



Session 6: Introduction to Asset Repositioning

Spring/Summer 2020

GOAL = Maintain # of Affordable Units

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- Why Asset Repositioning?
- 25% of all renters are extremely low income (ELI)
 - Shortage of 3.9 million units for ELI households
- Public Housing = 1.2 million affordable units
 - Many old and in need of repair (risk of losing units)
 - Capital backlog is \$26 billion w/ limited funding
 - PH regulations limit opportunities to borrow/leverage

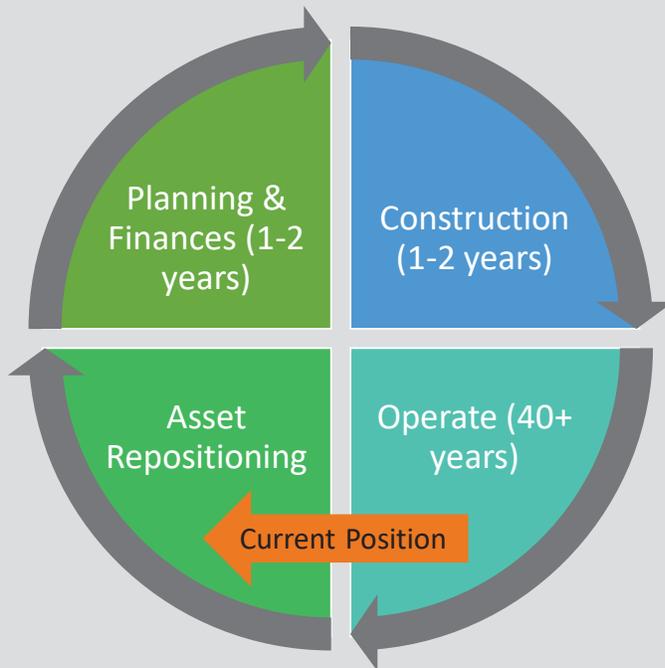


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Current Position in Project Life Cycle

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Four main phases of owning and providing low income housing

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WHAT DOES YOUR PHA'S FUTURE LOOK LIKE

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What is your PHA Looking For?

- Nicer, updated buildings
- Better services for residents
- Better financial security
- More flexibility
- Operating under less regulations
- Maximizing public housing options
- Improving current operations



Does the PHA have the resources to reposition in terms of staffing, time, and funding?

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Decision to Reposition – Strategic Plan

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Key items to consider when deciding whether to reposition :



Building and Units

- What is the need for low-income housing in your community and who is your competition?
- What are the condition of the units and does the PHA have adequate funding to preserve and modernize the units to standard?
- What happens to the residents and families on the waitlist?
- Does your PHA administer the HCV program?



PHA and Staff

- What is the financial impact on the PHA after repositioning?
- Will there be a new Board / Who will control the PHA / Will there be a PHA?
- Will there still be jobs / will there be a reduction in pay and benefits?
- Will staff be able to learn and manage a new program (such as PBV or PBRA)?



Regulatory Relief

- What is the trade off for regulatory relief (i.e., community service rules, pet rules, procurement rules, PHAS, possibly no 50058 / 50059 submissions, etc.)?

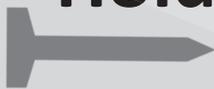
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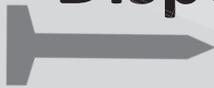
Asset Repositioning Toolbox

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Hold & Repair



Disposition



Demolition



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RAD and Voluntary Conversion

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Strategy #1

Status Quo



Public Housing Project

- ◆ Owned by the PHA
- ◆ 100 ACC units
- ◆ Federally funded through Public Housing and Capital Fund Program
- ◆ 3 maintenance workers and 1 Executive Director

Strategy #2

Conversion Option 1



PBRA Conversion

- ◆ Still controlled by the PHA
- ◆ No financing / modernization
- ◆ Part of HUD's multi-family portfolio
- ◆ Federally funded through HAP payments
- ◆ Staffing / management remains the same
- ◆ Operates under less regulations
- ◆ Easier access to capital

Conversion Option 2



PBV Conversion

- ◆ Owned by a non-profit with their own staff
- ◆ Modernized through debt and investors
- ◆ Funded through HAP payments of a HCV program
- ◆ PHA no longer exists
- ◆ Operates under less regulation
- ◆ Easier access to capital

