

MTW and RAD – How Agencies and Residents Alike Can Benefit

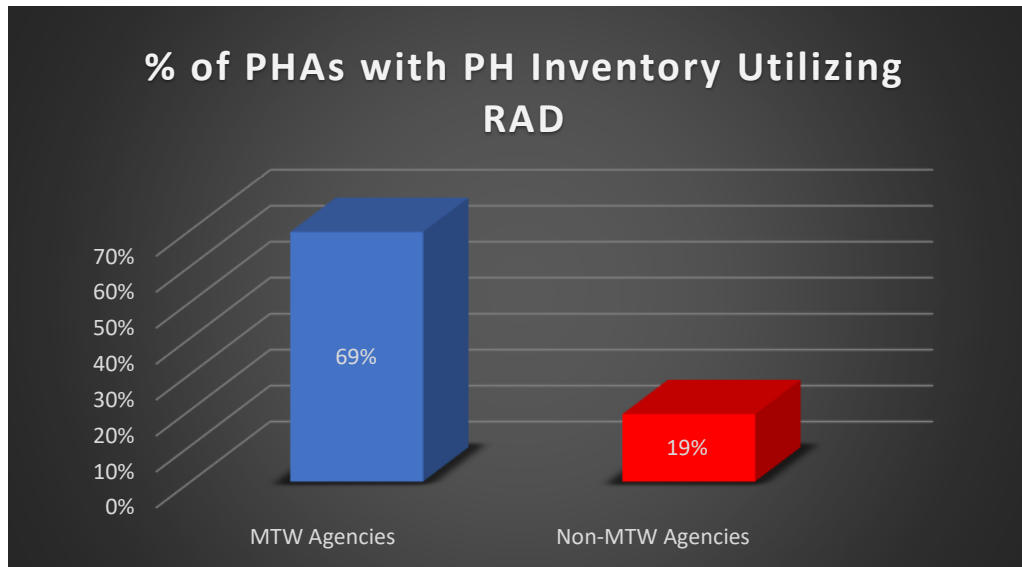
Overview

Moving to Work (MTW) Demonstration agencies have extensively utilized the Rental Assistance Demonstration (RAD) to convert Public Housing (PH) units to the Project-Based Voucher (PBV) program or the Project-Based Rental Assistance (PBRA) program. The primary benefit of RAD is that properties converting under this process are no longer restricted from securing third party sources of capital financing (i.e., debt), and the owners are therefore able to preserve valuable low-income housing by addressing deferred maintenance issues that have caused PH and other HUD rental stock to deteriorate nationwide. By drawing on an established industry of lenders (i.e., banks, syndicators, investors), owners, and stakeholders, RAD allows public housing authorities (PHA) and owners of HUD-assisted housing to preserve and improve affordable housing units that could be subject to closure due to unit health and safety, and ultimately be subject to demolition.

By also having access to tools provided under its MTW authority, these agencies can reposition their PH portfolios while also implementing policy reforms that can achieve greater cost effectiveness, promote self-sufficiency, and increase housing choice for residents. Coupling the RAD program with MTW flexibilities has allowed MTW agencies to test various approaches for providing and administering housing programs, safeguarding long-term housing assistance, modernizing its properties and providing greater funding support.

RAD and MTW Together

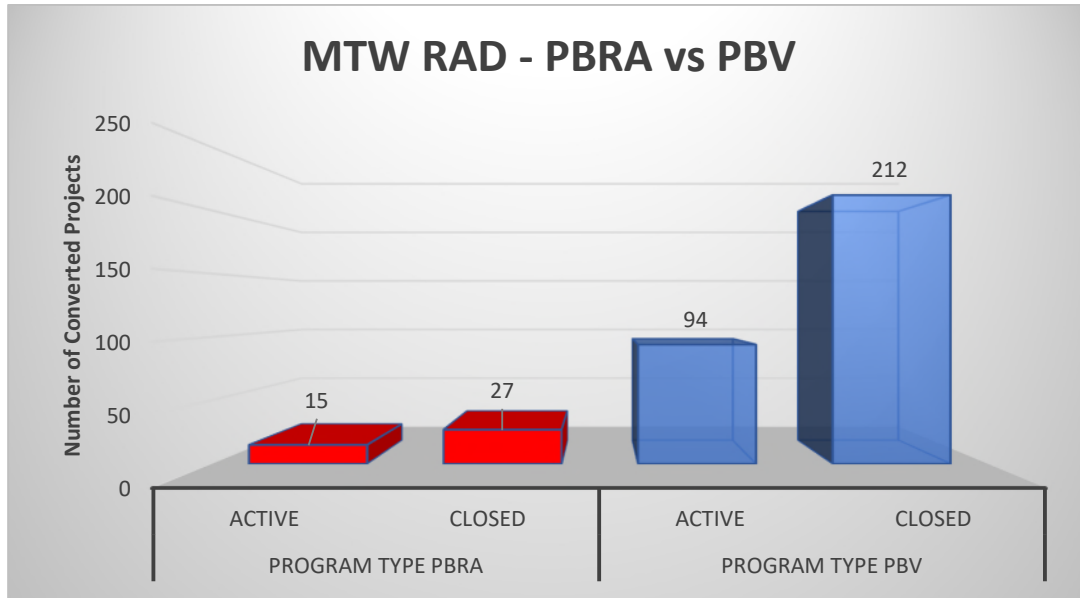
When RAD was launched in 2012, 36 of the 39 MTW agencies had a PH inventory, and as of January 2020, 25 agencies (or 69%) are participants in the RAD program (with 4 agencies now having fully converted to RAD). By comparison, of the approximately 2,698 non-MTW agencies with a PH inventory, 506 agencies (or 19%) are participants in the RAD demonstration (see comparison graph below).



