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## **Expanding Rental Assistance Demonstration Would Help Low-Income Families, Seniors, and People with Disabilities**

By Will Fischer

In enacting final housing appropriations for fiscal year 2015, Congress should include a provision contained in the Senate Appropriations Committee-approved funding bill to expand the Rental Assistance Demonstration (RAD). RAD helps local housing agencies revitalize and preserve some public housing by permitting them to convert public housing units to “Section 8” rental assistance subsidies, which in turn enables them to more easily obtain private investment for renovation.

When Congress established RAD in fiscal year 2012 appropriations legislation, it capped the number of units nationwide that can be converted at 60,000.<sup>1</sup> The need far exceeds this level, however, and HUD has placed applications from local agencies to convert an additional 124,000 units on a waiting list.<sup>2</sup> The Senate provision to raise the cap to 185,000 (the House-approved funding bill leaves the cap unchanged) would result in the preservation of more affordable housing that helps vulnerable seniors, people with disabilities, and families with children to make ends meet and avoid homelessness and housing instability.

Some have expressed concern — prompted in part by negative experiences with the HOPE VI public housing redevelopment program — that RAD will reduce the number of affordable units, jeopardize residents’ rights, or turn control of public housing over to the private sector. RAD, however, has substantial protections against these outcomes. The Department of Housing and Urban Development (HUD) and local agencies must implement those protections robustly, but overall, RAD’s benefits for residents and other low-income people outweigh any risks.

### **Public Housing at Risk Under Current Policies**

Public housing helps more than 1 million low-income households afford housing. More than half of public housing units house low-income seniors and people with disabilities, enabling them to live

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<sup>1</sup> Some conversions of units from the small Section 8 Moderate Rehabilitation program to other types of Section 8 subsidies are also counted against the 60,000-unit cap, but HUD has approved only a small number of such conversions.

<sup>2</sup> Jemine Bryon and Biniam Gebre, “Private Money Successfully Fixing Public Housing,” November 3, 2014, [http://www.rooflines.org/3934/private\\_money\\_successfully\\_fixing\\_public\\_housing/](http://www.rooflines.org/3934/private_money_successfully_fixing_public_housing/).

independently in decent-quality homes. Public housing also provides stable homes to low-income families with children, helping them keep a roof over their heads and make ends meet.<sup>3</sup>

A long history of underfunding, however, has placed many public housing developments at risk. In most years, housing agencies have received substantially less funding than independent assessments indicate they need to operate and maintain developments and periodically repair and renovate them. Most public housing remains in decent condition,<sup>4</sup> but a 2010 HUD study found a backlog of \$26 billion in unmet repair and renovation needs.<sup>5</sup>

This backlog has serious adverse consequences. Inadequate funding can prevent housing agencies from taking measures needed to maintain the units in decent shape (such as replacing aging plumbing and heating systems) or to avoid safety hazards (such as repairing security systems, sprinklers, or elevators). Leaving repair needs unmet also raises future federal costs by deferring improvements that would prevent more costly damage down the road (such as replacing a leaky roof that could lead to structural deterioration) or reduce energy consumption and costs (for example, by installing new windows).

Without sufficient funds to renovate and preserve public housing, many developments could deteriorate to the point where they will eventually have to be demolished or sold. Since the mid-1990s, more than 200,000 public housing units have been lost and not replaced by new public housing.

This is a serious problem, especially in light of the large shortage of affordable housing. In 2011, some 8.5 million renter households that received no housing assistance and had incomes below half the median income in their area faced what HUD terms “worst-case housing needs” — they paid more than 50 percent of their incomes for rent and utilities or lived in severely substandard housing. (This was an increase of 2.6 million households, or 44 percent, from 2007.) And fewer than one in four eligible low-income families receive federal rental assistance of any kind, with many parts of the country having long waiting lists for assistance.

Losing public housing units exacerbates this problem. When a public housing development is removed from the stock, HUD typically issues some “tenant-based” housing vouchers that can be used to rent a modest unit of a family’s choice in the private market. But these vouchers have, on average, replaced only 50 to 60 percent of the lost units.<sup>6</sup>

Even when replacement vouchers fully offset the lost units, the loss of public housing can be harmful. Permanent, involuntary displacement of residents can disrupt communities, and some

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<sup>3</sup> For additional information on public housing and the households it assists, see Center on Budget and Policy Priorities, “Policy Basics: Introduction to Public Housing,” January 25, 2013, <http://www.cbpp.org/cms/index.cfm?fa=view&id=2528>.

