Session 11 – Rental Assistance Demonstration (RAD)
What We Will Discuss

- RAD Goals & HUD Tools
- RAD Program Update (Feb 2017)
- RAD Process Improvements
- Asset Management/Owner Structure
- Accounting Brief #22 Guidance
  - Rad Indicator
  - Reporting Options
  - Ownership Structure
  - After CHAP Issuance
  - Reporting/Component Units
  - Transfers
  - Other Guidance
Key RAD Goals

- Build on the proven Section 8 platform
- Leverage private capital to preserve assets
- Offer residents greater choice and mobility
2 Path Ways

- PBV – Project-Based Vouchers (Section 8)
- PBRA – Project-Based Rental Assistance (MF)
Tipping Point

- Nearly 50% of Public Housing in HUD Portfolio has CHAP or been converted.
  - Will the last 50% be better or worse deal for those left.
Either way—PBV or PBRA—you are out of Public Housing.

- Budget will be easier on revenue side.
  - Rental Income can be predicted. Increases in PBRA will be automatically adjusted by OCAF. PBV will still be affected by proration.
- PBV will still be subject to Uniform Guidance. PBRA will be subject to Uniform Guidance or HUD Audit Guide depending on project structure.
- PBRA income/surplus cash allows for fungibility with other programs as surplus cash is “distributable” to owner/COCC
- PBV fees to COCC may still retain some restrictions as HUD develops additional COCC policies
Steps to RAD

- File RAD Application
- Receive CHAP
- Secure Debt Financing (if applicable)
- Update PHA Plan
- Proved Financing Plan
- Issue Commitment
- Loan Closes
Best Practice

- Don’t close a deal 1-2 months before year end.
- Check with your fee accountant and auditor about experience.
- Consider having all entities on same year end.
<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>● If you have HCV, you already know the program.</td>
<td>● Rent capped at reasonable rents</td>
</tr>
<tr>
<td>● Limited learning curve and possible staff reduction</td>
<td>● Admin fees and proration</td>
</tr>
<tr>
<td>● COCC fees</td>
<td>● Possible no staff reduction most likely increased staff (HCV)</td>
</tr>
<tr>
<td></td>
<td>● Portability</td>
</tr>
</tbody>
</table>
Revenues
- HAP from HCV program
- Tenant fees
- Is this enough to cover expenses?

HCV will have additional admin fees to then pay additional fees to COCC.
- Is this enough to cover additional staff?
Which Way? PBV Conclusion

- Only available to HCV HA
- Limited on COCC income to fees
- Limited learning curve
- Basically move from PH CFP to a HCV only HA.
- Proration and portability
Which Way? - PBRA

Pros
● Surplus cash
● Source of funding for Capital Improvement
● No Proration

Cons
● Rent capped at FMR
● New HUD REAC and TRACs
● Only option if PH only with no HCV

Session 11: Rental Assistance Demonstration (RAD)
● Revenues
  ■ TRACs HAP
  ■ Tenant fees
  ■ Is this enough to cover expenses?
● Surplus cash available to support COCC or other programs.
  ■ Will there be surplus cash?
Which Way? – PBRA Conclusion

- Only option for PH only Authorities
- No proration
- COCC income not limited to admin fees.
- Learning new system
Public Housing Conversion Rent Levels

Sample Public Housing Conversion Per Unit Monthly (PUM)

- Pre-Conversion ACC
  - Operating Fund $330
  - Capital Fund $144
  - Tenant Payment $318

- Post-Conversion Section 8
  - Housing Assistance Payment $474
  - Tenant Payment $318

Total $792
● 57,489 units converted
  ■ 54% Voucher
  ■ 46% PBRA
● $3.8 billion in construction improvements
● Accounting Brief #22 Guidance
  ■ RAD indicator
  ■ Reporting options
  ■ Ownership structure
  ■ After CHAP issuance
  ■ Reporting/component units
  ■ Transfers
  ■ Other guidance
Session 11: Rental Assistance Demonstration (RAD)
Public Housing Units vs. Units in RAD, by PHA

