

PUBLIC HOUSING AGENCY OF THE CITY OF SAINT PAUL

REPORT TO COMMISSIONERS

**FROM JON M. GUTZMANN
EXECUTIVE DIRECTOR**

REGARDING Rental Assistance Demonstration

DATE May 24, 2017

Staff requests Board confirmation to maintain the Agency's status on the waiting list for HUD's Rental Assistance Demonstration (RAD), as staff continues to gather and analyze information about how RAD could benefit the Agency. On April 20, 2017 staff submitted a "Letter of Interest" to HUD to secure a place on the waiting list, as reported to the Board on April 26, 2017 (copy attached). Converting public housing units to another form of HUD subsidy under RAD may be a viable to preserve the PHA's affordable housing inventory. However, a formal staff recommendation and Board decision on whether to submit a full application for RAD could be months away, if it does materialize.

As staff explained in the attached report, placement on the RAD waiting list does not commit the Agency to a course of action, but it gives the PHA the opportunity to apply for RAD in the future, with priority over other housing agencies that submitted letters of interest later. HUD will select new RAD participants from the names on the waiting list in order. Congress recently increased the cap on the number of units available for RAD from 185,000 units to 225,000 units (the previous cap of 185,000 had already been reached). Staff anticipates that other housing authorities will also be interested in RAD, given the recent funding discussions in Washington, so the higher RAD cap will likely be reached soon.

Although a PHA may withdraw its application for RAD at any time before final approval by HUD, an agency on the waiting list must submit a full RAD application within 60 days after being notified by HUD. If HUD were to give the PHA that 60-day notice soon, staff and the

Board would have to work fast to decide whether to prepare the full application, or decline the opportunity for now and move to a lower place on the waiting list.

In 2012 Congress authorized the Rental Assistance Demonstration (RAD) to test a new way of meeting the large and growing capital improvement needs of the nation's aging public housing stock, as well as to preserve projects funded under HUD's "legacy" programs (Rental Supplement, Rental Assistance Payment, and Moderate Rehabilitation). Through RAD PHAs can "convert" their current HUD rental subsidies to long-term, project-based Section 8 contracts. The new contracts are intended to provide a more reliable source of operating subsidy that will allow PHAs and other owners to safely leverage private capital – typically debt and equity – in order to finance the property rehabilitation or replacement. The contracts as well as underlying use restrictions must be renewed each time they expire, ensuring the long-term affordability of the improved properties.

HUD's descriptions of RAD assert that current and future residents are provided a robust set of rights and protections, including consultation during the conversion process, the right to return to the property when repairs are completed, the right to organize and funding for organizing, and a right to move with tenant-based assistance if needed to move closer to a job, school, family, or other reason. Further, HUD requires that a public or non-profit entity must always maintain a controlling interest in the property, even in the rare and unanticipated event of foreclosure, thus ensuring the long-term public stewardship of the properties.

HUD highlights the following important components of RAD:

- RAD allows public housing agencies to leverage public and private debt and equity in order to reinvest in the public housing stock. This is critical given the \$26 billion nationwide backlog of public housing capital improvements.

- In RAD, units move to a Section 8 platform with a long-term contract that, by law, must be renewed. This ensures that the units remain permanently affordable to low-income households.
- Residents continue to pay 30% of their income towards the rent and they maintain the same basic rights as they possess in the public housing program.
- RAD maintains the public stewardship of the converted property through clear rules on ongoing ownership and use.
- The RAD program is cost neutral and does not increase HUD's budget. This program simply shifts units from the Public Housing program to the Section 8 program so that providers may leverage the private capital markets to make capital improvements.

Staff has engaged two consultants to help assess the potential benefits of a RAD application. The consultants' websites describe their qualifications as follows

- Jason Casterline, President of Casterline Associates. Casterline Associates is a Certified Public Accounting (CPA) and Consulting Firm in business for over 21 years, specializing in providing a variety of services to the Affordable Housing industry. Areas of focus include Financial Consulting, Strategic Planning, Accounting Services, Information Technology, Energy Management and Development/Construction. They've provided training for over 15,000 PHA and Housing and Urban Development (HUD) professionals at our HUD accounting and budget seminars.
- Jaime Bordenave, President of TCG Development Services. TCG is a full-service real estate planning and development firm with specialized expertise in affordable housing and urban revitalization program planning and execution. TCG is active across the nation, transforming distressed neighborhoods into attractive, affordable communities of choice. Working with public housing authorities, local and state governments, and other stakeholders, we carry out a variety of integrated real estate development activities.

Attached are a number of documents further explaining RAD.

JMG/RPM/ FAH

Attachments