<sup>4</sup> HUD data for inspections conducted from 2008 to 2011 indicate that at their most recent inspection, 34 percent of public housing developments were in excellent condition and 56 percent were in standard condition but 11 percent were in substandard condition.

<sup>5</sup> Meryl Finkel *et al.*, *Capital Needs in the Public Housing Program*, prepared for HUD by Abt Associates, November 24, 2010.

<sup>6</sup> Congressional Budget Office, *Cost Estimate: H.R. 5814, Public Housing Reinvestment and Tenant Protection Act*, October 28, 2010.

workers may have difficulty keeping their jobs while they relocate. Some residents — such as elderly people and people with disabilities — can have difficulty using vouchers due to health-related mobility restrictions and other factors. Vouchers also can be less cost-effective than preserving existing public housing in which the federal government and state and local agencies have already made substantial investments.

## **RAD Makes Resources Available to Preserve Developments**

RAD enables housing agencies to preserve some public housing that would otherwise be lost, by permitting them to convert up to 60,000 public housing units to long-term subsidies under the Section 8 Project-Based Rental Assistance (PBRA) program or the Section 8 Housing Choice Voucher (HCV) program's project-based component (which, unlike tenant-based vouchers, ties subsidies to particular developments).

Initially, the federal subsidies for converted developments are capped at the amount that the developments received before conversion. RAD is likely, however, to make substantial added resources available to preserve public housing, for three reasons.

First, the new RAD subsidies are more likely than public housing subsidies to maintain their value over time. Over the years, Congress has generally provided adequate funding to cover the HCV and PBRA subsidies that housing agencies and private owners are due and to enable the subsidies to keep pace with inflation. By contrast, public housing subsidies have often experienced sharp cuts and shortfalls. Total funding for the Public Housing Capital and Operating Funds has lost *25 percent* of its inflation-adjusted value since 2001. In seven of the last ten years, Congress has provided less than 90 percent of the operating subsidies for which agencies were eligible.

Second, RAD allows agencies to borrow private funds more easily and on better terms, in part because the greater reliability of the RAD subsidies increases private lenders' confidence that the loans they make will be repaid. HCV and PBRA program rules also give state and local housing agencies greater flexibility than current public housing rules to borrow funds secured by mortgages on the developments, further increasing the amount they can borrow from private lenders to support renovation.

Third, RAD makes it easier for housing agencies to use the Low-Income Housing Tax Credit (LIHTC), the main federal subsidy for affordable housing renovation and development. LIHTC covers only a portion of rehabilitation or replacement costs. The more reliable subsidies that RAD provides and the added capacity for agencies to borrow private funds help agencies cover the remaining costs and attract private parties to invest in properties in exchange for tax credits.

These mechanisms can generate sizeable resources. HUD data indicate that the nearly 60,000 public housing units already approved for RAD conversion will enable agencies to leverage resources to address \$3.1 billion in rehabilitation and construction costs.<sup>7</sup> HUD cannot approve

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<sup>7</sup> This estimate and the waiting list estimate below exclude funds leveraged through conversion of Section 8 Moderate Rehabilitation units. HUD, *Rental Assistance Demonstration Newsletter*, Issue 1, September 2014, [http://portal.hud.gov/hudportal/documents/huddoc?id=RAD\\_Newsltr\\_Sep2014.pdf](http://portal.hud.gov/hudportal/documents/huddoc?id=RAD_Newsltr_Sep2014.pdf).

additional conversions because of the statutory cap on RAD, but conversion of the nearly 120,000 public housing units on the RAD waiting list could address another \$3.4 billion in capital needs.<sup>8</sup>

## **RAD Avoids Flaws of Previous Public Housing Revitalization Efforts**

Some have expressed concern that moving to a new subsidy framework will shrink the number of affordable housing units, eliminate key resident rights, or put private entities in charge of public housing. These concerns partly reflect experience under HOPE VI, the most prominent public housing redevelopment initiative to date. HOPE VI enabled housing agencies to renovate or replace many of the most badly deteriorated public housing developments. But in many communities it also resulted in a large-scale loss of units and permanent displacement of residents, leaving many of the most vulnerable residents worse off.<sup>9</sup> RAD, however, was specifically designed to avoid the mistakes of HOPE VI and contains substantial protections to limit the risk of adverse consequences.

