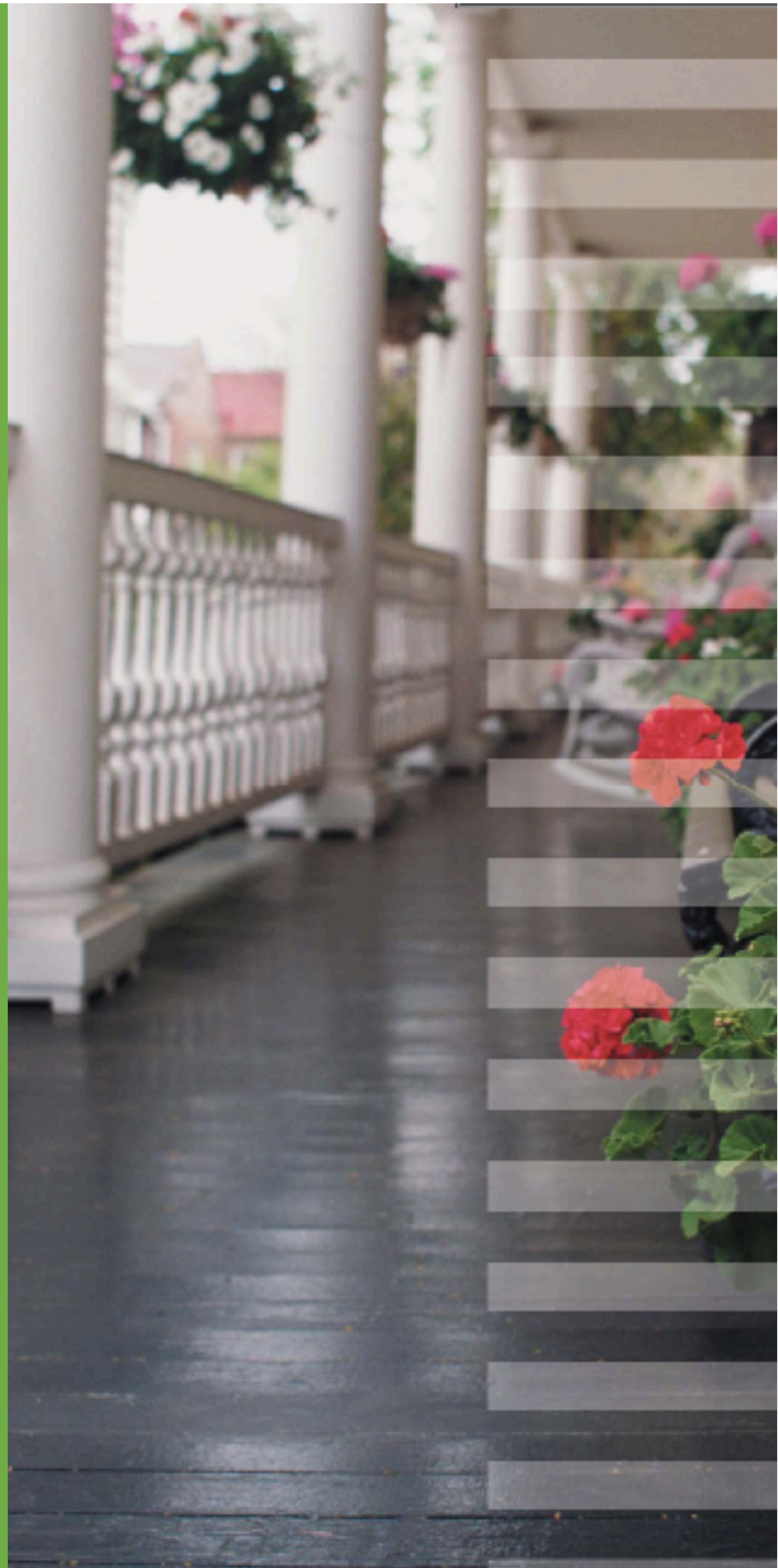
Riverbank Housing Authority

Asset Repositioning Assessment

June 2019



Prepared by
The Communities Group

The unit at right is one of 90 units owned by the Riverbank Housing Authority, located on Sierra Street. These Scheela Apartment downtown units serve seniors and persons with disabilities. Other units are located in other areas of Riverbank. Thirty of the 90 units are duplexes that serve families.

Riverbank Housing Authority Asset Repositioning Assessment

D R A F T 6/16/19

I. Introduction

In March, 2019, HUD's Office of Public and Indian Housing contracted with Enterprise Community Partners to provide short-term technical assistance to small Public Housing Authorities in assessing their options available to reposition their public housing properties (Funder Agreement C-15-TA-MD-0009). Enterprise has subcontracted with The Communities Group (TCG) to assess the properties of the Riverbank Housing Authority (Authority, or PHA), operated through the Stanislaus County Housing Authority. The authority provided information on its two public housing properties, which allowed TCG to draft an analysis for discussion on a kick-off call, which was attended by PHA staff, HUD Field Office Staff, and a representative of HUD's Special Application Center (SAC). Based on the initial analysis, the discussion on the kick-off call, and subsequent analysis, TCG prepared this (draft) report for review and further discussion. This report will be finalized after additional discussions and analysis.

