provided the units were either RAD or PBV, would be an eligible use of any disposition funds. (It could also use the funds to support the agency's voucher program.) Second, it could dispose for less than FMV if the disposed property were used to support affordable housing. Third, this site could be the future home of the replacement units from Westlawn Gardens if the PHA were able to secure other outside funding, hopefully in a mixed-income setting.

- **50 Units of Faircloth Authority**. Because the PHA will be closing out its public housing program under Section 18 50 and Fewer option (when it gets down finally to removing Washington Courts), it can no longer use this Faircloth Authority; however, it can transfer this authority to another PHA upon close-out (and it could barter with that PHA for some asset in exchange).

- **ARF Funding**. The PHA is estimated to receive $325,000 in ARF funding over the next three years for Kerry Village. These funds will help the PHA scale down, but probably are not likely to be a source that can be relied upon for development (unlike, say, DDTF).

  Remember also that the PHA will be eligible for new ARF and DDTF funds, as well as retention of Faircloth Authority, for any units that it removes through Section 18, including any RAD/Section 8 blend (just for the units removed through Section 18).

Voucher Administration

Lastly, the MHA also operates a 1,000-unit voucher program. Consequently, it will also serve as the voucher administrator for any units that it converts to PBVs. Moreover, wherever the PHA project-bases the assistance back on site, these projects, because they would be considered "previously assisted", would be exempt from the voucher program cap on the number of voucher units that can be project based. The PHA will, however, need to find an independent entity to perform the HQS inspections and the annual determination of rent reasonableness.

If the PHA did not operate a voucher program, it would need to find an existing voucher agency to serve as its contract administrator.

Final Tally

Now that we've put all our cards on the table, let's see how well we did vis-à-vis the MHA's repositioning goals.

Preserve hard units	✓
Maintain control	✓
Staffing	✓
Avoid tenant consent	✓
Full conversion	✓

For the most part, we've been able to preserve all units, with the exception of the 20 units at Westlawn Gardens and the 40 "lost" units at Heritage Towers (as a result of combining the 80 efficiencies into 40 units). Now, the MHA might be able to find a replacement for those units, but it also said it was willing to let the units at Westlawn Gardens go given their poor condition. The PHA is also maintaining control of all assets, either directly through the PHA's ownership or through its non-profit, MAH. And, other than losing 20 units at Westlawn, there is nothing that should have any implication on staffing. It has also found a way to full conversion, without having to go through tenant consent for project-basing the assistance.

<u>**Wrap-up**</u> (minute 1:10:11)

This case study was intended simply to illustrate the kinds of repositioning options available to medium and large PHAs. The PHA in question could have chosen different strategies from the ones we selected here. Indeed, asset repositioning planning is very much an iterative process, requiring multiple passes and refinements as more data is collected and as goals and objectives are clarified.

Some medium PHAs might find an easy path to converting all of their properties, either through RAD, Section 18, or SVC, whereas some large PHAs, with even more properties, may find that, while they can identify some immediate candidates, full conversion might either be a longer-term effort or one still with some gaps.

Those PHAs who have multiple properties will also need to decide about sequencing, i.e., whether to convert all-at-once or in phases.

Clearly, though, the more advanced a PHA gets in its repositioning planning, the more important it will become to obtain a comprehensive physical needs assessment of each property. It's also essential to better understand the rents that each project would command under each conversion option. PHAs should definitely seek appropriate professional guidance, where needed.

For simplicity, we also assumed for this case study that the Section 8 TPV rents would be higher -- $150 PUM higher – than the RAD rents. Indeed, in most markets around the country, that's the situation. But there are maybe 10-20% of PHAs where the RAD rents are actually higher than market (remember, under the PBV program, you never get more than the market or reasonable rent). In those circumstances, the PHA will want to consider converting to RAD PBRA, where the PHA can maintain current funding.

What we have not done today is spend time thinking through some of the organizational issues surrounding conversion, including staff training or changes in IT systems as the PHA migrates to Section 8. We hope to address those topics in future training or videos.

We hope that this training has better informed you of the possibilities for repositioning and the associated tools available. For more information, please also refer to:

- The Office of Public and Indian Housing's Repositioning Website:
    - https://www.hud.gov/program_offices/public_indian_housing/repositioning
- The Office of Recapitalization's RAD Resource Desk:
    - www.radresource.net
- Finally, here are some tools that may help you assess your portfolio, which can also be found on our RAD Resource Desk:
    - **2018 RAD Rents**. This table includes HUD's calculations of RAD Contract Rents for each public housing property, with a comparison of local Fair Market Rent (FMR) rates.
    - **RAD Conversion Guide for Public Housing Agencies**. This guide provides additional instructions on the many conversion requirements under RAD.
    - **RAD Inventory Assessment Tool**. This spreadsheet allows you to determine the maximum first mortgage potential for every public housing project in the country, using various mortgage rates, loan periods, and other user-defined assumptions.

Thank you, again, for your participation in this training. If you have questions, please feel free to email us at: RAD@hud.gov