



# TRANSFORMING RENTAL ASSISTANCE

A Presentation on the  
Future of HUD's Rental Assistance  
Programs

Department of Housing  
and Urban Development



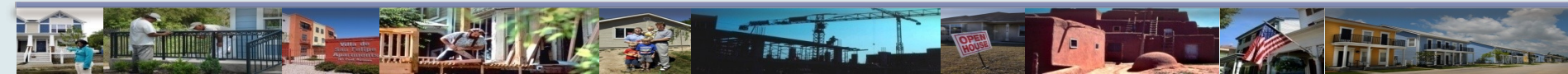


# THE TRANSFORMING RENTAL ASSISTANCE INITIATIVE

---

HUD's Transforming Rental Assistance (TRA) initiative is intended to preserve and improve assisted housing by aligning it with the broader housing market. The **four key goals** of the initiative are:

- **Streamline and simplify** HUD's rental assistance programs
- **Preserve** assisted units through an infusion of public and private market capital
- Encourage **mix of incomes and uses** in HUD-assisted housing
- Encourage **tenant choice and mobility**





# STREAMLINE AND SIMPLIFY

HUD provides deep rental assistance across multiple programs with varying rules, through a maze of administrative structures that make HUD programs difficult for HUD's partners to use and confusing to

Program	Administrators	Projects	Units
Conventional Public Housing	3,123	7,460	1,175,244
Section 8 Housing Choice Vouchers	2,406	-	2,233,706
811 Mainstream Vouchers	203	-	14,783
Section 8 Moderate Rehabilitation	218	484	25,447
Section 8 Project-based Contract	53	10,287	1,189,294
Rent Supplement	n/a	246	9,585
Rental Assistance Program	n/a	134	11,382
202 Project Rental Assistance Contract	n/a	2,527	102,550
811 Project Rental Assistance Contract	n/a	2,489	27,666
HOME Tenant-Based Rental Assistance	134	-	12,239
HOPWA	219	1,073	23,862
Shelter Plus Care*	430	1,015	51,272**
Supportive Housing*	2,230	5,316	132,148**
Section 8 SRO Moderate Rehabilitation	151	450	14,000**
<b>TOTAL</b>	<b>9,167</b>	<b>26,085</b>	<b>5,023,178</b>

\*The HEARTH Act consolidated into the Continuum of Care

\*\* Represents beds, not units

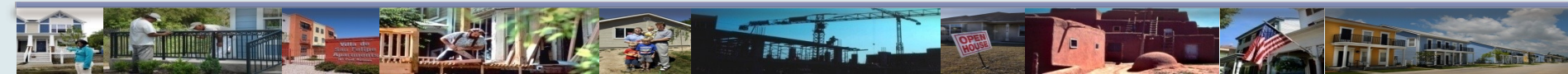




# PRESERVE ASSISTED UNITS

HUD currently lacks a viable preservation strategy for its 1.2 million units of public housing and for a number of “orphan” programs. HUD has a backlog of unmet capital needs estimated at **\$20 to \$30 billion**.

- In the last 15 years, **150,000 units of public housing lost** through demolition or sale
- Owners of properties assisted under the Section 8 Moderate Rehabilitation (25,000 units), Rent Supplement (9,500 units), and Rental Assistance programs (11,300 units) either **cannot renew** or cannot renew on terms that bring in capital sufficient to **preserve long-term affordability**.



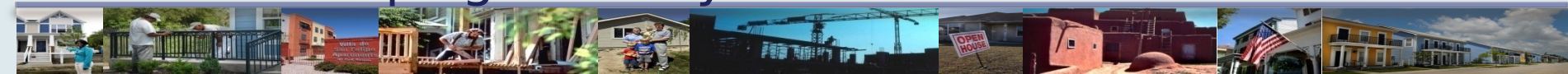


# ENCOURAGE A MIX OF INCOMES AND USES

Align HUD-funded rental assistance with the broader housing market.



HUD-assisted housing must be built, financed, and managed in a way that attracts a mix of uses, incomes, and stakeholders that will make rental assistance programs truly successful.





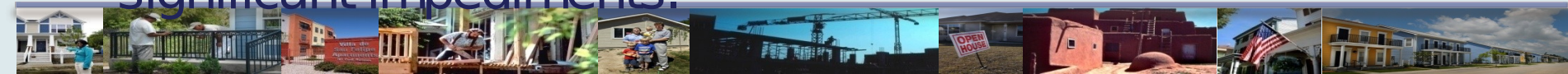


# ENCOURAGE TENANT CHOICE AND MOBILITY

Residents of HUD-assisted housing are often trapped in neighborhoods of concentrated poverty because moving means giving up their subsidy.

	Pct living in neighborhood of concentrated poverty	Average Income
Public housing resident	48%	\$13,346
Assisted housing resident	26%	\$11,504
Housing voucher recipient	19%	\$12,755

Even when households have the ability to move with a voucher, jurisdictional barriers and a lack of knowledge about other housing options can be significant impediments.