II. Reason for Analysis

The public housing stock nationwide is aging and has capital needs that exceed resources being provided by Congress. This has resulted in gradual decay and leads to the loss of affordable housing units serving those in greatest need. In the last study undertaken by HUD to examine the backlog of capital projects, total unmet needs exceeded $26 Billion dollars ($22,000 per unit). The Riverbank PHA's real estate portfolio follows the same trend. The units were constructed in the late 1940s and the early 1950s. The duplex units are traditional barracks style, and are the more distressed of their properties. Management staff indicated that infrastructure is in bad condition. All units are occupied, due more to the dearth of affordable housing in Riverbank

At the same time capital needs increase nationwide, the trend has been that Congress has reduced funds to address the growing backlog — 29% over a recent ten-year period[1]. Without change, the valuable resource of deep-subsidy public housing will continue to deteriorate or be lost.

Public housing has its origin in the 1937 *National Housing Act*, which was a response to the Great Depression. The initial model for development of affordable housing, which was also used to address the tenements that had arisen during the depression, was a public sector model—creation of local agencies, supported by federal governmental funds for development. Over 1.2 million units of public housing were developed, and by the 1980s, 80% of the current housing stock had been built. The Section 8 program was originated in 1974, and shifted government-supported affordable housing development to a private-sector approach, with private firms and non-profits developing and managing the housing, and the government providing operating subsidies to assist those with very low incomes to pay only a percentage of their adjusted income (currently 30%).

Public Housing was originally conceived as temporary housing. The federal government provided funding for site acquisition and development. The local government (through a Cooperation Agreement) set up a local housing authority to operate the housing. The tax jurisdiction provided for a Payment in Lieu of Taxes (PILOT) instead of regular property taxes, in order to reduce the operating costs and the tenants needed to pay sufficient rent to cover the operating costs. The *National Housing Act* was amended in 1969 to limit rent payments to 25% of adjusted income under what is known as the *Brooke Amendment*. As a result, HUD needed Congressional funding for both operating subsidy and capital subsidy. HUD approves the operating budget of PHAs, and these subsidies have not been sufficient to allow a PHA to establish and fund reserves for replacement, leaving only the capital fund subsidy as the main resource for addressing capital needs.

[1] The past two years have seen an increase in capital fund grants to PHAs, but this is an anomaly, and will likely be curtailed as Congress addresses substantial budget deficits.

As public housing has aged, sites and facilities have become obsolete and less adequate for today's needs, HUD has developed a number of initiatives to address this problem. The following are the main HUD resources currently available to public housing authorities for capital improvements or redevelopment of their public housing developments. They are discussed in more depth later, specifically as they relate to Riverbank's portfolio.

Capital Fund Subsidy: all PHAs annually receive capital fund subsidy based on a formula, determined by age, size and the type of building. Nationwide, a PHA receives about $1,700 per unit per year for a typical family development. High performing PHAs receive an additional 10% of these funds. Riverbank is currently receiving $2,064 per unit per year in capital fund subsidy.

Capital Fund Financing Program: This program (CFFP) allows a PHA to borrow against its future stream of capital funds in order to undertake capital improvements. The debt is secured by the capital fund grants, and not by the properties themselves. Maximum loan term is 15 years, and the debt service is capped at 33% of the annual allocation of capital funding. HUD later developed an Operating Fund Financing Program as well.

HOPE VI/Choice Neighborhood Initiative (CNI): In 1990, Congress began implementing a series of programs under the title: *Housing Opportunities for People Everywhere* (HOPE), with the last of those programs, added in 1993, being HOPE VI, which was a competitive grant program for the redevelopment of severely distressed public housing, in distressed neighborhoods. Through HOPE VI, about 130,000 units were demolished, with around 63,000 units of replacement public housing being developed in their place, along with a considerable number of additional affordable units. This program was supported by $6.2 billion in capital fund grants. In 2011, this program was replaced by the *Choice Neighborhood Initiative* competitive grant program, with grants currently available up to $30 million. Typically, only 5 or 6 grants are made annually, which results in a very competitive and expensive application process. In 2019, only 3 grants were awarded.

Special Applications Center Section 18 Demolition and Disposition Authorizations: This HUD Center receives applications from PHAs to either demolish or dispose of public housing assets. For demolition approval, the PHA must document that the immediate capital needs equal or exceed 57.14% of HUD's permitted total development cost for new public housing for family developments or 62.5% of the permitted total development cost for "elevator buildings." This is a high barrier of entry, since HUD only wants to permit the most distressed properties to be removed from the public housing inventory. For properties having this level of capital needs, demolition or disposition approval makes Section 8 Tenant Protection Vouchers (TPV) available, which are a valuable resource. These are "new vouchers", and for agencies with their own Housing Choice Voucher program, they are added to the vouchers already in that program. These TPVs can be project-based, in support of preservation or redevelopment.

Rental Assistance Demonstration Program (RAD): In 2012, Congress authorized a demonstration program to permit conversion of public housing to a modified project-based Section 8 program. Although the program allows converting public housing to Section 8, it does not provide new funding. The RAD program Section 8 vouchers are limited to the funding at the time of the conversion. The initial 60,000 units authorized for this demonstration has now grown to 455,000 units through the *Consolidated Omnibus Appropriations Bill of 2018*. The *Act* also extended the last day for submitting RAD applications from 9/30/2020 to 9/30/24. A new RAD Notice was released July 2nd, 2018. This Notice modifies a number of the program requirements. A fuller revised RAD notice is anticipated to be released prior to the end of July of this year. HUD has also recently modified both RAD and Section 18 programs to help make them work better to address the needs of PHA properties. Virtually all public housing authorities and their properties are eligible for the RAD program, which to date (June 2019) has Closed on 114,456 units in 1,045 projects. Of these, about 15% have been projects of small PHAs: 14,438 units in 161 projects.