- **Small PHAs**
  - 18% (Public Housing Universe)
  - 13% (RAD Units)
- **Medium PHAs**
  - 28% (Public Housing Universe)
  - 35% (RAD Units)
- **Large PHAs**
  - 54% (Public Housing Universe)
  - 52% (RAD Units)
Key Program Improvements

- FHA/RAD Fast Tracking
  - 5 FHA closings to date; several in processing
  - Centralized processing
    - Contract support for Section 223(f)/RAD underwriting
    - Special centralized team in Chicago for Section 221(d)(4)s
  - Streamlined approval processes
    - One approval committee replaces RAD/FHA loan committees
    - Waivers of PCAs and most market studies for Section 221(d)(4)s
Key Program Improvements

● Updated Guidance
  ■ Relocation Notice
    ◦ Clarifies process for resident relocation in RAD conversions
    ◦ Demystifies program requirements to shorten approval process
  ■ Closing Documents
    ◦ Clarifying lender rights and responsibilities in event of foreclosure
    ◦ Clarifying HAP contract language with regard to future changes in policy
  ■ Conversion Guides
    ◦ Written protocols on PBRA and PBV conversion
    ◦ Public Housing close-out guide

● PIH Notice 2016-17 – RAD Notice Regarding Fair Housing and Civil Rights Requirements and Relocation Requirements Applicable to RAD 1st Component – PHA Conversions
Asset Management
Asset Management

- Regulatory requirements for LIHTC/SLIHC are 15 years with a 35-year extended use agreement, total 50 Years.
- Once LIHTC requirements are satisfied, you should seek to meet any remaining or more restrictive requirements of your other programs.

- **Reporting Requirements:**
  - Syndicators - Monthly, Quarterly and Annually
  - NY State HCR - Annually (Budgets and Audits)
  - HUD - Annually

- **Inspections Performed:**
  - Syndicator - Annual File Testing and Site Visit
  - NY State - Every Three Years
  - HUD - REAC (If PBRA or have HUD Mort.)

- **Income Limits:**
  - PHA up to 80% of the AMI
  - LIHTC program up to 60% of AMI, SLIHC 90% of AMI
Factors – Owner Structure

- PHA or non-profit entity (control)
- Liability and insurance
- Property tax exemption
- “Private enterprise agreements”
- Management
- Continued existence of other public housing
- Low income housing tax credits (LIHTC)
- FHA loan
- Borrower Status
- Single asset entity
- Mission
Brief #22 – RAD Indicator

- When CHAP is issued, HUD ceases scoring project.
  - Public Housing Assessment System (PHAS). Upon issuance of a CHAP, all public housing units covered by the CHAP shall not be issued scores for the fiscal year in which the CHAP was issued, nor any subsequent fiscal year until such time as conversion.
  - Immediately after the issuance of the CHAP, PHAs must identify the units covered by a CHAP by submitting an application in the Inventory Removals module in PIC as either “RAD Conversion PBV” or “RAD Conversion PBRA.”
Remember PIC—You must submit to PIC that CHAP has been awarded

RAD indicator must be set to “Y” for scoring and other issues to be reflected appropriately in FASS

Not currently being done consistently

CHAP is issued, HUD ceases scoring the project.
Brief #22 – RAD Indicator, cont'd

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HAP Issuance – Financial Reporting

- Effective date of HAP contract will be 1st day of the month following closing
- Units remain PH until last day of the month of closing
- Owner may not be the PHA, but a separate entity
- Future reporting depends entirely on ownership
- Every transaction is unique. PHA should involve auditor early on (see GASB 61/14)

4 possibilities
- Business Activity
- Multifamily program
- Component Unit (blended or discreet)
- Not on FDS
Component Unit Reporting

- Legally separate from PHA – unique TIN
- Two Choices
  - Discretely presented (outside of basic financial statements)
  - Blended (included in PHAs basic statements)
- Not all transactions will result in component units (referred to as independent 3rd party)

Use of proceeds from disposition

- Approved as part of conversion process
- Unless HUD restricts proceeds, funds may be used for general mission of the PHA
- Unrestricted cash in either the COCC or Business Activities
- Any restrictions remain in program
Brief #22 – Reporting Scenarios

- **PBV**
  - 3 parties (HUD, Administering PHA, Project Owner)
  - ACC with admin PHA
  - PHA enters into HAP contract with project
  - If project is to be owned PHA, HUD will require that project is disposed of to separate legal entity
    - Several scenarios – see Notice

- **PBRA**
  - 2 parties (HUD, project owner)
  - May be retained under PHA TIN (FDS=Multifamily)
  - Separate entity (determine if component unit)
RAD PBV Reporting Options, cont’d.