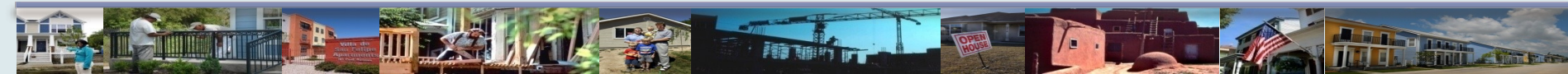


# LONG-TERM OBJECTIVE: TOWARD A SINGLE PLATFORM

TRA recognizes that the **complexity of HUD's programs** is part of the problem and seeks to move from 13 rental assistance programs to 1 program platform (Section 8) with 3 forms.

- **Project-based** contracts (PBCs)
- **Project-based** vouchers (PBVs)
- **Tenant-based** vouchers (TBVs)

**change will be voluntary.**





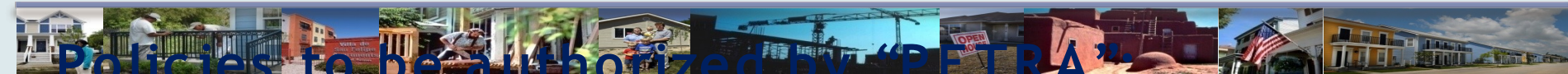
# TRA: WHERE DO WE START?

The President's FY11 budget requests **\$350 million** for Phase One.

- **\$290 million** would cover the supplemental first year cost of converting about 300,000 public and assisted housing units
- **\$50 million** would support resident choice
- **\$10 million** would be for technical assistance and evaluation

## Properties eligible for conversion in Phase One:

- Public housing
- **PHA-owned** Multifamily properties
- Properties assisted under **Rent Supp/RAP** and **Section 8 Moderate Rehabilitation**





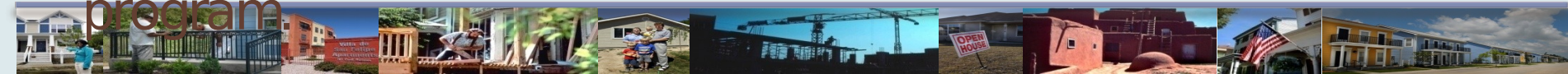


# TRANSFORMATION OF PUBLIC HOUSING

TRA will offer public housing agencies the opportunity to convert to a **single funding stream** under Section 8.

Current Funding Structure	Funding Structure Post Conversion
Operating Fund + Capital Fund	Housing Assistance Payment (HAP) 20-year initial contract; 20-year extensions, which owner must accept if offered
Declaration of Trust	Minimum 30-Year Use Agreement

If all public housing properties eventually convert, the annual cost for additional subsidy will be **between \$800 million and \$1.6 billion**, which will **leverage \$21 to \$29 billion in debt**. Conversion will also facilitate PHAs' ability to participate in the **low-income housing tax credit program**

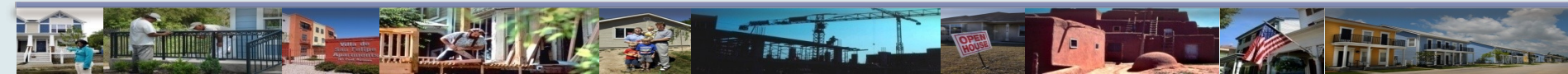




# COMMON CHARACTERISTICS OF PBC, PBV OPTIONS

Project-based rental assistance will share the following characteristics, no matter the form (PBC or PBV):

- Conversion will be **voluntary**.
- **Long-term, property-based contract** to facilitate leveraging to address immediate and long-term capital needs.
  - Typically 20 years, renewable, annual appropriations.
- Both **owner and HUD/PHA bound by terms** of rental assistance contract.
- **Market-based** rent-setting.
- **Resident choice** feature.
- **Consultation with residents required** prior to conversion and during conversion process.







# RESIDENT PARTICIPATION

- PHAs and owners required to **consult with residents** before, during, and after the conversion process
- PHAs required to have **at least one tenant on their board**
- **No changes to annual and five-year planning requirements**

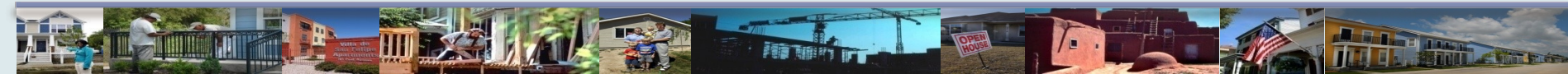






# RESIDENT RIGHTS

- **Income-based rents** and **security of tenure**
  - No re-screening
  - Evictions only for good cause
- **Procedural rights**
  - Notice requirements
  - Required elements of due process
- **Organizing rights**
  - Right to organize and be recognized by owners
  - Funding for organizing
- **Section 3**
  - Hiring and contracting requirements continue to apply
  - Hiring preferences uniform across programs





# RESIDENT CHOICE

Recipients of HUD-funded rental assistance should not have to **sacrifice affordability** if they need or want to move.