Mixed Finance: Since 1998, with the *Quality Housing and Workforce Responsibility Act* (QHWRA), housing authorities have been able to mix public housing subsidies with private resources such as debt, bonds, and tax credits. In general, this is called "Mixed-Finance." This was done initially to support the HOPE VI program, allowing HOPE VI projects to leverage public resources with private sector resources.

Streamlined Voluntary Conversion: In March, 2019, HUD Notice 2019-05 modified the Voluntary Conversion program (Section 22) to waive the cost test, allowing PHAs with 250 or fewer units to convert their public housing program to Section 8, receiving Tenant Protection Vouchers (TPVs) to be offered to the resident households; this modified Voluntary Conversion program is referred to as "Streamlined Voluntary Conversion". These households can voluntarily agree to allow the PHA to project-based these vouchers to support preservation or redevelopment.

In addition to these HUD initiatives, private resources are available to be leveraged to support preservation and redevelopment. The main sources include:

Debt: Under HOPE VI/CNI, RAD, Mixed-Finance, Section 18 and Section 22, Replacement or Disposition redevelopment, debt can be secured by the public housing (or former public housing) assets. It can be conventional debt, bond financing, or FHA-insured debt, supported by Net Operating Income (revenues less expenses and contributions to reserves).

Low-Income Housing Tax Credits (LIHTC): This is a Federal tax credit that is administered through each State's Housing Financing Agency. The 9% program is highly competitive since it provides a very deep tax subsidy that can cover 80% or more of the cost of developing or substantially rehabilitating affordable housing. The 4% program is marginally competitive and an application needs to meet a threshold score that virtually all projects achieve. The 4% program generates less than half of the 9% program in terms of tax credits sold to investors for project equity.

Other Resources: There are numerous other resources that can support preservation or redevelopment of older public housing, including, for example: State tax credits; historic tax credits; grants and low-cost loans, such as from the Federal Home Loan Bank's Affordable Housing Program; local CDBG and HOME funds; and deferred developer fees.

III. Method for Repositioning Analysis

Fundamentally, PHAs have a binary choice: Maintain public housing under a "business as usual" model, or convert from public housing (Section 9) to Section 8. Nearly all of the repositioning options involve converting to a form of Section 8. RAD is a "no new funding" program, under which the existing public housing subsidy is converted to a modified Section 8 model, which usually has contract rents lower than the traditional Section 8 program. There are markets, however, where RAD could have rents higher than the traditional Section 8 program. Section 18 and Section 22 (Streamlined Voluntary Conversion) repositioning options have contract rents tied to 110% of Fair Market Rents, rather than rents based on current level of public housing subsidy.

As a result, the first step in the analysis is to compare the levels of rent under a) current public housing (Section 9) funding; b) RAD PBV and RAD PBRA; and c) "conventional" Section 8. The chart on the following page shows the comparison for Riverbank, and the detailed calculations are provided in the attachments. Current public housing funding is $685 PUM (per unit per month). RAD permits converting to Section 8 through project-based vouchers (PBV), or through project-based rental assistance (PBRA). Each of these alternatives has different caps spelled out in the RAD Notice. Under RAD PBV, the rents are initially set at the *lowest of*: current funding; or 110% of FMRs less utility allowance; or Rent Reasonableness. Under RAD PBRA, the rents are initially set at the lower of: a) current funding; or, b) 120% of FMRs less utility allowances (which in some situations can be increase to as high as 150% of FMRs). As shown on the chart below, for Riverbank, the RAD PBV and RAD PBRA rents are the same as current funding: $685 PUM.

When converting to Section through either the Section 18 or Streamlined Voluntary Conversion (Section 22) options, the rent is capped at the lower of a) 110% of FMRs less utility allowances; or b) Rent Reasonable levels[2]. For Riverbank, the average Section 8 rent is $872 PUM, which is 27% higher than the RAD rent levels. This results in $4.0 million in increased rent through TPV/Section 18/Section 22, in effect focusing Riverbank'

[2] These numbers are determined by the authority through a comparability analysis. When PHAs are administering Section 8 units on a project related to the authority, a third-party analysis is required. HQS inspections will also need to be performed by a third-party, rather than the authority itself.

repositioning strategies on Section 18 and Section 22, rather than RAD. See attachments for detailed calculation of rent levels.