PBV

Will the PHA administer the HAP Contract?

Yes

Normally the project will not be owned By the PHA

Blended Component Unit

Discretely-Presented Component Unit

Not on FDS

No

Will the project still be owned by the PHA?

Yes

Business Activity

No

Blended Component Unit

Discretely-Presented Component Unit

Not on FDS
## Brief #22 – Reporting Options

### Table 1. FDS Column Used in Reporting the Project After issuance of a HAP Contract

<table>
<thead>
<tr>
<th>FDS Column Used in Reporting of Project</th>
<th>Business Activities</th>
<th>Multifamily Program</th>
<th>Component Unit</th>
<th>Removal from FDS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Typical Structure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PHA converts project to PBV</td>
<td></td>
<td></td>
<td>PHA converts project to PBV or PBRA</td>
<td></td>
</tr>
<tr>
<td>PHA continues to own project</td>
<td></td>
<td>PHA continues to own the project under its own TIN</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A different PHA administers HAP contract or the PHA has created a separate legal entity to manage the property</td>
<td></td>
<td></td>
<td>PHA disposes of the project to a legally separate organization; however, the PHA remains financially accountable for this legally separate organization or has a significant relationship with this legally separate organization (see component unit reporting above)</td>
<td></td>
</tr>
<tr>
<td>PHA disposes of the project to an independent third party with which PHA has no relationship (does not meet component unit reporting requirements)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Will the project still be owned by the PHA and have the same TIN?

- Yes
  - Multifamily

- No
  - Blended Component Unit
  - Discretely-Presented Component Unit
  - Not on FDS
<table>
<thead>
<tr>
<th>FDS Column Used in Reporting of Project</th>
<th>Business Activities</th>
<th>Multifamily Program</th>
<th>Component Unit</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Other Notes</td>
<td></td>
<td><strong>The project must also be reported in FASS-Multifamily System (i.e., the project will be reported as part of the PHA’s FASS-PH submission and in the FASS-Multifamily System)</strong></td>
<td><strong>For FDS Reporting, the PHA will report the project in FDS column 6.1 Component Unit – Discretely Presented or FDS column 6.2 Component Unit – Blended</strong></td>
<td><strong>Projects converting to PBRA must also be reported in the FASS-Multifamily System</strong></td>
</tr>
</tbody>
</table>
Component Unit Decision Tree

PBRA

Will the project still be owned by the PHA and have the same TIN

Yes
Multifamily

No
Blended Component Unit
Discretely-Presented Component Unit
Not on FDS

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Spring/Summer 2019
Component Unit Decision Tree

PBV

Will the PHA administer the HAP Contract?

Yes

Normally the project will not be owned by the PHA

Blended Component Unit
- Discretely-Presented Component Unit
- Not on FDS

No

Will the project still be owned by the PHA

Yes

Business Activity

No

Blended Component Unit
- Discretely-Presented Component Unit
- Not on FDS
Housing Authority converts to RAD mid fiscal year. First 9 months are Public Housing last 3 months are PBV. The project is disposed to a Blended Component Unit (BCU). As of year end all assets, liabilities, and net position would be transferred to BCU.

<table>
<thead>
<tr>
<th></th>
<th>Public</th>
<th>Blended</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDS</td>
<td>Housing</td>
<td>CU</td>
</tr>
<tr>
<td>70600</td>
<td>12,000</td>
<td>-</td>
</tr>
<tr>
<td>70800</td>
<td>-</td>
<td>3,000</td>
</tr>
<tr>
<td>97300</td>
<td>(3,000)</td>
<td>3,000</td>
</tr>
<tr>
<td></td>
<td>9,000</td>
<td>3,000</td>
</tr>
</tbody>
</table>
Housing Authority converts to RAD mid fiscal year. First 9 months are Public Housing last 3 months are PBV. The project is disposed to a Discretely-Presented Component Unit (DCU). As of Year End all Assets, Liabilities, and Net Position would be transferred to DCU.