- After **two years** in the converted property, residents have option to move using a **housing choice voucher**, subject to availability
- Property based subsidy **remains with the unit**
- Part of a broader set of administrative changes intended to promote **informed choice** and **real mobility options**, including Small Area FMRs; revision of consortium, SEMAP and portability rules; and use of \$50M to incentivize voluntary combination of administrative functions and learn more about cost-effective mobility strategies.

Later stages may need to **constrain choice** if demand exceeds available supply of vouchers







---

# OVERVIEW OF THE PRESERVATION, ENHANCEMENT, AND TRANSFORMATION OF RENTAL ASSISTANCE ACT OF 2010 (PETRA)





# OVERVIEW OF LEGISLATIVE PROPOSAL NEW SECTION 8 AUTHORITY

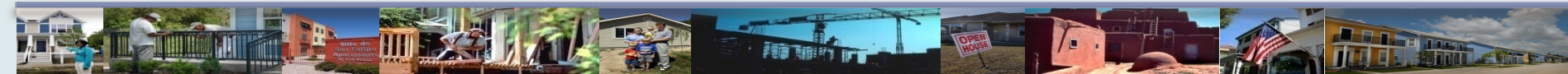
PETRA would authorize **two new sections** in the U.S. Housing Act of 1937:

- **Section 8(m)**

- Section 8(m)(1) would **streamline policies** across rental assistance programs
- Section 8(m)(2) would authorize the **conversion** of rental assistance

- **Section 8(n)**

- Would authorize the Secretary to enter into **long-term, property-based contracts** for rental assistance, subject to annual appropriations, with owners of converting properties.



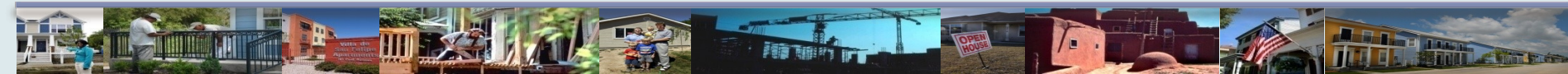


## OVERVIEW OF LEGISLATIVE PROPOSAL SEC. 8(m): KEY FEATURES

Section 8(m)(1) would authorize the Secretary to:

- **Allocate funds** to owners of converting properties;
- **Establish and collect fees** for one-time expenses of conversion;
- Recover previously obligated funds and deposit them into a **“Rental Assistance Conversion Trust Fund”**; and
- Allocate amounts for **other activities**, such as rental assistance administration and the promotion of resident mobility.

Section 8(m)(2) establishes conditions and features to govern the voluntary **conversion process**.

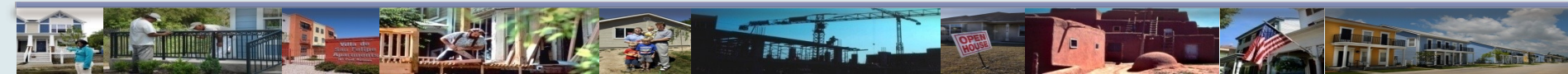




# OVERVIEW OF LEGISLATIVE PROPOSAL UNIFORM POLICIES AND PROCEDURES

To promote the streamlining of rental assistance programs, for converting properties and for other HUD-funded rental assistance programs, the Secretary would be authorized under Section 8(m)(1) to establish **uniform policies and procedures**, including with respect to the following areas:

- Resident choice
- Tenant organization rights
- Applicant and tenant procedural rights
- Nondiscrimination and affirmatively furthering fair housing
- Administration of rental assistance
- Physical condition standard
- Properties in foreclosure or bankruptcy
- HUD enforcement



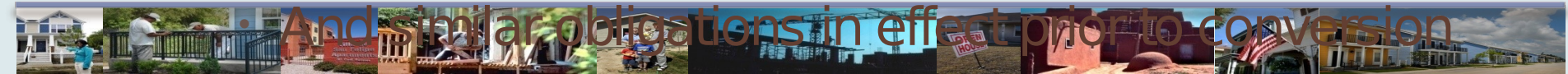


## OVERVIEW OF LEGISLATIVE PROPOSAL

# SEC. 8(m)(2): REQUIREMENTS FOR PUBLIC HOUSING

- **Conversion can be approved in a single process without applying for Section 18 disposition**
  - Establishment of new ownership structure not considered disposition so long as PHA retains interest, assuring continued public control
- **Residents must be consulted** about application for conversion, which is a “significant amendment” of PHA plan
- **Resident membership on PHA board** is retained
- **Compliance with terms and conditions of:**
  - Energy performance contracts
  - Capital Fund Financing Program
  - Operating Fund Financing Program

• **And similar obligations in effect prior to conversion**

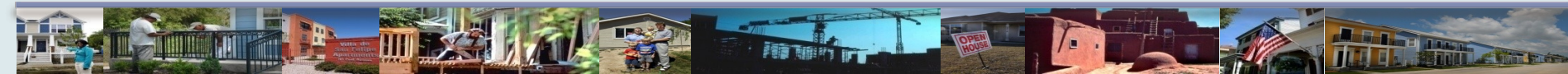




## OVERVIEW OF LEGISLATIVE PROPOSAL **SEC. 8(n): KEY FEATURES**

Section 8(n) would authorize the Secretary to enter into **long-term, property-based contracts** for rental assistance with owners of converting properties, subject to annual appropriations