Strategy #3

Conversion Option 3



Voluntary Conversion

- ◆ Units owned by private landlords (vouchers)
- ◆ Modernization needs addressed by landlords
- ◆ Funded through HAP payments of HCV program
- ◆ Families re-screened
- ◆ Expanded HCV program or PHA no longer exists
- ◆ Operates under less regulations

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Asset Reposition Strategy #1

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Hold & Repair – Remain PH

- Short-term solution
- HUD is not forcing people out of Public Housing
 - ◆ Energy Performance Contracting
- Funding limitations unlikely to improve
- How HUD supports this Hold and Repair/Upgrade strategy
 - Emphasize PHA's use of funding and reserves for key modernization needs versus operating expenses
 - Debt Financing programs, such as
 - ◆ Capital Fund Financing Program

Disposition

- HUD support of Disposition strategy
 - Rental Assistance Demonstration (RAD) Program
 - ◆ PHA will normally still control the project
 - ◆ While no longer public housing, project will continue to receive federal funds
 - Via the Housing Choice Voucher program – Project Based Vouchers (PBV)
 - Via Operating Subsidy from Multi-family – Project Based Rental Assistance (PBRA)
 - ◆ Use Agreement will require that the land and building be used for low income housing (similar to Declaration of Trust)

Demolition

HUD support of Demolition strategy

- Voluntary Conversion (Section 22 and streamlined)
 - ◆ PHA may demolish project and provide tenant-based voucher
 - ◆ Maintenance of physical units is addressed by private landlords
 - ◆ Residents can move to other jurisdiction via portability provision



Asset Repositioning Strategy #1 – Hold and Repair

Strategy #1 – Hold and Repair Questions

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- HUD's current attitude:
 - Current attitude is centered on public/private partnerships?
 - Current perception is that the goal is to “get out” of the real estate business?
- Depends on status of housing stock and demand in your service area. Key questions:
 - What how is wait list?
 - Existence of competition?
 - Deferred maintenance?
- Assessment of future funding:
 - Are current PH rents sufficient?
 - Capital Fund increasing/decreasing?
 - Will programs such as RAD get better or worse with the future?

- Management Capabilities
 - Board expertise and commitment?
 - Management ability to make change?
 - Communicate to residents?
 - Ability to maintain compliance?
- Financial Capacity:
 - Amount of available reserves?
 - Ability to service debt?
 - Maintain project staffing?

Sooner or later a change will occur. Prepare for that now even if you elect to not change

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Asset Repositioning Strategy #2 – Disposition (RAD)

- Disposition Choices
 - RAD
 - ◆ Key RAD goals
 - ◆ RAD Conversion Process
 - ◆ Choice to Make
 - PBV
 - PBRA
 - ◆ RAD Program Update
 - ◆ RAD Steps
 - Streamlined Voluntary Conversion