### **Preserving Units as Affordable Housing**

HOPE VI did not require housing agencies to replace demolished public housing with new, similarly affordable units. Most units either were not replaced or were replaced with units with rents above those in public housing. RAD, in contrast, requires agencies to maintain the number of subsidized units except under a few limited circumstances. In addition, properties converted to Section 8 rental assistance subsidies under RAD are covered by 15- or 20-year contracts requiring that they remain affordable housing during this period, with rents no higher than 30 percent of household income. When those contracts expire, HUD must offer to renew them, and the owner must accept the renewal.

The protections against loss of units under RAD are not airtight. For example, an agency can reduce the number of subsidized units when the units have been vacant for more than 24 months. Conceivably, an agency that wishes to eliminate units could manipulate this by deliberately leaving units vacant. HUD could (and should) act administratively to strengthen this and other protections, and agencies should commit in most cases to preserving or replacing all of their units.

Even as they currently stand, however, RAD's protections against loss of units are nearly always as strong as or stronger than those applying to public housing without RAD. When the added preservation resources RAD provides are taken into account, RAD will almost certainly lead to the preservation of more public housing, not less.

### **Protecting and Expanding Resident Rights**

RAD is also designed to ensure that current residents benefit from rehabilitation of their developments. Residents may need to be relocated temporarily if a development is renovated or replaced, but they have the right to return when the development is ready. Housing agencies and

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<sup>8</sup> HUD, *Rental Assistance Demonstration Newsletter*, Issue 2, October 2014, [http://portal.hud.gov/hudportal/documents/huddoc?id=RAD\\_Newsltr\\_Oct2014.pdf](http://portal.hud.gov/hudportal/documents/huddoc?id=RAD_Newsltr_Oct2014.pdf).

<sup>9</sup> Barbara Sard and Leah Staub, "House Bill Makes Significant Improvements in 'HOPE VI' Public Housing Revitalization Program," Center on Budget and Policy Priorities, revised January 20, 2008, <http://www.cbpp.org/cms/?fa=view&id=872>.

owners may *not* rescreen residents and deny housing to those who do not meet the screening criteria — a process that resulted in permanent displacement of many residents during HOPE VI. Once conversions are complete, families in RAD developments retain rights similar (though not always identical) to those of public housing residents, including the right to establish resident organizations to weigh in on management of the development.

Moreover, residents of RAD developments would gain a major new right: the option to move without losing their housing assistance. After one or two years, residents could opt to move with the first tenant-based voucher that becomes available in the local HCV program. The project-based subsidy would remain with the unit in the RAD development, which would be occupied by a new family from the waiting list. This option could place pressure on building managers to keep units in good condition to encourage families to stay, since excessive resident turnover would add to the development's operating costs. More importantly, the option to move creates needed flexibility for families, enabling them to live closer to a job opportunity, needed caregiver, or desired school.

HUD should provide housing agencies with guidance on best practices for helping families make the most of the new opportunities the RAD mobility option offers. Such practices could include educating RAD residents about housing opportunities with good schools and low poverty, assisting them with their housing search, allowing additional time to find and lease a unit, and providing resources to help them adjust to their new neighborhoods and take advantage of nearby services.<sup>10</sup>

### **Limits on Private Control**

RAD does not require privatization or any change in ownership, but it allows local agencies to convert developments to private ownership in order to allow use of LIHTC, which can only be claimed by a private owner with federal income tax liability. Local agencies have long been permitted to transfer public housing developments to full or partial private ownership, and a sizable number of units have been transferred in this way. RAD will likely increase the frequency of these transfers by making more LIHTC transactions financially feasible, but the new requirements described above to keep units affordable and maintain tenant rights will apply regardless of who owns a development.

Even though the same rent limits and legal protections would apply regardless of ownership, residents may prefer that the local agency retain control of a development out of concern that a private owner would alter management practices or be less responsive to resident concerns. RAD requires agencies that transfer ownership to private entities to take measures to protect their interest in the development. These measures could maintain effective public control over the development's operations but will not necessarily do so, since the specific nature of the protections is left largely to local decisions.<sup>11</sup>

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<sup>10</sup> For additional discussion of the importance of providing broader housing choices to families with children in public housing, see Barbara Sard and Douglas Rice, "Creating Opportunity for Children: How Housing Location Can Make a Difference," Center on Budget and Policy Priorities, October 15, 2014, <http://www.cbpp.org/cms/index.cfm?fa=view&id=4211>.