- **20-year initial contract term** for public housing; for other properties, term at least equal to remaining term of legacy contract
- **20-year extensions**, subject to appropriations
- Selection of tenants and targeting
- **Physical condition standard and financial reporting requirements**
- **Initial rent-setting and rent adjustments**







# OVERVIEW OF LEGISLATIVE PROPOSAL

## TENANT RIGHTS

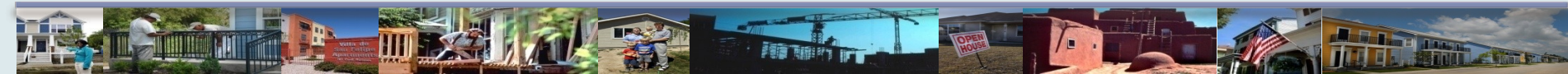
- **Independent tenant organizations , with HUD funding**
  - Legitimate tenant organizations must be recognized by PHAs and owners
  - For HCV participants as well as tenants of converted properties (and possibly other programs)
- **No rescreening or termination because of conversion**
- **Relocation**
  - Right to return if relocation occurs during or after conversion
  - Expenses covered (rental assistance may be used)
- **Statutory requirements for elements of reviews of eligibility denials and other adverse actions**
- **Resident choice option**





# DIFFERENCES BETWEEN PBC AND PBV OPTIONS

Project-Based Contract (PBC)	Project-Based Voucher (PBV)
All properties eligible.	Only small or partially assisted properties eligible.
Resident choice kicks in after 2 years.	Resident choice after 1 year.
Above-market rents permitted.	No provision for above-market rents.
Contract between owner and HUD; contract administered by Performance Based Contract Administrator	Contract between owner and Public Housing Agency, which administers contract
HUD oversight of physical, financial condition.	PHA oversight; fewer HUD reporting requirements.





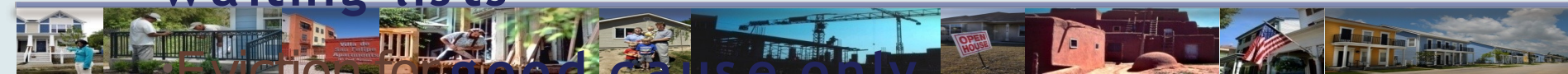
# OVERVIEW OF LEGISLATIVE PROPOSAL STREAMLINING CHANGES TO PBV ASSISTANCE

---

Conversion to PBV assistance permitted only for “small” or **partially assisted** properties.

Uniform Policies for Converted and New Properties include:

- Maximum contract term extended to **20 years**
- Rents could be **adjusted annually** based on a **multifamily market rent index**
- **Exceptions to the rent cap** of 110% FMR would be permitted, but all rents must be “reasonable” in light of market
- Owners would be permitted to adopt **site-based waiting lists**





# OVERVIEW OF LEGISLATIVE PROPOSAL CHANGES TO EXISTING SEC. 8 PBV AUTHORITY

---

- Allows up to 25% of HCVs to be project-based, if at least 5% are used for supportive housing or in locations where vouchers are difficult to use.
  - Sets cap by the number of vouchers – not funding – to remove disincentive to project-base in higher-cost areas.
- For converted properties, agencies may project-base up to 40% of vouchers.
- Would allow for assistance at the greater of 25 dwelling units or 25 percent of dwelling units in a project
  - Continue to allow some fully assisted developments
  - Authorizes the Secretary to establish additional oversight requirements for properties with assistance on more than 40 percent of units.
- Retains current policy of permitting exercise of resident choice option after 1 year.

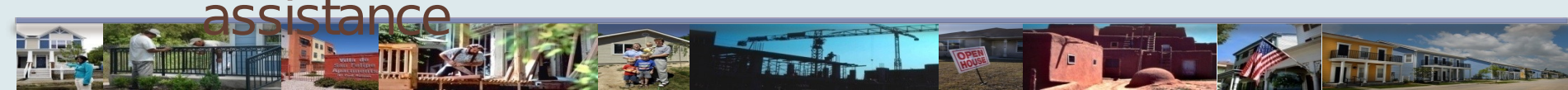




# OVERVIEW OF LEGISLATIVE PROPOSAL CONFORMING AMENDMENTS

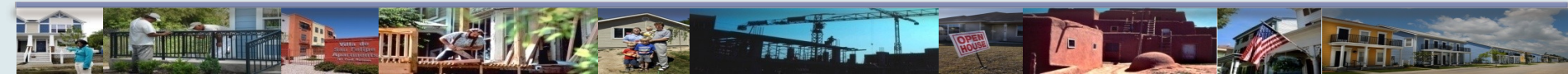
**Sec. 6** of PETRA would authorize conforming amendments in a number of areas, including:

- **Definition of a public housing agency:** To promote streamlining of programs and administration, will include not-for-profit entities and more flexible contracting with consortia
- **Mainstream voucher renewals:** Shifted to HCV rules and the tenant-based rental assistance account.
- **Section 3 requirements:**
  - Converted properties would remain subject to the requirements that were in effect prior to conversion.
  - Priorities would be streamlined, made uniform
- **Enforcement:** The availability of civil money penalties would be extended to PHAs administering rental assistance





# Unit Rent Setting Policies







# KEY TERMS

## **Comparable Market Rent**

The comparable market rent (CMR) is the rent paid in the local market for unassisted units that are of comparable quality to the units for which contract rents are being established. The comparable market rent for a unit is typically established using a Rent Comparability Study.