Key RAD Goals



1 Preserve affordability capabilities from moving from Section 9 to a *form* of Section 8 (PBV/PBRA)

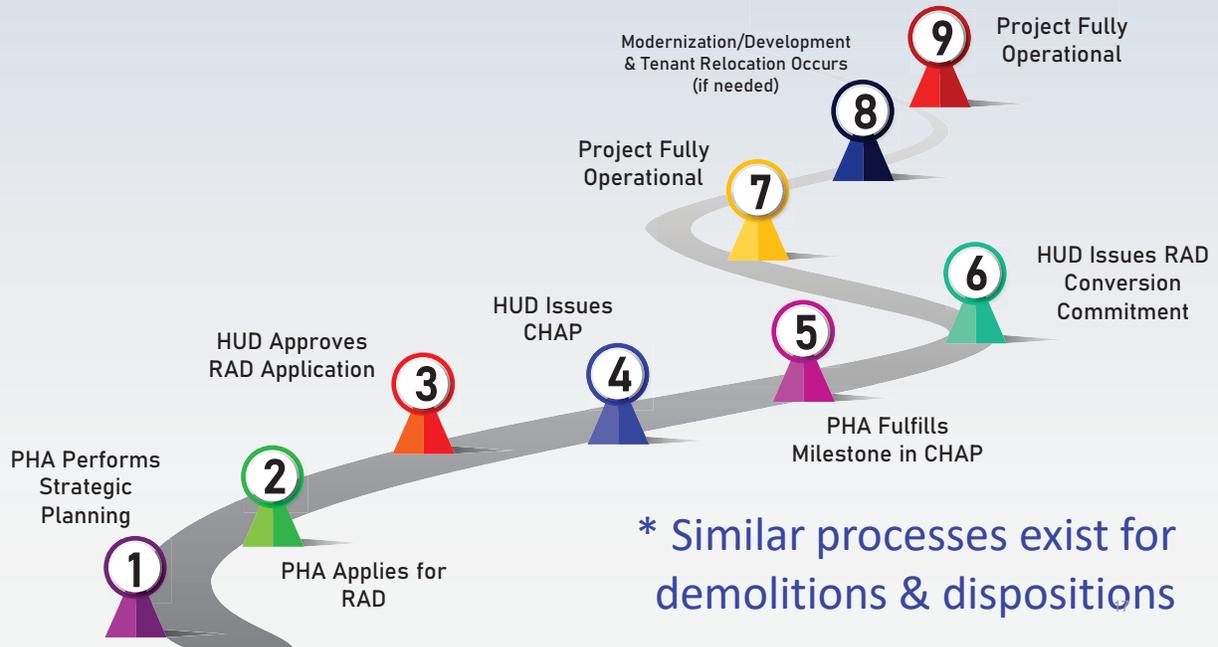


2 Release the public housing assets from DOT and allow them to be used as security for new debt.



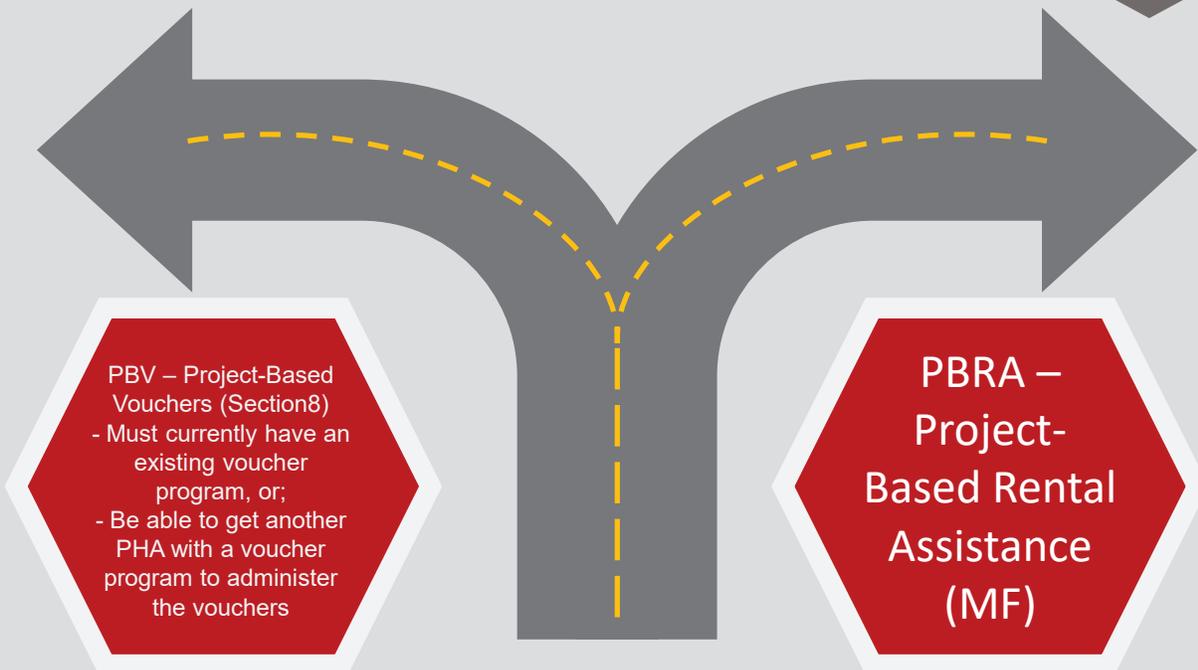
3 Offer residents greater choice and mobility

RAD Conversion Process



2 RAD Pathways

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- 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 subsidy come from OCAF. PBV is still 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.
 - PBV and PBRA income/surplus cash goes to PHA. 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

- Current RAD CAP = 455,000 units
- CHAPs issued to date:
 - PBV 56,375 71%
 - PBRA 22,738 29%
 - 79,382
- Closed to Date:
 - PBV 75,531 57%
 - PBRA 56,868 43%
 - 132,399
- Total RAD Units – 221,308

- Total Estimated Capital Investment – 9,713,858,268
- Total Tax Credit Amount – 6,631,769,726
- Total Debt – 4,518,957,397
- Total with FHA Debt – 219 projects
- Breakdown of CHAPs
 - Large 115,070
 - Medium 73,911
 - Small 26,570
 - Unknown 5,316

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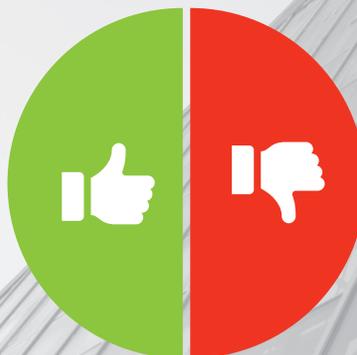
Steps to RAD

- 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.