<sup>11</sup> Agencies can, for example, retain ownership of the underlying land while ceding ownership of the building or retain a right to repurchase the property after the 15-year LIHTC compliance period ends; both steps would protect the agency's long-term interest in the property without necessarily retaining public control over management decisions. Agencies can also establish agreements with private investors to keep control over management of the property while ceding

Early information suggests that most agencies seeking to convert units under RAD do not plan any transfer to private, for-profit ownership. RAD only permits agencies to opt to transfer ownership and control of developments to for-profit entities for the purpose of LIHTC transactions.<sup>12</sup> Agencies, however, only planned to use LIHTC at 36 percent of the developments they applied to convert under RAD through the end of 2013 (and the percentage that actually use LIHTC could be even lower since states will not approve all LIHTC applications).<sup>13</sup> Agencies that participate in RAD without using LIHTC must convert their units from public housing subsidies to Section 8 subsidies while retaining ownership or control themselves, or potentially transferring it to another public or non-profit entity. Such conversions would be beneficial, since they would enable the agencies to obtain loans to finance renovation or simply use the more reliable Section 8 subsidies to put the development on a firmer financial footing for the future.

## **Congress Faces Important Decisions Regarding RAD**

In considering final HUD appropriations for fiscal year 2015, Congress will need to decide whether to include provisions that are in the Senate Appropriations Committee's bill but not in the bill passed by the full House, and vice versa. Congress should include the Senate provision that raises the limit on the number of public housing units that can be converted under RAD from 60,000 to 185,000. Since HUD has already approved conversions totaling close to 60,000 units, further approvals will largely come to a halt if Congress does not raise the cap. Most of the cap increase that the Senate Committee bill would allow is needed to convert the 124,000 units on the waiting list, including many where local agencies have already undertaken substantial planning and efforts to obtain financing.

Congress also should include a Senate provision that would provide \$10 million to fund "incremental" RAD subsidies above the amount of the public housing subsidies that the RAD development received before conversion. This provision, which is not in the House bill, is needed because the existing cap limiting RAD subsidies to the amount the development received before conversion typically sets subsidies well below those provided under regular PBRA and HCV rules and at levels that are inadequate to sustain many developments over the long run. As a result, this limit makes RAD conversion unworkable for a large segment of the public housing stock. By HUD's estimate, the funds in the Senate bill would cover the added subsidies needed to permit preservation of 5,000 units where RAD would otherwise not be feasible — enough to enable HUD and local agencies to test the potential benefits of this approach.

The Administration's budget, which requested funding for the incremental RAD subsidies, proposed that HUD use these subsidies at RAD units in high-poverty areas in which the federal government is also supporting comprehensive neighborhood revitalization through other initiatives.

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ownership, or allow a private entity to take over management but require the entity to commit to continue certain management policies.

<sup>12</sup> RAD developments also could potentially be transferred to private ownership if lenders foreclose on loans. Such foreclosures will likely be rare, however, since the Section 8 subsidies that agencies would receive would be adequate to cover debt service costs, and funding for those subsidies has historically proven reliable. Under RAD, moreover, if a lender did foreclose on a property, HUD must seek to ensure that the property is transferred to another public entity and may only allow transfer to a private entity if a suitable public entity is not available.

<sup>13</sup> HUD, "RAD Program Update," December 31, 2013.

Congress should include these funds in the final bill, and should direct HUD also to use a portion of these funds for public housing units in high-opportunity or rapidly improving areas, as such units are particularly important to preserve. In addition, the Administration should request at least an added \$10 million for incremental subsidies again in fiscal year 2016, to be available in both high-poverty areas undergoing revitalization and high-opportunity areas.

Finally, Congress should include a Senate provision that would allow HUD to accept applications for RAD public housing conversions through September 2018, extending the current September 2015 deadline. This would enable HUD to carry out all of the conversions that Congress authorizes.<sup>14</sup>

## **Conclusion**

RAD offers a promising opportunity to generate new resources to help repair the nation's public housing stock and preserve needed affordable housing for vulnerable seniors, people with disabilities, and families with children. Congress should move forward promptly to expand the demonstration and provide the resources needed to make it feasible in a wider range of housing developments.

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<sup>14</sup> The Senate bill (but not the House bill) also includes several beneficial provisions related to a separate component of RAD that converts units assisted under several smaller HUD rental assistance programs to long-term Section 8 subsidies. The most important of these would allow such conversions through September 2016. The authority to conduct conversions under this component of RAD is due to expire at the end of December 2014, preventing HUD, property owners, and state and local housing agencies from preserving needed affordable housing.