PH Repositioning Options

PHA: CA072	**Riverbank Housing Authority, Stanislaus County, CA**		
PH Units		90	
PH Projects		1	Sheela Apartments
Section 8 HCV Program		4,873	Vouchers
Partner PHA for HCV			Stanislaus County
Scattered Sites		No	Non-Contiguous, buildings </= 4 units; with operational challenges
Average Rents			*First Year Operating Revenue*
	RAD PBV	$ 685	$ 739,800
	RAD PBRA	$ 685	$ 739,800
	Sections 18/22	$ 872	$ 941,760

Program Resources	Eligibility	Feasibility	Notes
RAD	Yes		
Non-Financial		Yes	
Debt Only		No	
4% Rehab		Yes	Maximum Feasible Hard Cost </= $53,800
Rehab 75% RAD/25% TPV		No	Requires Hard Cost Rehab >/= 60% of HCC
Transfer of Assistance		Yes	
Streamlined RAD	No		Total ACC Units </= 50 units; no rehab or construction; total exit from PH
SECTION 22: SVC	Yes		Receive & Offer TPVs to tenants, need waivers to project-base (HCV/PBVs)
SECTION 18			
Demolition	TBD	TBD	Need Obsolescence Analysis; Backlog >/= 57.14% of TDC; 62.5% for Elevator
Disposition	TBD	TBD	Need Obsolescence Analysis; Backlog >/= 57.14% of TDC; 62.5% for Elevator
Scattered Sites to TPVs	TBD	TBD	Need to review site map(s); Physical Obsolescence Study not required
RAD 75/25	Yes	No?	See TCG analysis; Need $1MM in soft funds
SECTION 32 Ownership	Yes		
PRIVATE Sales by PHA/Other	Yes	No?	Vacate with TPVs, then Sell privately; Multi-family units not suited to sales, except as co-op or condo, with high degree of difficulty.

Given that RAD rents are significantly lower than Sections 18/22 rents, the RAD repositioning options will be mentioned only briefly in this report, although the annexes to this report include detailed analysis of RAD results.

The RAD program has a requirement that the PHA obtain an independent third-party capital needs assessment (CNA) covering a 20-year period using a life cycle analysis[3]. To

[3] Life-Cycle means that if specific capital elements have a life-cycle shorter than 20 years, it may possibly need to be replaced more than once in the analysis period. For example, if a hot water

be approved for conversion to RAD (modified) Section 8, the PHA needs to submit to HUD a financing plan that demonstrates that over the 20-year period, the PHA can address all the required capital upgrades identified in the CNA. This can be done in a number of different ways, mainly identified as: non-financial; debt-only; debt with tax credits; or transfer of assistance. Where a PHA has had such a study done, our analysis uses the results of that study to analyze feasibility. In the case of Riverbank, where a study has not been done as of this time, we calculate the maximum level of capital needs that can be addressed through a rehab, using both debt and 4% tax credits (which are non-competitive). Our analysis shows that for Riverbank the hard construction cost level of $44,000 per unit (uninflated) is supported through a RAD conversion, utilizing debt and 4% equity.

In addition to the capital needs analysis, the financial analysis needs to look at the current operating costs and performance indicators, and project what financial resources could be generated under various assumptions in regard to the options available to housing authorities for redevelopment, preservation, replacement or disposition of public housing properties. The resources include both HUD resources (such as the Capital Fund Financing Program, RAD, Section 18 Tenant Protection Vouchers), and potentially private sector resources, such as conventional debt, and Low-Income Housing Tax Credits.

The third major factor for the analysis is the programmatic and regulatory opportunities and restrictions related to HUD's various programs, which are also outlined in the next section.

The Table below shows the results for the RAD options in terms of hard cost budget supported by each option, assuming hard cost capital needs of $44,000 per unit, and also shows the total benefits to the PHA, for comparative purposes. The Surplus/(Deficit) reflects whether the development budget results in a gap or a surplus in terms of resources.

Conversion Approach	*Surplus/ Deficit*	*Result*	*Benefits To PHA*	*Per Unit Hard Budget*
Non-Financial	$ (704,780)	**Needs Additional Soft Funds to work as Non-Financial**	$ 4,047,220	$ -
Debt Only	$ (1,101,426)	**Debt Only RAD Conversion Needs Soft Funding**	$ 3,257,409	$ 23,150
RAD Rehab 4%	$ 93,671	**Project is Feasible as RAD 4%**	$ 6,403,468	$ 53,800
RAD Rehab/New 75/25 Blend	$ (974,915)	**Project Needs additional Soft Funds to Qualify for 75/25 Blended Rents**	$ 8,704,760	$ 83,497

The next table adds the results for a Rehab repositioning using Sections 18/22 rents either through Section 18 Disposition or Section 22 Streamlined Voluntary Conversion. As can be seen, the rental revenues and projected operating costs support a hard cost construction budget of $83,497 per unit, and has a surplus of sources of $892,330. The total benefits to the authority under this approach is $11.0 million, which is comprised of hard construction costs supported, 20-year contributions to reserves, and a

heater has a 12-year life cycle and it was installed 10 years ago, it will need to be replaced in two years and again in year 14 (at an inflated cost).

reasonable share of developer fee and 20-year cash flow. If the PHA or an affiliate can act as its own developer, the full balance of the developer fee and 20-year cash flow would be added to this.

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RAD Rehab/New 75/25 Blend	$ (974,915)	**Project Needs additional Soft Funds to Qualify for 75/25 Blended Rents**	$ 8,704,760	$ 83,497
Section 18 TPVs as PBV	$ 892,330	**Project covers 20-year Capital Needs**	$ 11,027,685	$ 83,497

IV. Riverbank Portfolio Assessment

The tools available to RHA to redevelop the existing current housing stock include the following programs and resources listed in the order from best to least financially advantageous (includes support for capital improvements and cash flow).