## **Sustainable Rent – Actual and Estimated**

The Actual Sustainable Rent (ASR) for a property is the rent level at which the property's immediate capital needs can be addressed, its capital repair and replacement needs over time can be provided for through regular deposits to a replacement reserve account, and operations can be sustained for the term of the rental assistance contract, taking annual rent adjustments into account. The Estimated Sustainable Rent (ESR) used by HUD for cost estimating purposes is the rent needed to leverage \$25,000 per unit in debt.

## **Fair Market Rent**

For HUD programs, the term "Fair Market Rent" (FMR) means a gross rent estimate. FMRs are used to determine the payment standard for the Housing Choice Voucher program, to determine initial renewal rents for some expiring project-based Section 8 contracts and initial rents in the Section 8 Moderate Rehabilitation SRO program, and in setting ceiling rents in the HOME tenant-based rental assistance program. The FMR includes the shelter rent and the cost of most tenant-paid utilities.

## **Exception Rent**

An Exception Rent is an above-market rent.

## **Asking Rent**

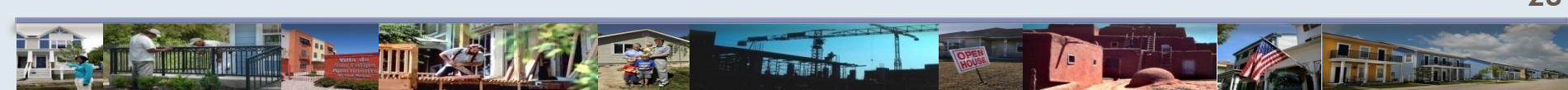
The Asking Rent is the HAP(contract) rent requested by an owner.





# HAP RENTS FOR CONVERTED PROPERTIES

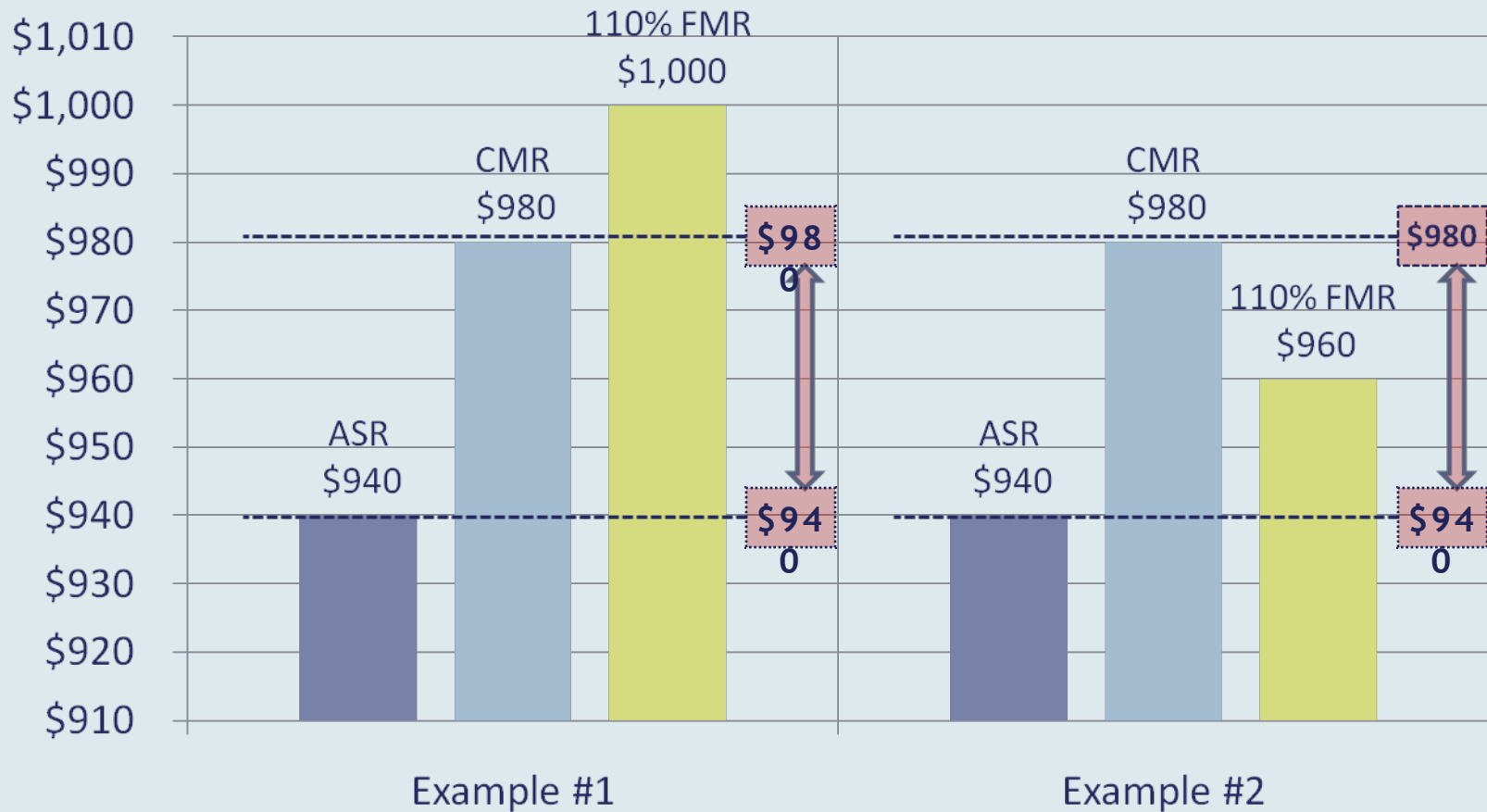
- For properties sustainable at or below the CMR, the asking rent will be capped at the CMR, up to 110% of the applicable FMR, unless HUD approves a higher level for preservation-worthiness.\*
  - For properties requiring above-market rents, and that meet HUD-established criteria for preservation-worthiness, HUD could approve an exception rent capped at the higher of 110% of the FMR or 120% of the CMR.
- \*Alternately, a below-market rent would be permitted for a property that is sustainable at such lower rent. A PHA might request an asking rent below market as a result of the conversion competition (i.e., to participate in the initial authorization). Further, HUD could approve a below-market rent if the conversion competition did not prevent “windfall” rents - for example, a recently completed HOPE VI project where HUD paid to construct the units but where market rents greatly exceed operating needs.