Twenty-three (23) of the 25 MTW agencies participating in RAD have already closed deals, with 2 MTW agencies having submitting applications that are currently in the pipeline. MTW agencies have closed two-hundred and thirty-nine (239) RAD deals totaling **23,103 units** (accounting for 18% of all of the 128,957 units converted in RAD deals nationwide); an additional 11,662 units from 109 RAD projects are in the process of converting.

A total of **18,854 units (or 82%)** have converted to PBV, and **4,249 units (or 18%)** have converted to PBRA. An additional 109 converting projects have been awarded Commitment to Enter Housing Assistance Payment (CHAP) contracts, totaling 348 RAD deals as of January 2020.

Below is a comparison of the utilization of PBV and PBRA platforms by MTW agencies:



When an MTW agency decides to pursue RAD in order to convert a PH property, they must choose between PBV and PBRA. As the above illustration shows, MTW agencies heavily prefer choosing the PBV platform. While both platforms are similar project-based programs, there are many distinct differences (from rent setting, to site selection, to mobility options, etc.) that an MTW agency must consider. Perhaps most importantly, an MTW agency must factor in that if it chooses the PBRA platform for its RAD conversion, the covered project will no longer be part of its agency’s MTW program and it cannot apply any MTW flexibilities to the program rules governing the management and occupancy of the residents.. If they choose to convert to PBV, the covered project remains under its MTW program and the agency may apply any MTW flexibilities that do not conflict with any RAD requirements.¹

¹ For more information on RAD requirements, please reference RAD Notice Revision 4 (Notice H-2019-09 PIH-2019-23 (HA)) here: https://www.hud.gov/sites/dfiles/Housing/documents/H-2019-09-PIH-2019-23_RAD_Notice%20Rev4_20190905.pdf

Below are some of the many MTW flexibilities that agencies have utilized, upon HUD approval, in conjunction with a RAD conversion:

- **Augmenting Rents** – One of the more widely used MTW flexibilities in conjunction with the RAD platform is the ability to augment contract rents. Sixty-six percent (66%), or 15 of the 23 MTW agencies that have had RAD deals closed have utilized this MTW flexibility for 80 different properties, comprising 5,579 units. MTW agencies may use their MTW funds to set the initial contract rents higher than the normally applicable contract rent cap that is based on the project’s PH subsidy (provided the agency agrees to any necessary corresponding funding reductions to offset the augmented rents). MTW agencies can supplement the RAD contract rents in order to make their RAD conversions viable with their MTW funding, provided they continue to serve the same number of families, provided that they otherwise don’t exceed the RAD rent caps and that the transaction satisfies the subsidy layering review. Without rent augmentation, properties otherwise may not have sufficient cash flow in order to be a viable RAD deal.
- **Additional Source of Capital** – MTW agencies may use certain PH and voucher funds authorized under their MTW funding flexibility as an additional source of capital to support conversion. This additional source of capital is crucial in addressing the physical needs of an agency’s PH stock. This flexibility supports the low-income housing properties and the residents to help ensure the modernization and upgrades to units.
- **Simplifying the Housing Quality Standards (HQS) Inspections Process** – As part of the Housing Choice Voucher (HCV) program, all PHAs are required to ensure that properties meet established criteria necessary for the health and safety of program participants. MTW agencies have taken a number of steps to streamline the HQS inspection process at RAD properties to achieve administrative and cost efficiencies, including inspecting units biennially instead of annually, inspecting only a percentage of units in a building, modifying inspection dates to allow inspectors to inspect multiple units in a building or area at the same time, implementing modified inspection standards that go beyond the HUD-mandated HQS requirements, and allowing landlords to self-certify that the units meet HQS standards. In contrast to non-MTW agencies, MTW

agencies may inspect their own PBV properties – including RAD projects – in lieu of using a third-party. MTW agencies have achieved greater cost savings by using their own inspectors to certify agency-owned or managed RAD PBV projects.

- **Modifying the Rent Reasonableness Process** – MTW agencies may create alternative methods in determining whether rents charged in the RAD PBV project are reasonable.
- **Occupancy Policies** – Occupancy policy reforms, from simplifying utility allowances, changing the timing of inspections, to modifications in asset, income, and rent calculations have all been widely utilized in RAD properties by MTW agencies. These policy changes allow an MTW agency to ease the administrative burden on both families and staff and focus more on promoting increased household savings and self-sufficiency.
- **Self-Sufficiency Programs** – By preserving and improving affordable housing communities including at RAD sites, MTW agencies utilize their MTW funding flexibilities to provide economic self-sufficiency opportunities and supportive services that can help enable a successful transition to self-sufficiency.

