

**HOUSING
OTHER ASSISTED HOUSING
(RENT SUPPLEMENT AND RENTAL HOUSING ASSISTANCE (SECTION 236))
2019 Summary Statement and Initiatives
(Dollars in Thousands)**

OTHER ASSISTED HOUSING	<u>Enacted/ Request</u>	<u>Carryover</u>	<u>Supplemental/ Rescission</u>	<u>Total Resources</u>	<u>Obligations</u>	<u>Outlays</u>
2017 Appropriation	\$20,000	\$32,788 ^{a/}	...	\$52,788	\$22,285	\$152,875
2018 Annualized CR	20,000	18,764 ^{b/}	-\$136 ^{c/}	38,628	8,108	141,000
2019 Request	<u>5,000</u>	<u>32,520^d</u>	...	<u>37,520^e</u>	<u>3,000</u>	<u>118,000</u>
Change from 2018	-15,000	+13,756	+136	-1,108	-5,108	-23,000

- a/ Carryover amount excludes transfer of \$36.3 million from Other Assisted Housing (\$11.3 million from Rent Supplement and \$25 million from RAP) to Project-Based Rental Assistance for subsidy payments for units converting under the Rental Assistance Demonstration (RAD) program.
- b/ Carryover amount also includes an estimated \$4 million in recaptures, and an estimated transfer of \$16.4 million from Other Assisted Housing to Project-Based Rental Assistance for subsidy payments for units converting under the RAD program.
- c/ Public Law 115-56 requires a reduction from the fiscal year 2017 enacted budget authority of 0.6791 percent.
- d/ Carryover amount includes an estimated \$2 million in recaptures.
- e/ Amount includes an estimated transfer of \$3.65 million from Other Assisted Housing to Project-Based Rental Assistance for subsidy payments for units converting under the RAD program.

1. Program Purpose and Fiscal Year 2019 Budget Overview

The Department requests \$5,000,000 for the Rental Assistance Program (Section 236) (RAP) and Rent Supplement Program (Rent Supp) in 2019 to ensure that up to 461 families in five remaining properties continue to pay affordable rents. The 2019 President's Budget of \$5,000,000, is \$9,000,000 less than the fiscal year 2018 Annualized CR level. The decreased request reflects a significantly diminished portfolio as RAP and Rent Supp contracts have almost entirely expired, many of which have converted to long-term project-based Section 8 contracts through the Rental Assistance Demonstration (RAD). The requested funds represent amounts sufficient to:

- Support amendments to State-aided Section 236 Rental Assistance Payment (RAP) contracts in 2019, and
- Support short-term extensions of expiring RAP or Rent Supp contracts that will be in the process of converting under RAD, where they can more readily access private financing to make property improvements.

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2. Request

The Other Assisted Housing supports two programs:

- **RAP:** The RAP program was established by the Housing and Community Development Act of 1974 to provide additional rental assistance subsidy to property owners on behalf of very low-income tenants. RAP was available only to Section 236 properties (properties where HUD made interest reduction payments to the mortgagee for the production of low-cost rental housing). HUD stopped issuing new RAP contracts with the introduction of Section 8. However, the Department is required to fund RAP contracts on non-insured, State-aided Section 236 projects through the end of their contracts, providing amendment funding when the amount initially appropriated proves to be insufficient. In addition, HUD may provide short-term extensions of these contracts so that they can participate in RAD.
- **Rent Supp:** Section 101 of the Housing and Urban Development Act of 1965 authorized rent supplements on behalf of needy tenants living in privately owned housing and was the first Project-Based Assistance program for mortgages insured by the Office of Housing. These contracts were available to Section 221(d)(3) Below Market Interest Rates (BMIR), Section 231, Section 236 (insured and non-insured), and Section 202 properties for the life of the mortgage. Eligible tenants pay 30 percent of the gross rent or 30 percent of the household's adjusted monthly income toward the rent, whichever is greater. The difference between the tenant payment and the economic rent approved by the Department is made up by a Rent Supplement payment made directly to the project owner. The last Rent Supp property eligible for amendment funding expired in 2017. HUD has been providing short-term extensions of these contracts so that they can participate in RAD.

As RAP and Rent Supp properties convert to Project-Based Rental Assistance under RAD, HUD uses a portion of the funds that would have otherwise been spent on amendments or extensions to provide initial funding for the new Section 8 contract.

The \$5 million included in this request would cover the costs associated with the above purposes.