# HAP RENT ILLUSTRATIONS

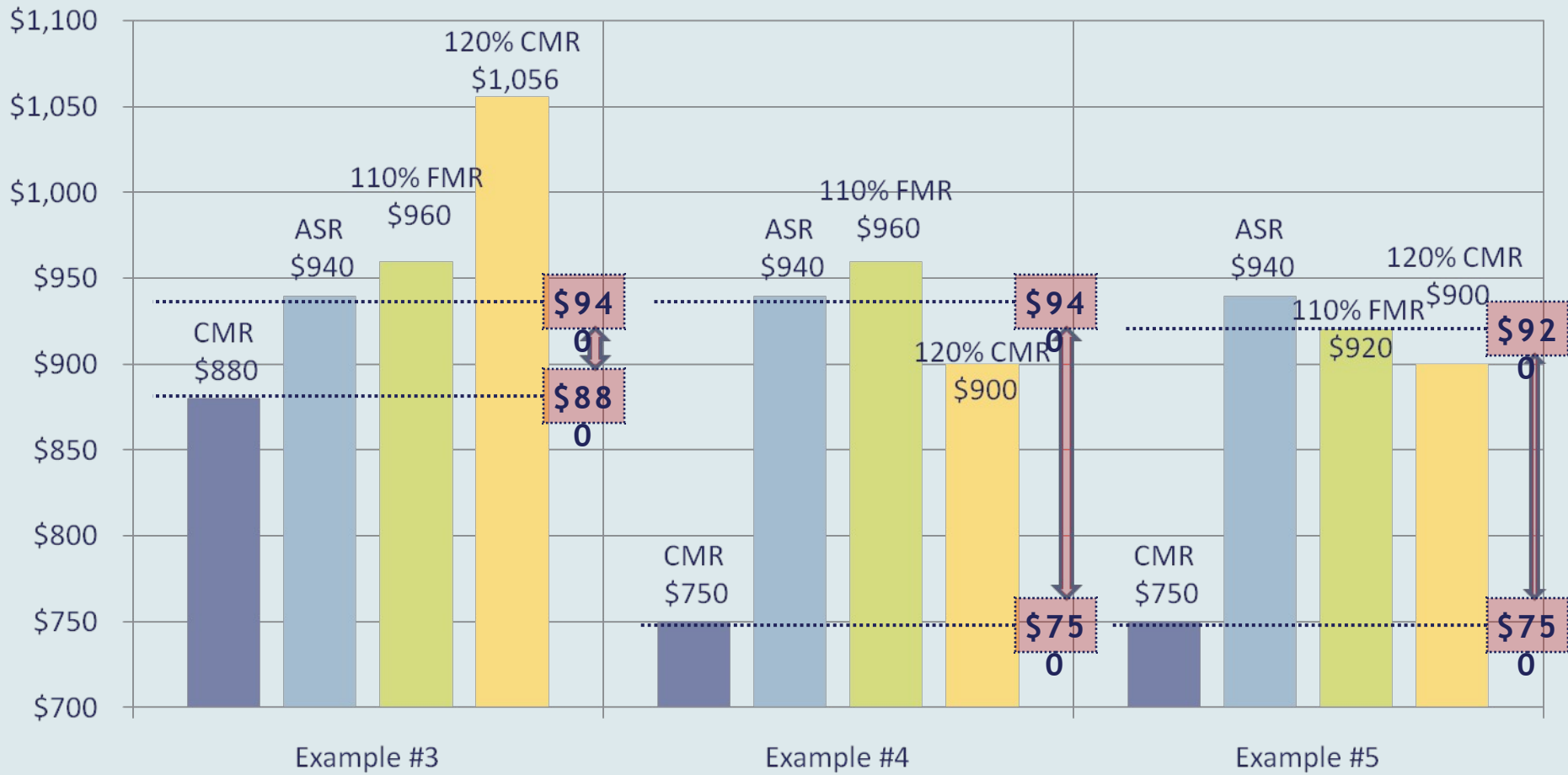
## Rents at or below market





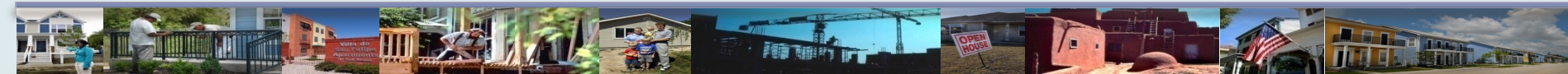
# HAP RENT ILLUSTRATIONS

## Rents above market



# Cost and Leveraging Scenarios

- Scenario 1 - Market
- Scenario 2 - Exception Rent
- Scenario 3 - Hybrid



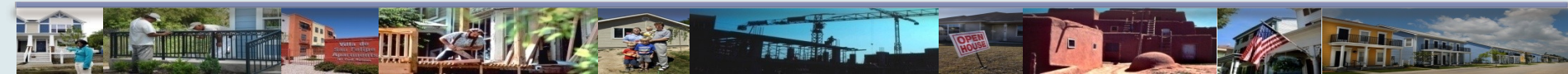


# PH CONVERSION COSTS

	Additional Annual Program Costs*		Debt Leveraging Potential	
	Total	Per Unit	Total	Per Unit
Scenario 1 - Market	\$817 million	\$738	\$20.7 billion	\$17,712
Scenario 2 - Exception Rent	\$1.6 billion	\$1,461	\$28.9 billion	\$26,065