A. Choice Neighborhood Initiative (CNI)

The *Choice Neighborhood Initiative* (CNI) program provides up to $30 million in grant funds and includes Tenant Protection Vouchers (TPV) for all occupied units. It is also compatible with the *Rental Assistance Demonstration* (RAD) program. CNI is only available for certain development sites meeting the following threshold criteria: 1) certified as severely distressed and 2) located in a severely distressed neighborhood. These are determined by poverty rate and either long-term vacancy or a high rate of Part I Violent Crimes in the appropriate local precinct. This is a highly competitive program with a rigorous scoring system; it also requires firm financial leverage of at least $3 to $1 to be competitive. Mounting a competitive application is time-consuming and expensive. TCG's opinion is that neither of RHA's properties would be eligible or competitive for this option.

B. Section 18 Demolition or Disposition with Tenant Protection Vouchers

Overall, this is the second-best resource available in terms of financial resources available. HUD's Public and Indian Housing's (PIH) Special Application Center processes applications for demolition and/or disposition of public housing assets. With some exceptions, projects need to meet an Obsolescence Test in order to qualify for Demolition or Disposition approval. The test formula for non-elevator project sites is the backlog of capital needs[4] must equal or exceed 57.14% of HUD's Total Development Replacement Cost (TDC) and for elevator properties it must equal or exceed 62.5%. These are high barriers to meet the program requirements. For Riverbank's properties, TDC is $243,534

[4] Note that this is currently existing capital needs, up through year 3 of a capital needs assessment. It is not the same as the 20-year capital needs assessment and is usually a different analysis and report than a RAD physical conditions assessment or CNA.

per unit, and 57.14% of that is $139,156. Tenant Protection Vouchers (TPV) for all occupied units can be issued under a separate application process. TPVs have the same rent rates as RHA's Housing Choice Voucher Payment standard (Fair Market Value) which are higher than the RAD Contract Rents.

Under a recent revision to the Section 18 Notice (PIH 2018-04, March 2018), Scattered Site units are eligible to convert to TPVs (which can subsequently be project-based) without needing to meet the obsolescence test. Scattered site is defined as units in buildings of 4 or fewer units that are non-contiguous. TPVs are available for all units occupied within the past 24 months. RHA's duplex units will likely not qualify for this approach, but may be qualified under a separate exception, which is worth exploring with HUD's Special Application Center.

A second option under the revised Section 18 Notice is where a comprehensive rehabilitation is being undertaken through the RAD program, and the hard cost budget exceeds 60% of HUD's HCC number (which we have estimated to be $83,497 per unit), and the PHA is not using 9% LIHTC. TCG's analysis shows that Riverbank could achieve this level of hard cost budget through RAD, with less than $1 million in soft funding needed to close the development budget gap—which should be relatively easy to achieve.

C. Streamlined Voluntary Conversion (Section 22)

As noted above, in March 2019, HUD modified its Voluntary Conversion program to permit PHAs with 250 or fewer units to convert to Tenant Protection Vouchers. See PIH Notice 2019-05. This is limited to PHAs that wish to close out their public housing program. Unlike TPVs received through Section 18, when a PHA receives TPVs under Section 22, they must offer those vouchers to the existing tenants as tenant-based assistance. If the building(s) remain residential, families have the right to remain there, using tenant-based assistance. Families can voluntarily agree to allow the PHA to project base their vouchers.

In certain markets, where there is limited rental housing that accepts tenants with vouchers, or where private rental units do not meet HUD's Housing Quality Standards (HQS), or where the authority's properties are as good or better than competitive rental housing, the tenants may be willing to provide a waiver.

If a majority of tenants would likely provide a waiver, and some want to take the voucher directly, the PHA could possibly receive a commitment from the Stanislaus County Housing Authority to provide project-based vouchers to support preservation or redevelopment by committing (to the HFA, Lender, Investor) to back-fill units by project-basing that authority's vouchers, as units that have tenants who have opted to keep their voucher and remain in the units turn over.

D. Rental Assistance Demonstration (RAD)

After the highly competitive CNI program and the stringent requirements of the Section 18 Demolition/Disposition program, and Section 22 Streamlined Voluntary Conversion (which is limited to PHAs with 250 or fewer units), RAD is the best option for all other public housing projects. RAD is available for all public housing sites and is not currently competitive. The other options listed below that are less favorable than RAD include: Capital Fund Financing, Public Housing Mixed-Finance and "Business as Usual," relying only on capital funding for upgrades.

All of RHA's public housing sites are eligible for RAD. RAD can effectively preserve, improve or redevelop sites to one degree or another. As detailed in this report's section on *How Rad Works (See Appendix 1)*, this program can support rehabilitation, demolition and replacement at existing sites, transfer of assistance to another site or preserve the existing site without financing and upfront rehabilitation. As noted above under Section 18, HUD's new Notice on the Section 18 Demolition/Disposition Program (PIH 2018-04 (HA) provides several additional options for housing authorities that can support redevelopment or repositioning of public housing communities. One of these options relates to RAD Conversions that achieve a certain level of rehabilitation or redevelopment without utilizing 9% Low Income Housing Tax Credits (LIHTC).[5] This level is 60% of the Housing Construction Cost specified by HUD for the type of unit in question. If the housing construction rehabilitation cost meets this level, HUD will provide Tenant Protection Vouchers (TPVs) for up to 25% of the (occupied) units being rehabilitated. The net effect of this is that the project receives a boost in its operating revenue, increasing the ability of the project to support debt, allowing for a higher level of rehabilitation, and resulting in higher cash flow. Informally, this is referred to as the RAD 75/25 program, with 75% of the units being rehabbed having RAD Contract Rents, and the other 25% having the higher rents from the TPVs, resulting in the blended average.