Which Way? Project-Based Vouchers

Pros

- If you have HCV, you already know the program ✓
- Limited learning curve & possible staff reduction ✓
- COCC fees or increased Voucher Management fees ✓
- If you get another PHA to administer program, there are no income calculations ✓



Cons

- ✗ Rent capped at reasonable rents
- ✗ Admin. fees & proration
- ✗ Possible no staff reduction most likely increased staff (HCV)
- ✗ Portability

Which Way? Project-Based Vouchers, cont'd.

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- 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?

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Which Way? PBV Conclusion

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- Only available to HCV HA
- Limited on COCC income to current fee structure
- Limited learning curve
- Basically move from PH CFP to a HCV only HA.
- **Proration and portability**

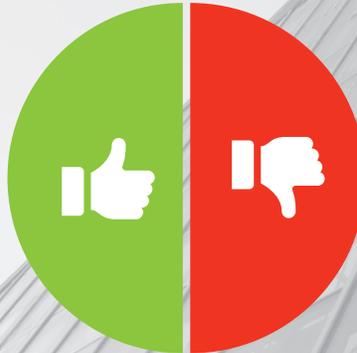
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Which Way? PBRA

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 or no other PHA will administer

Which Way? – PBRA, cont'd.

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- 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?

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

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Asset Repositioning Strategy #2 – Disposition (Streamlined Voluntary Conversion – Section 22)

Streamlined Conversion Overview

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- PHA's ability to voluntarily remove PH units and related ACC
- Move tenants to tenant-based vouchers
- Requires PHA to demonstrate that SVC is a more cost-effective than continuing operation of PH
- Follow PIH Notice 2019-05

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Key Provisions

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- HUD issues Tenant Protection Vouchers for any unit occupied within the last 24 months
 - Tenant has mobility, if tenant moves, then PHA pays moving expenses
 - PHA not required replace PH units with new units
- If PHA does not have vouchers, it must partner with another agency
- May be project-based with tenant consent
 - If resident stays with tenant-based voucher, must be left off the PBV contract until resident leaves or consents to project basing

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- Remaining Public Housing Funds
 - Funds remaining after conversion CANNOT be used to rehab or maintain units removed under SVP
 - ◆ Spend money prior to conversion
 - ◆ Transfer funds to another PHA
- Requires a commitment to close-out the PHA public housing program (up to 250 units)
 - See PIH Notice 2019-13



Asset Repositioning Strategy #3 - Demolition & Disposition (PIH 2018-08)

Notice gives guidance on the application process to demolish and/or dispose of the PH units under Section 18. This includes the eligibility requirements for TPV for tenants.



SAC Application Requirements

- A. Processing – Proceed in accordance with 24 CFR 970. You must:
 - 1. Consult residents
 - 2. Secure a board resolution on material changes from original submission
- B. HUD may reject application if it determines that:
 - 1. Certification made by PHA is inconsistent with the PHA plan.
 - 2. Not developed in conjunction with residents, resident groups, or local government officials
- C. PHA Plan – proposed action must be included in the PHA annual plan, Significant Amendment, or MTW plan. Must also discuss demo at a public hearing.
- D. Must comply with 24 CFR 970.13, have environmental clearance/final approval from HUD. (Part 50 or Part 58, See Notice 2016-22). PHA must provide a full description of demo activities, known future site use, use of disposition proceeds. RE-use is not limited to future actions by PHA, but any re-use.
- E. Resident Consultation – Comply with requirements of 24 CFR 970.9. Ensure communications are accessible.

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SAC Application Requirements con't

- F. Board Resolution – signed & dated. Must be consulted on and approve all material parts of the transaction/application. Dated after all local government/resident consultations.
- G. Phased Applications – Applications may be submitted with staggered deadlines so that units in later stages continue to receive subsidy.