Scenario 3 - Hybrid	\$1.2 billion	\$1,071	\$24.5 billion	\$22,156

\*Based on 2011 Budget for Public Housing Operating and Capital Funds

\*\*Figures exclude 10 MTW agencies with alternative funding formulas

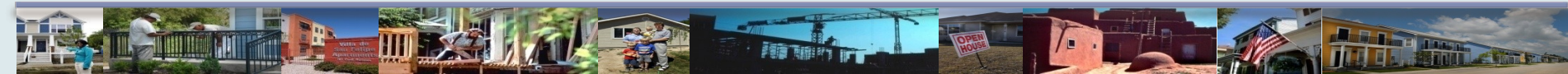






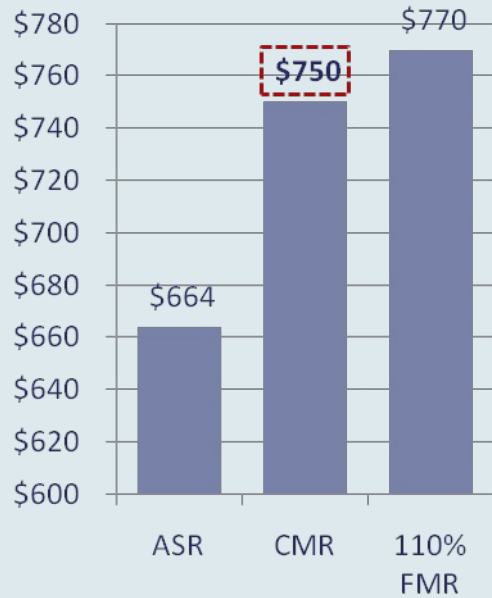
# PH CAPITAL LEVERAGING POTENTIAL

Capital Leveraging Potential, per unit	Scenario 1 Market	Scenario 2 Exception Rent	Scenario 3 Hybrid
Less than \$5,000	21%	2%	7%
\$5,000 - \$9,999	12%	3%	8%
\$10,000 - \$14,999	14%	4%	11%
\$15,000 - \$19,999	8%	9%	21%
\$20,000 - \$24,999	7%	9%	15%
\$25,000 or more	38%	73%	38%