The method for reviewing the potential of projects for RAD conversion is determined in the following manner: 1) Determine development sites that might be suitable for conversion without initial rehabilitation, which is known as a Non-Financial RAD conversion; 2) Review which projects need financing as part of the conversion to make them feasible; 3) Examine 4% LIHTC equity to determine if this level of leveraged capital will work; and 4) If 4% LIHTC does not provide enough equity, examine the 9% LIHTC to determine if it provides the required capital – typically projects that require demolition followed by new construction.

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[5] HUD annually publishes a list of maximum allowable Total Development Costs (TDCs) for public housing, by region, and by unit type (e.g., townhomes, elevator, row houses, etc.). This list also provides a number for Housing Construction Cost (HCC), which is about 60% of the TDC. This represents the contractor's cost for development of the units, utility laterals from the street, and finish landscaping, plus profit and overhead, and a contingency. It assumes payment of Davis Bacon wages and is derived from the average of two national indices. The difference between TDC and HCC is the Community Renewal Cost, which covers costs such as: planning, administration, site acquisition, relocation, non-residential facilities, on-site streets and infrastructure, remediation of environmental hazards, insurance, any initial operating deficit.

1. **<u>Non-Financial RAD Conversions.</u>** For this analysis, the capital needs assessment is the driving source of data, along with current operating expenses. It assesses the capital needs that are either already needed now, or that will be needed within a 20-year timeframe, based on a life-cycle analysis. A *Sources and Uses* budget and an *Operating Pro Forma* budget are set up to determine what level of annual reserve contributions, called Annual Deposits to the Reserves for Replacement (ADRR) can be afforded and how well the reserves will meet the capital needs over the 20 years. To the extent that there is a shortfall, an Initial Deposit to the Reserves for Replacements (IDRR) would be needed to balance out the 20-year budgets. A recent CNA is needed in order to fully assess this option for RHA's properties.

2. **<u>Financial Leveraged RAD Conversions.</u>** Debt-Only RAD conversion calculates the net operating income based on RAD contract rents and an assumption of reduction in operating costs due to addressing the backlog of capital needs (reducing maintenance costs), and including additional energy conservation measures in the scope of the rehab. TCG's analysis of this option for Riverbank shows that it would support an upfront rehab of $23,150 per unit, with the ability to contribute $450 PUPA to the reserves, covering total capital needs of $36,750 (uninflated). Depending on the level of total capital needs, additional soft funding would be needed. A RAD conversion based on debt and 4% LIHTC, the project can support up to $53,800 per unit in hard construction cost, with a balanced sources and uses budget. Using the blended RAD and TPV rents, the hard cost budget needs to be at $83,497 per unit. It would require $974,915 in an initial deposit to the reserves (IDRR) or other soft sources of financing to close the gap on this development budget.

E. Homeownership and Sales Possibilities

HUD Office of Public and Indian Housing (PIH) has long had programs to support the sale of public housing to eligible tenants. The current version of this program is Section 32, which is administered through the SAC. Briefly, units are sold at market value, although PHAs typically provide take-back financing as a silent second mortgage (non-interest bearing) which can be forgiven over a period of years. Some PHAs serve as lender for the portion of the sales price that is financed; others prefer to have a third-party servicer or direct lender. PHAs with Housing Choice Voucher Programs can also establish Section 8 homeownership programs.

Another option would be to provide tenant-based vouchers to residents of some of the PHA's units and not request waivers from them to project based these units. When tenants leave the units would be privately owned by the authority and they could be sold on the market, to local homeownership programs such as Habitat, to tenants, participants in the Section 8 HCV program or otherwise. Under certain circumstances the proceeds of sale would need to be used for purposes authorized under Section 18 of the Act. PHA could also create a Section 8 Homeownership program.

V. Conclusions of Financial and Programmatic Analysis

Our analysis shows that Section 18/22 rents are significantly more favorable than RAD contract rents (27%). Given the extent of this financial advantage for Sections 18/22 rents, repositioning options through Section 18 and Section 22 options should be looked at with a view to making them work for the PHA. If consultation with the Special Applications Center determines that the duplex units would qualify for *conversion to TPVs under Section 18* (that can subsequently be project-based), this is the best option for those 30 units. Financially, the most favorable option for the remaining 60 units would be *Streamlined Voluntary Conversion*.

Programatically, Streamlined Voluntary Conversion (SVC) has a number of advantages over RAD. There are also some less favorable comparisons that should be noted and resolved.