- H. Amendments – Comply with terms of the SAC applications. Material plan changes require approval by SAC. Material items include:
 1. Method of disposition
 2. Public bid offer is < 80% of FMV submitted in the application

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Disposition

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- A. Justification Criteria for Units – HUD reviews all narratives along with other information available for one of three reasons:
 - i. Surrounding area – retention of units is not in the best interest of the residents or the PHA because of local conditions
 - 1) Health & Safety
 - 2) Infeasible Operation
 - ii. Improved Efficiency – Retention of units is not in best interest of the residents or the PHA because newer units would be better. (Low-income housing is PH, PBV, or PBRA.) Demonstration that replacement units are preferable will be required.

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- iii. Best Interests & Consistency – PHA certifies that determination is appropriate and in best interest. PHA considers need for public housing in USA. Examples of this include:
 - 1. Unit obsolescence
 - 2. Very Small PHAs - < 50 units
 - 3. Comprehensive Rehab or Replacement through RAD. (converting 75% units under RAD & replacing the units [up to 25%] with PBV. These must meet the RAD “Substantial Conversion Requirements”
 - 4. Improved Efficiency – Section 3.A.2 of the Notice applies (Units **must** be on-site)
 - 5. Scattered Sites – non-contiguous buildings of less than four or fewer units.

- B. Disposition Criteria of Non-Dwelling Buildings & Vacant Land – PHA certifies the narrative that buildings & land meet the criteria (24 CFR 970.17[d]) because property exceeds the needs of PHA or is incidental to operations
- C. Commensurate Public Benefit – Dispositions < FMV require a finding of commensurate value on case-by-case basis. Specifically describe the benefits in the SAC application. Use restrictions may be required.

Demolition



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Justification Criteria

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Physical Condition - PHA must demonstrate substantial physical issues that cannot be corrected in a cost-effective manner. CNAs or other documents may be required.



To support a certification of physical obsolescence and cost effectiveness, PHA submits form HUD-52980-A along with a list of detailed work items

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The following generally applies to the scope of work:



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- HUD reserves the right to disallow items if more cost-effective choices are available. Certain costs are not allowed to be included. PHA may not include costs due to inflation.
- The fee %'s are maximum amounts for soft costs for rehabs. Percentages are based on hard construction.



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Location 24 CFR 970.15(b)(1)(ii) and (b)(2) – PHA demonstrates the location of units causes obsolescence, physical deterioration of the neighborhood. The cost test for obsolescence includes cost to cure



Other Factors 24 CFR 970.15(b)(1)(iii) and (b)(2) PHA demonstrates factors impacting marketability, usefulness or management of units that impede operations supported.

De Minimis Demolition

- In any 5 year period, the PHA may demolish the lesser of 5 dwelling units or 5% to total PH units without the need for SAC approval provided the resulting space is used to meet the service or other needs of the residents of the residents or the PHA determines the units are beyond repair. Demo criteria of 970.15 does not apply to de minimis demos. Prior to demo, PHA must submit info to HUD via IMS/PIC.

ACC Closeout Requirements (PIH Notice 2019-13)



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Key Provisions for ACC Closeout

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- ACC will terminate only after PHA removes all units and other real and personal property from ACC through an approved methodology
- PHA not closed out units in accordance with PIH Notice 2014-24 or through a memo to a PHA following submission of close-out requirements of Section 6 of this Notice

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Overview of ACC Termination

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- PHA submits its IMS/PIC removal application with Form HUD 5837 attached
- PHA submits to HUD a legal opinion certifying compliance with all provisions
- HUD terminates ACC after determination of completion of required steps

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Mandatory Close-out Activities

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- Disposes of all non-dwelling Real Property
- Dispose of Personal Property
- Resolve all outstanding legal issues
- Resolution of Grants and Approvals
- Grant Period of Performance means time during which a PHA may incur new obligations
- Public Housing Audit – Final audit (may be more than one)

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- Reconciliation of Public Housing Funds – remaining PH funds returned to HUD , if required
- Reconciliation of Program Income (this is becoming a large issue)
- Reconciliation of disposition proceeds