3. Justification

RAP and Rent Supp contracts support critical affordable housing and rental assistance for vulnerable populations (low-income families and elderly) across the country. To effectively support this population, the Department continues to request appropriations for remaining contracts, while simultaneously working to streamline and consolidate the programs onto the project-based Section 8 platform via the Rental Assistance Demonstration. This improvement would simplify the administration of properties for both the

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owners and HUD, and better allow the owners to access private capital to make improvements to the properties. As of December 2017, 199 RAP and Rent Supp properties (24,429 units) have converted through RAD to long-term Section 8 contracts. By 2019, HUD expects to have converted the majority of any remaining Rent Supp and RAP contracts, though some may remain. Conversions of Rent Supp and RAP properties through RAD are partially funded through transfers from the Rental Housing Assistance account.

The amount requested is a conservative level to ensure that HUD has resources available to provide short-term contract extensions or amendment funding for properties that have not yet completed conversion under RAD.

The Department has implemented three strategies to preserve the affordability of these assisted units and/or to prevent displacement or rent increases for low-income residents. The first strategy, aimed at the long-term preservation of these properties and authorized as part of RAD, allows owners to convert to long-term Section 8 contracts (either Project-Based Vouchers or Project-Based Rental Assistance) to preserve the properties as affordable housing. Authority enacted in the fiscal year 2015 appropriations bill provided Rent Supplement and RAP properties the option to convert to long-term Project-Based Rental Assistance (PBRA) contracts via RAD, using: (1) amounts remaining on the contracts of converting projects, (2) funding that might otherwise be used to provide contract extensions and rent amendments for converting projects, and/or (3) amounts from tenant protection vouchers. Therefore, while the amount of the 2019 funding request is based on projected extension and amendment needs in 2019, a portion of the funding may also be used to support Rent Supp and RAP conversions to project-based contracts via RAD.

Under the second strategy, which supports the first, HUD offers short-term contract extensions of up to 12 months, as authorized in recent appropriations bills and as proposed again in this request. These extensions provide time for owners to obtain new financing for the property to maintain it as affordable housing while maintaining a RAD conversion transaction. If the owner is uninterested in maintaining the property as affordable housing, a third strategy provides tenant protection vouchers to eligible residents at the time of expiration of the Rent Supp or RAP contract, to safeguard low-income residents from rent increases or displacement.

The Department's request will continue an approach that combines the resources and lessons learned from all three strategies, while maintaining owners' options for preserving and streamlining projects onto a project-based platform. The funding request would allow the Department to continue to support the Rent Supp and RAP contracts during the conversions and streamlining process, either via short-term contract extensions (less than 12 months), or via contract rent amendments. Contract extensions will only be provided to projects that will otherwise expire in 2019, and require additional time to plan for a conversion via RAD.

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Summary of Resources by Program
(Dollars in Thousands)**

<u>Budget Activity</u>	<u>2017 Budget Authority</u>	<u>2016 Carryover Into 2017</u>	<u>2017 Total Resources</u>	<u>2017 obligations</u>	<u>2018 Annualized CR</u>	<u>2017 Carryover Into 2018</u>	<u>2018 Total Resources</u>	<u>2019 Request</u>
Rent Supplement	\$4,725	\$13,528	\$18,253	\$4,237	\$9,932	\$2,755	\$12,687	\$2,500
Rental Housing								
Assistance (Sec 236) .	15,275	42,563	57,838	18,048	9,932	19,449	29,381	2,500
Section 235	13,000	13,000	13,000	13,000	...
Rental Assistance								
Demonstration								
(Transfer)	<u>-36,303</u>	<u>-36,303</u>	<u>-16,440</u>	<u>-16,440</u>	...
Total	20,000	32,788	52,788	22,285	19,864	18,764	38,628	5,000

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(RENT SUPPLEMENT AND RENTAL HOUSING ASSISTANCE (SECTION 236))
Appropriations Language**

The fiscal year 2019 President's Budget includes the appropriation language listed below.

For amendments to contracts under section 101 of the Housing and Urban Development Act of 1965 (12 U.S.C. 1701s) and section 236(f)(2) of the National Housing Act (12 U.S.C. 1715z-1) in State-aided, noninsured rental housing projects, \$5,000,000, to remain available until expended: Provided, That such amount, together with unobligated balances from recaptured amounts appropriated prior to fiscal year 2006 from terminated contracts under such sections of law, and any unobligated balances, including recaptures and carryover, remaining from funds appropriated under this heading after fiscal year 2005, shall also be available for extensions of up to one year for expiring contracts under such sections of law.

Note.—A full-year 2018 Annualized CR for this account was not enacted at the time the budget was prepared; therefore, the budget assumes this account is operating under the Continuing Appropriations Act, 2018 (Division D of P.L. 115-56, as amended). The amounts included for 2018 reflect the annualized level provided by the continuing resolution.