Some of the principal Advantages include:

- SVC is a simpler conversion process than RAD.
- SVC does not require third-party capital needs assessments, and does not require submittal of a financing plan that demonstrates the sufficiency of resources to address the 20 year needs identified in the CNA.
- SVC can be carried out separately from (and ahead of) any upgrade program, providing more flexibility.
- RAD has more strict site and neighborhood standards than project-based Section 8, which would apply to any new construction replacement.
- Under SVC project ownership may be retained by the PHA or disposed of to a non-profit, for-profit, or LIHTC entity; under RAD, stronger PHA control/ ownership needed.
- SVC conversion provides operating subsidy transition funding and Demolition/Disposition Transition Funding, while RAD does not.

Some principal Disadvantages of SVC compared to RAD include:

- Tenants need to be re-screened for eligibility, whereas under RAD they are exempt from rescreening.
- Under SVC, unexpended capital funds and reserves would revert to Treasury.
- No resident organization support and annual $25 per unit funding is required under SVC.
- Under RAD, units currently used for Special Purposes can have their rent subsidy distributed across the balance of units.
- Ground Leases and Seller Financing proceeds are defederalized under RAD, but treated as Proceeds under SVC, and are restricted to authorized uses.
- SVC can only be converted to PBV, whereas RAD vouchers can be PBV or PBRA.
- RAD provides RAD Rehab Assistance Payments, where the subsidy continues for vacant units during rehab; SVC does not have this provision.

VI. Preliminary Recommendations and Possible Next Steps

1. Explore with the Special Applications Center the possible Section 18 conversion of the 30 “scattered site” duplex units, and receipt of TPVs that can be project-based without tenant waivers.

2. With in-house resources, or through contracted third-party, estimate the backlog of capital needs at the duplex family site to determine if Section 18 disposition and conversion to TPVs supports the level needed to qualify. These TPVs can be project-based without tenant waivers.

3. Based on the estimate of capital needs for the senior/accessible units, run an analysis of whether non-financial conversion is feasible, or if not, whether debt-only would be needed or desired.

4. Consider surveying residents to assess their willingness to provide fully-informed waivers that would permit the PHA to project-based these vouchers.

5. Consult with Board and Residents and other possible stakeholders in regard to long-range plans for properties: rehab; substantial upgrades; generate proceeds of sale that can support adding other affordable units at these sites or elsewhere.

6. Assess whether PHA has internal capacity to plan and implement repositioning strategies or whether engaging a financial consultant or co-developer partner would be needed or desired. Stanislaus County PHA may be in a position to assist with providing these advisory services.

7. Pursue additional discussion with T.A. provider to explore possible home-ownership options, of that is an option the PHA wishes to consider.

8. Attend on-site or remotely any upcoming repositioning training sessions offered by HUD directly, Enterprise Community Partners, or others.

9. Review and discuss the advantages and potential disadvantages of Section 18/22 options, and determine whether it makes sense to file RAD applications to reserve authority. Keep in mind that new TPVs are limited, and generally offered “first come, first served”. Repositioning options are increasingly drawing on TPVs, and expansion of their number will be dependent on Congress at some point.

10. Learn from Other PHAs that have Repositioned their Portfolios. Since 2013, over 1,000 Public Housing Authorities’ properties, with more than 114,000 units, have converted to Project-based Housing Choice Vouchers through RAD. Many authorities have also included Section 18 Demolition/Disposition, Choice Neighborhood Initiative and other options in their redevelopment plans.

Substantial numbers of authorities have already converted their entire stock and exited the public housing program. There are many venues for learning from these authorities and their experiences. HUD's RAD website offers numerous case studies and lists PHAs and their projects in various stages of redevelopment. Public Housing trade associations and private sector vendors hold frequent training events focused on RAD conversion and related subjects. These include development financing, tax credits and operating of Housing Choice Voucher project-based housing communities.

11. Consider holding a Board of Commissioners Workshop. After an initial study, such as this present one, many Boards of Commissioners want to have a working session (s) to address their questions and concerns.

VI. Benefits to RHA from Repositioning

The following are the major benefits to RHA from conversion of its public housing to Project-Based Housing Choice Vouchers either through RAD, Section 18 Demolition/ Disposition, or a combination of both.

A. Stabilization, Repositioning and Preservation of its Assets—If RHA were to convert both properties through RAD or Streamlined Voluntary Conversion/Section 18, revenues in Year One would be increased by 27%, and they would be "locked down", and much less subject to HUD budget swings. The additional revenue, combined with Housing Assistance Payment contracts at the project level, is bankable, and able to leverage debt and tax credit equity if needed or desired. Depending on the program (RAD or Section 18/22), the PHA could raise from sources sufficient to provide from $53,800 to $83,497 for hard construction cost budgets to upgrade and preserve the PHA's public housing assets. The project would have its own reserve for replacement for future capital improvements, which reserves are not subject to HUD clawbacks. The PHA would have the option to convert to Section 8 initially, and undertake upgrades at a later date.

B. Eliminate Public Housing Requirements— Full portfolio conversion through a combination of RAD and Section 18 Disposition/Demolition would allow RHA to remove itself from the HUD public housing requirements, which is very onerous particularly to very small PHAs, such as RHA.

C. Expand Development Capacity—The process of working with lenders, the State Housing Finance Agency, investors and developer partners can deepen a PHA's ability to structure and finance affordable housing and potentially expand into other areas of the City, adding more affordable housing units to its inventory.