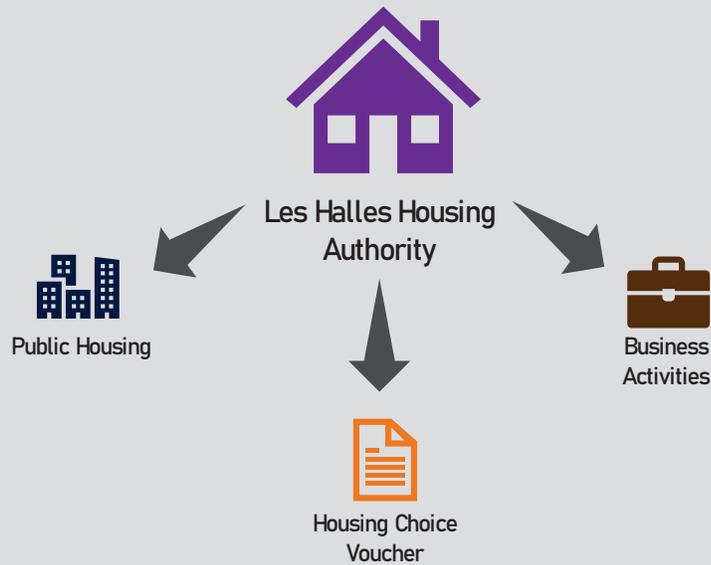
PHAs must budget close-out costs.

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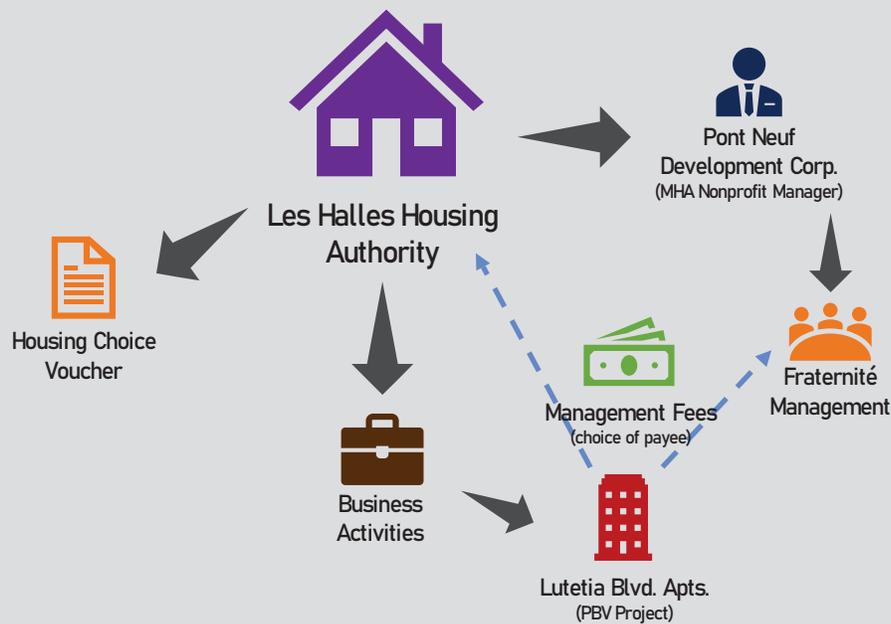
Organizational Choices for Asset Repositioning





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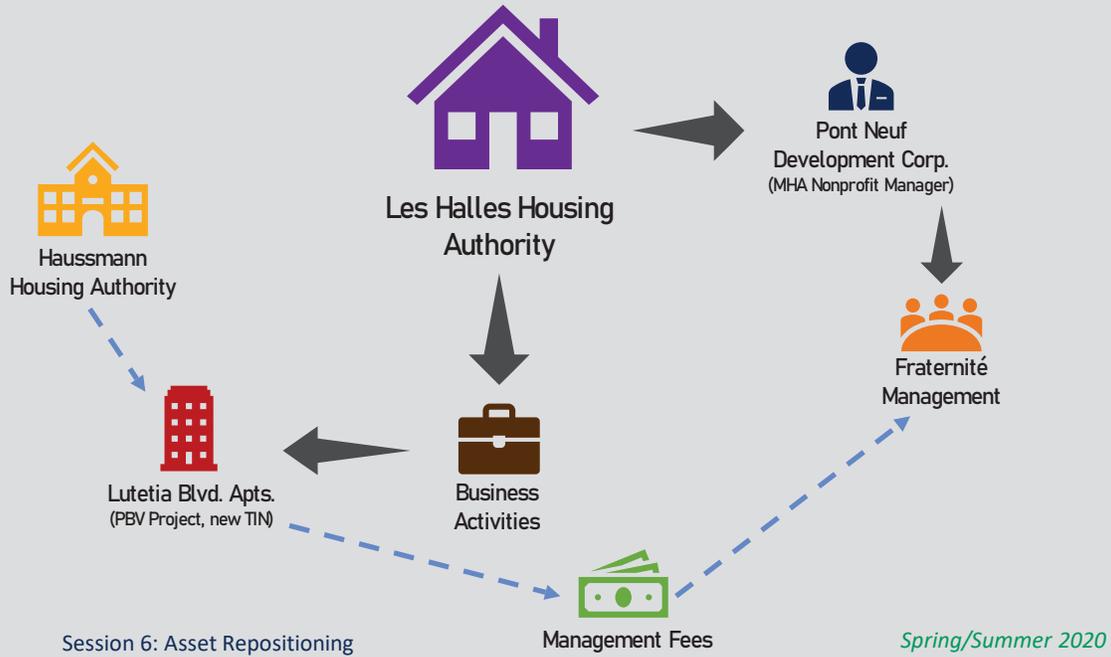