<table>
<thead>
<tr>
<th>FDS</th>
<th>Public Housing</th>
<th>Discreetly DCU</th>
<th>Elimination</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>70600</td>
<td>12,000</td>
<td></td>
<td></td>
<td>12,000</td>
</tr>
<tr>
<td>70800</td>
<td>-</td>
<td>3,000</td>
<td></td>
<td>3,000</td>
</tr>
<tr>
<td>97300</td>
<td>(3,000)</td>
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<td></td>
<td>9,000</td>
<td>3,000</td>
<td>-</td>
<td>12,000</td>
</tr>
</tbody>
</table>
Brief #22 – After CHAP Issuance

- At contract issuance, project is transferred from PH
- Project receives PH funds through calendar year end
- After conversion follow new program
- Partial conversions have special rules
- RAD indicator remains from CHAP issuance until contract signing
Revenues

- Before conversion – in PH program
- After conversion – in appropriate new program

Equity out – determined at time of conversion and transferred to new program

- 11040 – if transferred to program inside PHA
- 10080 – if disposing to component unit of 3rd party

Equity in

- 11040 – if inside the PHA
- 10080

Some potential disagreement “special” treatment in basic statements

HUD requires 10080 for FDS
### RAD Required Transfers

<table>
<thead>
<tr>
<th>FDS Column Project is Reported</th>
<th>Business Activity</th>
<th>Multifamily</th>
<th>Blend Component Unit</th>
<th>Discretely-Presented Component Unit</th>
<th>Not on FDS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Removal of Project from Declaration of Trust and ACC (Issuance of HAP)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>What FDS line item should be used in the PHA project column when transferring the project out of Public Housing?</td>
<td>Line 11040 Prior Period Adjustments to Equity Transfers and Correction of Errors</td>
<td>Line 11040 Prior Period Adjustments to Equity Transfers and Correction of Errors</td>
<td>Line 10080 Special Items (Net Gain/Loss)</td>
<td>Line 10080 Special Items (Net Gain/Loss)</td>
<td>Line 10080 Special Items (Net Gain/Loss)</td>
</tr>
<tr>
<td>What FDS line item should be used in the new applicable program when receiving the project?</td>
<td>Line 11040 Prior Period Adjustments to Equity Transfers and Correction of Errors</td>
<td>Line 11040 Prior Period Adjustments to Equity Transfers and Correction of Errors</td>
<td>Line 10080 Special Items (Net Gain/Loss)</td>
<td>Line 10080 Special Items (Net Gain/Loss)</td>
<td>N/A</td>
</tr>
<tr>
<td>Do entries need to be eliminated via the elimination column</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>
Project undergoing conversion will be funded with Operating and Capital Funds for entire year in which HAP is issued.

Revenue reported PH program for entire calendar year (not fiscal year).

Funds received after conversion, but before calendar year end will be expensed with one of the following accounts:

- **Out**
  - 10094 – Transfers Between Project and Program-Out (within PHA)
  - 97300 – Housing Assistance Payments (outside PHA)

- **In**
  - 10093 – Transfers Between Project and Program-In (within PHA)
  - 70800 – Other Government Grants (outside PHA)
Brief #22 – Post Closing

- Funding – at start of next calendar year funding is from new program

- PBRA
  - Ongoing interest – component unit
  - No interest – not reported
  - Reported separately in Multifamily system (may be reported in both depending on ownership, usually TIN)
  - If over $500,000 ($750,000 under new Single Audit rules), will require audit
  - Consult Account Brief #22, as well as your auditor
• PBV – administered through PHA
  ■ May require establishment of separate management entity
  ■ Next calendar year requires no special reporting
    ♦ Revenues – 70600 – HUD Operating Grants
    ♦ Expenses – 97300 – Housing Assistance Payments (even if blended component unit
    ♦ Revenue and expense are eliminated
Brief #22 – Partial Conversion

- For year of issuance there is no difference from a full conversion
- After conversion, converted buildings transferred to new program
- Remaining buildings remain in PH
- RAD indicator remains checked through conversion
- After conversion RAD indicator is removed