D. Build RHA's Financial Assets—RHA could participate in developer fees for financed projects as well as project cash flow. RAD permits a 10% fee on projects that involve only debt, and a 15% fee on projects that involve tax credits due to the added complexities and requirements. Project-basing of TPVs through Sections 18/22 would also generate developer fees and cash flow, under limits set by California's Housing Finance Agency. Since RHA does not currently have staff with development expertise, it would need to partner with the County authority or another non-profit or for-profit partner, and share these fees equitably.

   In a redevelopment effort, RHA's properties could benefit from up to $7.5 MM in capital improvements and $846,417 in contributions to reserves over 20 years, and the authority may also potentially benefit from a share of the developer fees and cash flow. Assuming 50% of fees, and 50% of Cash Flow, this would amount to $1.7 million, for a total benefit of $10 million. By contrast, under "business as usual" as public housing, the authority will be fortunate to receive $3.7 million incrementally over the coming 20 years (optimistically assuming that capital funding continues at today's level).

E. Potential Homeownership Program. As noted above, the repositioning of Riverbank's public housing stock has the potential for the authority to either create an opportunity for affordable homeownership, or to sell some of the less efficient units as a means of generating additional capital for upgrades, or to provide working capital to support development of additional affordable housing.

VII. Benefits to Residents

Although there are inconveniences to residents when units are upgraded, overall the residents benefit from conversions to project-based Section 8. The following are some of the benefits to RHA residents.

A. Better Housing. Repositioning to Section 8 will result in upgraded housing. Improvements typically include the following: upgraded systems, energy conservation, new replacement appliances and updates to kitchens and bathrooms. The level of capital budget supported by this analysis would also address new roofs, refurbishment of sprinkler lines, landscape upgrades for better curb appeal, and exterior cosmetics.

B. Choice Mobility. RAD will require RHA to provide an opportunity for residents in the RAD converted properties to elect to receive a tenant-based Housing Choice Voucher after one (1) year for Project Based Vouchers (PBV) conversions or 2 years for PBRA conversions, by being placed at the top of the waiting list. Sections 18/22 repositioning will also provide residents with opportunities to receive vouchers directly.

C. Right to Return after Temporary Relocation, if applicable. Residents in properties being converted under RAD have the right to return to the property (or follow the subsidy assistance if it is being transferred to a different property). Under Streamlined Voluntary Conversion, residents have the right to remain in or return to their units if the units are going to continue to be operated as affordable housing.

D. No Re-Screening. Under RAD conversions, residents who were moved to accommodate rehabilitation (or demolition and new construction) have the right to return without having to undergo a re-screening if lease compliant. Sections 18/22 conversions do not have this resident benefit.

E. Continue to Pay 30% of their Income. Residents will continue to pay only 30% of their adjusted income.

VIII. Potential Challenges to the Authority

The following possible challenges should be addressed during any transition period.

A. Complex Process. Converting from public housing to project-based Housing Choice Vouchers is not a simple process. It requires planning, learning, decision-making, disruption to "normal operations" and many activities that may be new to the authority. Depending on the type of conversion (e.g., non-financial, debt-only, debt leverage with tax credits, rehab in place, temporary relocation), the level of impact on staff and residents will be unsettling.

B. PBV Versus PBRA. RAD can be operated under either the Project-Based Voucher (PBV) model of project-based Housing Choice Vouchers, where the vouchers are administered by the authority, or the Project-Based Rental Assistance (PBRA) model, where the HAP contract is administered directly by HUD. This is a major decision with potential impacts on staffing levels and administrative fee revenue. It is challenging to learn the nuances of the two options and to arrive at a selection that best fits the authority's objectives. About half of the RAD conversions to date have elected PBV and half PBRA, so there is no right or wrong choice. Conversion to Section 8 under HUD's Section 18 or Section 22 programs is done only through Tenant Protection Vouchers, which would fall under the authority's Housing Choice Voucher program (or that of a cooperating PHA). Section 18 TPV vouchers can be project-based, while Section 22 TPV vouchers can only be project-based with waivers from residents.

C. Staffing, Accounting, Reporting and Monitoring Changes. Property Management staff needs should remain about the same, although maintenance support levels should be less especially in the early years after converting projects where an initial rehab is included. This is because maintenance activities will shift from responding to work order requests and "making do with limited financial resources" to preventive maintenance. As the number of units shift from public housing, requirements and procedures as well as accounting requirements and staff training may be needed, although assuming Stanislaus County continues in its current role as contract manager, that agency already has some experience with project-based Section 8 housing. Revenues to support the authority's administration should remain level and then increase as cash flows improve and rental income increases steadily through the annual adjustments (Operating Cost Adjustment Factor under RAD or regular rent increases under Sections 18/22 conversion). Development fees, de-federalization of restricted reserves and any unobligated capital funds (RAD only) as well as improving cash flow should help recapitalize the agency. Additionally, it should cover any transition costs including staff training, purchase of new accounting systems and other necessary items.

Attachments

1. Detailed Calculation of RAD and Section 8 Rents.
2. Overview of Data Entry and Summary of Results for RAD and Sections 18/22 Conversions.
3. Pro Forma Analysis—100% TPVs, project-based
4. Cash Flow Analysis—100% TPVs, project-based

Pro Formas are available upon request for RAD Conversion Options: Non-Financial; Debt-Only; Rehab (4% LIHTC); and Rehab (4% Rehab 75% RAD rents; 25% TPV rents, project-based).