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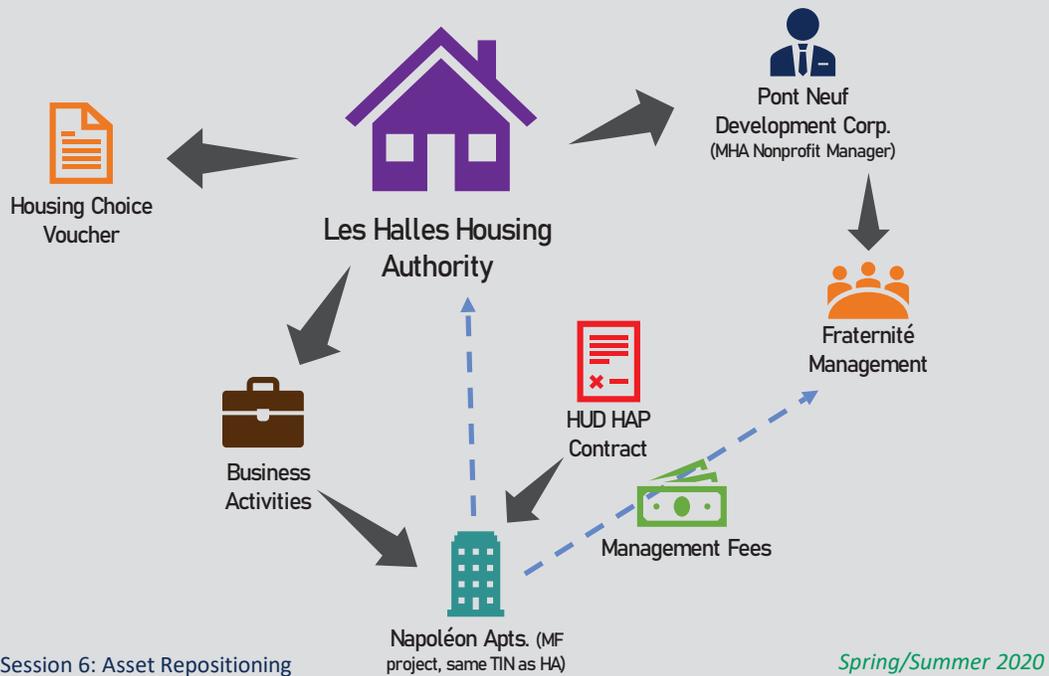
Asset Reposition, PBV Conversion – NO HCV Program

55



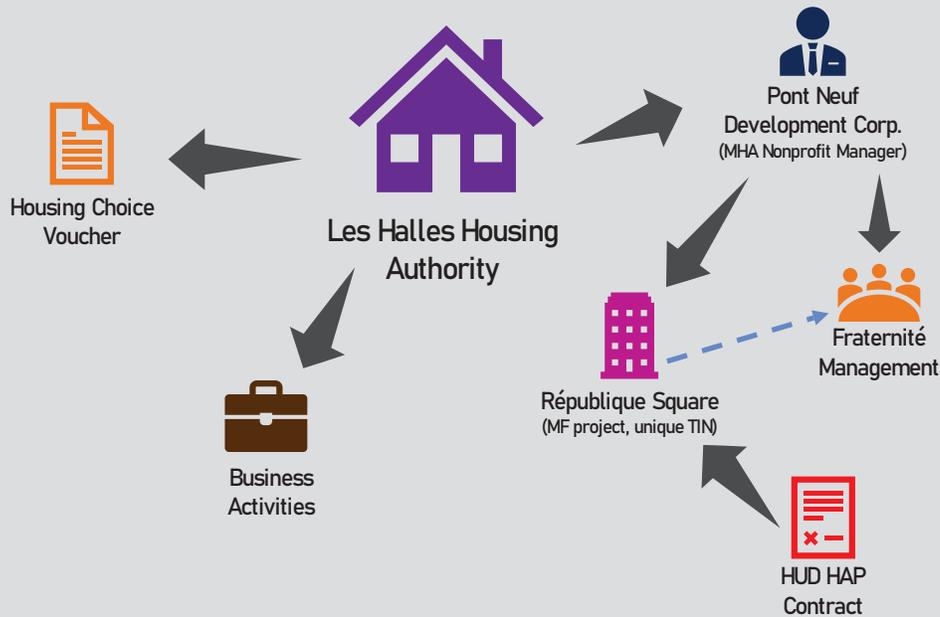
Simple PBRA Conversion

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Simple PBRA Conversion, Type 2