# EXAMPLE: RENTS AT OR BELOW MARKET



	Total	Per Unit
Immediate capital needs (Financed)	\$2,500,000	\$25,000
20 yr capital needs (Reserve funded)	840,000	8,400
<b>Total Capital Needs *</b>	<b>\$3,340,000</b>	<b>\$33,400</b>
20 yr Replacement Reserve Funding	(840,000)	(8,400)
Initial Reserve Deposit (for reserve cushion)	50,000	500
Financing Fees (4%)	102,000	1,020
<b>Amount to Finance</b>	<b>\$2,652,000</b>	<b>\$26,520</b>
	<i>Total</i>	<i>PUM</i>
Gross Potential Rents	\$900,000	\$750
Adjustments to GPR**	(18,000)	(15)
Effective Gross Income	\$882,000	\$735
(Operating Expenses)	(500,000)	(417)
(Annual Reserve Deposit)	(42,000)	(35)
<b>Net Operating Income</b>	<b>\$340,000</b>	<b>\$283</b>
Debt Service***	(283,333)	(236)
Cash Flow Total	\$56,667	\$47
	<i>Total</i>	<i>Per Unit</i>
<b>Debt Leveraged</b>	<b>\$3,781,000</b>	<b>\$37,810</b>
Financing Surplus/(Deficit)	\$1,129,000	\$11,290

\* Immediate capital needs are financed, while the accrual of capital needs over the next 20 years is funded through annual deposits into replacement reserves

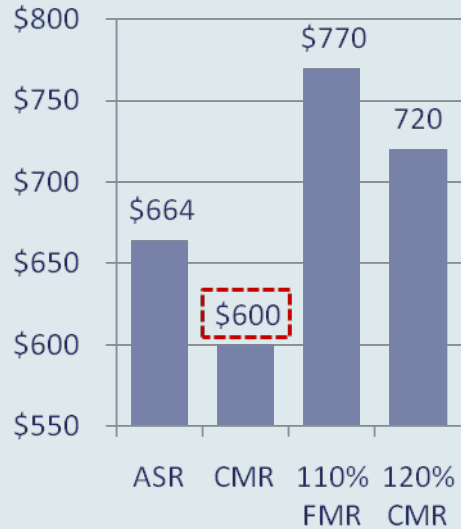
\*\* Assumes 2% vacancy loss, 1% bad debt loss, and 1% proceeds from other income

\*\*\* Terms: 6.25% loan, 0.045% MIP for 35 years at 1.2:1 DSCR





# EXAMPLE: RENTS ABOVE MARKET

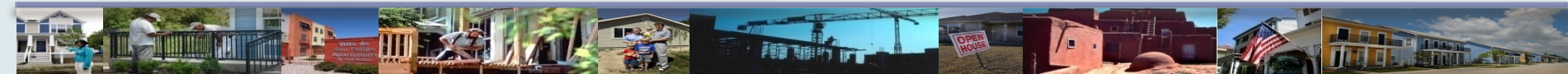


	Total	Per Unit
Immediate capital needs (Financed)	\$2,500,000	\$25,000
20 yr capital needs (Reserve funded)	840,000	8,400
<b>Total Capital Needs *</b>	<b>\$3,340,000</b>	<b>\$33,400</b>
20 yr Replacement Reserve Funding	(840,000)	(8,400)
Initial Reserve Deposit (for reserve cushion)	50,000	500
Financing Fees (4%)	102,000	1,020
<b>Amount to Finance</b>	<b>\$2,652,000</b>	<b>\$26,520</b>
	Total	PUM
Gross Potential Rents	\$720,000	\$600
Adjustments to GPR**	(14,400)	(12)
Effective Gross Income	\$705,600	\$588
(Operating Expenses)	(500,000)	(417)
(Annual Reserve Deposit)	(42,000)	(35)
<b>Net Operating Income</b>	<b>\$163,600</b>	<b>\$136</b>
Debt Service***	(136,333)	(114)
Cash Flow Total	\$27,267	\$23
	Total	Per Unit
<b>Debt Leveraged</b>	<b>\$1,820,000</b>	<b>\$18,200</b>
Financing Surplus/(Deficit)	(\$832,000)	(\$8,320)

\* Immediate capital needs are financed, while the accrual of capital needs over the next 20 years is funded through annual deposits into replacement reserves

\*\* Assumes 2% vacancy loss, 1% bad debt loss, and 1% proceeds from other income

\*\*\* Terms: 6.25% loan, 0.045% MIP for 35 years at 1.2:1 DSCR





# PHASE ONE IMPLEMENTATION TIMELINE

---

If legislation is enacted in **2010**:

- Program Announcement/Invitation: **Early 2011**
- Selections: **Mid/late 2011**
- Underwriting: **Late 2011/mid 2012**
- Rehabilitation: **2012 - 2013**





# TRA EVENTS AND RESOURCES

---

## Visit the TRA Web page

[http://portal.hud.gov/portal/page/portal/HUD/fy2011budget/signature\\_initiatives/transforming\\_rental\\_assistance](http://portal.hud.gov/portal/page/portal/HUD/fy2011budget/signature_initiatives/transforming_rental_assistance)

## Join the TRA E-Mail List

Follow the instructions at the bottom of the TRA Web page.

Continue to Submit Your Comments and Questions to [TRA@hud.gov](mailto:TRA@hud.gov)