Examples of MTW Policies Implemented at RAD PBV Properties²

- **Charlotte Housing Authority (CHA)** – CHA, also known as INLIVIAN, is converting its entire PH inventory to RAD and is using MTW authority to supplement RAD contract rents so that properties are financially viable. CHA’s ability to utilize MTW funding flexibilities to supplement rents were critical in ensuring the financial viability of projects. CHA is also using its MTW flexibilities around calculation of rent, alternative re-examination schedules, and other occupancy policies.
- **Boulder Housing Partners (BHP)** – Using the results of Harvard Economist Raj Chetty’s mobility research and its MTW authority, BHP has created the *Bringing School Home* initiative at its family properties, including RAD PBV sites. Families with children are housed at certain sites and offer intensive supportive and educational services by a partner organization.

² Examples of MTW Policies Implemented at RAD PBV Properties have been pulled from agency MTW Plans, MTW reports and agency websites.

BHP successfully completed a project known as Project Renovate in December 2016. Project Renovate represents an agency-wide effort to recapitalize and convert 279 units on 6 non-contiguous properties. This RAD conversion, which also used Low-Income Housing Tax Credits (LIHTC) resulted in the substantial rehabilitation of 135 RAD units and 144 LIHTC units, with the average cost of rehabilitation per unit of approximately 98k and a total development budget of nearly \$90 million.

Below are some “before and after” photos of RAD projects successfully completed by BHP.

(1) Diagonal Court - 30 converted PH units.

Before



After



(2) Kalmia - 49 converted PH units

Before



After



(3) Northport 50 converted PH units

Before



After



- **Philadelphia Housing Authority (PHA)** – RAD contract rents may be lower than what could be set in the local, private market, so the need for annual reasonable rent reviews may be unnecessary. PHA has implemented a reasonable rent policy for the HCV program, including at RAD PBV developments, whereby reasonable rent determinations are completed at initial lease-up, upon request for a rent increase, and at other times PHA deems it necessary to conduct a reasonable rent redetermination. PHA also applies the following rent simplification initiatives to the RAD program: two- and three-year recertifications; limits on interim recertifications, and an alternative rent structure.
- **Cambridge Housing Authority (CHA)** – As CHA’s PH properties convert to RAD, three different rent structures impact the final determination of the rent charged to the residents:
 - Existing CHA Ceiling Rent
 - Tax Credit Maximum Rent
 - Contract Rent

With three rent structures, residents in different units were paying significantly different amounts in rent even within the same development. By utilizing its MTW flexibilities, CHA was able to implement a rent reform MTW activity that could balance the statutory regulations between the LIHTC program and the HCV program which resulted in a fair and equitable rent policy for all residents.

- **District of Columbia Housing Authority (DCHA)** – DCHA is planning to use its MTW authority to revise the RAD rent phase-in policy to mitigate the impact of rent changes households may experience when converting from PH flat rents to the PBV subsidy.

Results

As a result of applying a broad range of MTW flexibilities to their RAD portfolios, MTW agencies have seen many benefits to both residents and the MTW agencies.³ Some of the major benefits realized for the MTW agencies include financing rehabilitation efforts with PH reserves, utilizing MTW funding flexibilities to achieve a healthier financial position and new debt if needed for long term maintenance of properties in the future. Through RAD conversion, MTW agencies are able to access equity (primarily through the LIHTC program) and other funds to invest in existing agency developments as well as to leverage new funding to replace obsolete units and “transfer assistance” to other new developments.

Some of the major benefits realized for the residents of the converted projects include continued access to supportive services provided through various MTW activities, preserved long-term housing units in desirable areas in former PH sites, and continued participation in self-sufficiency programs that may be localized at specific RAD sites.

The Future of MTW and RAD

Current MTW agencies continue to re-position their PH portfolios by utilizing the RAD program as they explore locally focused solutions to preserving and modernizing affordable housing, to achieving cost effectiveness, and promoting self-sufficiency within the communities they serve. Three hundred and forty-eight (348) RAD projects from MTW agencies (239 closed and 109 in

³ See <https://spark.adobe.com/page/Ol73jvnJqn70u/> for highlights on how the Chicago Housing Authority and its residents have benefited from RAD and MTW.

the pipeline) total 34,765 units as of January 2020. The approximately 90,000 PH units remaining in inventory at MTW agencies across the country may benefit from utilizing RAD as a means of repositioning their portfolio as demonstrated in this report.

With the MTW expansion currently underway, HUD will be designating an additional 100 public housing agencies with MTW status within the next few years. As the MTW program continues to grow, and as MTW agencies continue test innovative solutions to issues directly affecting HUD communities, the success stories of coupling the MTW Demonstration with the RAD may provide a template that can be utilized by agencies nationwide.