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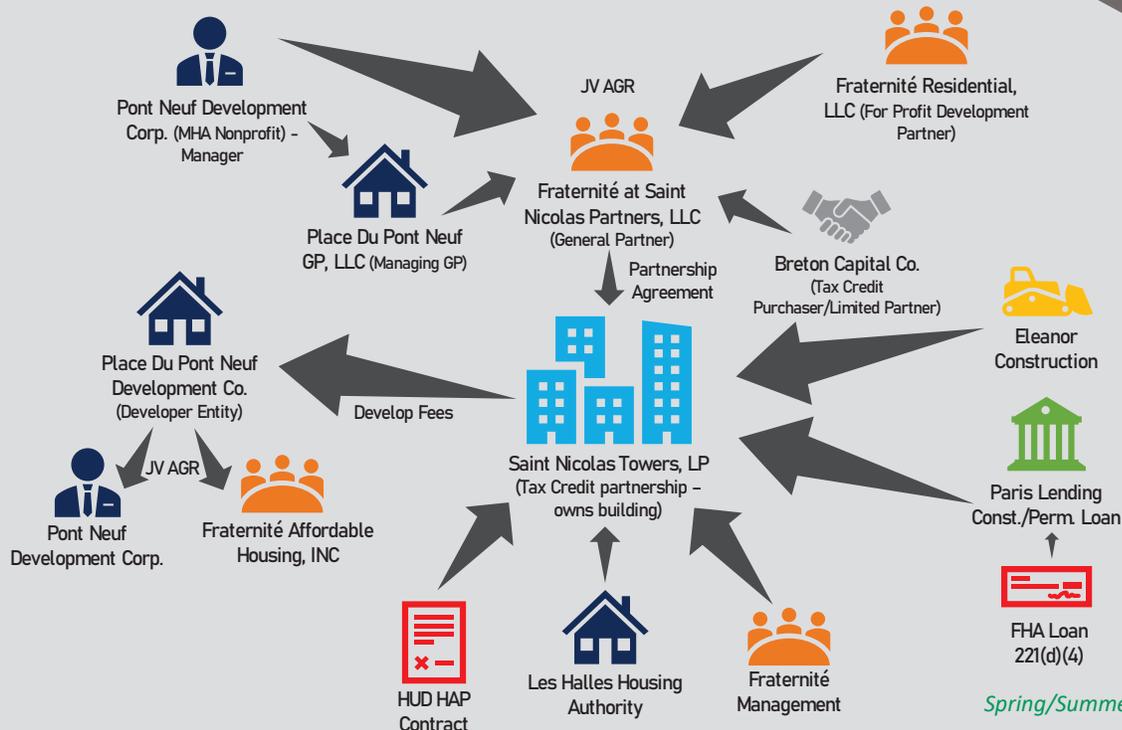


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Simple PBRA Conversion, Type 2

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Asset Management

Asset Management

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- 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

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Factors – Owner Structure

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- 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

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Brief #22 – RAD Indicator

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- 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.”

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Brief #22 – RAD Indicator, cont'd

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- **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.

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Brief #22 – RAD Indicator, cont'd

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The screenshot displays a web application interface with a navigation menu at the top: My Inbox, PHA Info, FDS, DCF, Submit, Review Submission, Edit Flags, Reports, Logout. On the left, there are expandable sections for BalanceSheet+ and Income Statement+. The main content area is titled 'PHA Information' and contains the following fields:

- PHA Code:
- PHA Name:
- Submission Type: Unaudited/A-133
- Project Name:
- Project Status: Validated
- Mixed Finance: No **RAD:Yes** (circled in red)
- Select Entity: [Program List](#) [Project List](#) [Other Project](#)

Below the PHA Information section is a table titled 'Income Statement - Project Program Listing':

CFDA #	Program Name	Status
14.872	Public Housing Capital Fund Program	Validated
14.850	Low Rent Public Housing	Validated

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Notes:

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