RAD ACCOUNTING UPDATE

CCHRCO Summer 2021

BDO PHA FINANCE

With You Today

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MODULE 1: RAD & Other Asset Repositioning Strategies

Overview of Asset Repositioning for Public Housing

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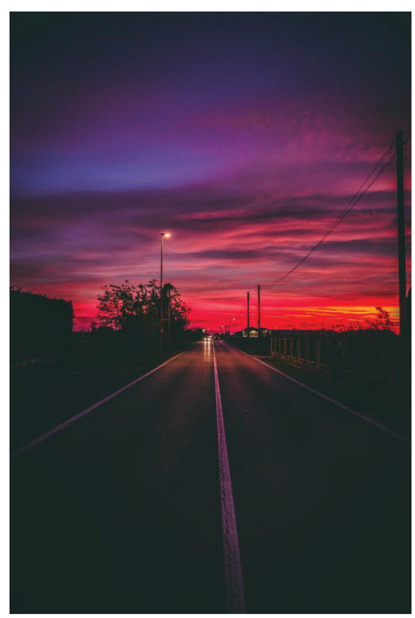
What Does HUD Mean By “Reposition”?

- HUD defines as: “Facilitate the preservation, rehabilitation or demolition and new construction of units by increasing access to financing to address capital needs”, and
- “Preserve the availability of affordable housing assistance, either through a physical unit or voucher”

What Does HUD Mean By “Reposition”?

- Will there still be public housing?
  - Yes! BDO PHA Finance has many PHA clients with properties that are well maintained and in decent condition. Many PHAs operate successful public housing programs
  - Unless Congress enacts legislation to convert Public Housing all at once (this is unlikely), Public Housing will be around for a long time. Years ago legislation was introduced to do just that (the Public Housing Reinvestment Initiative) but it didn’t get too far

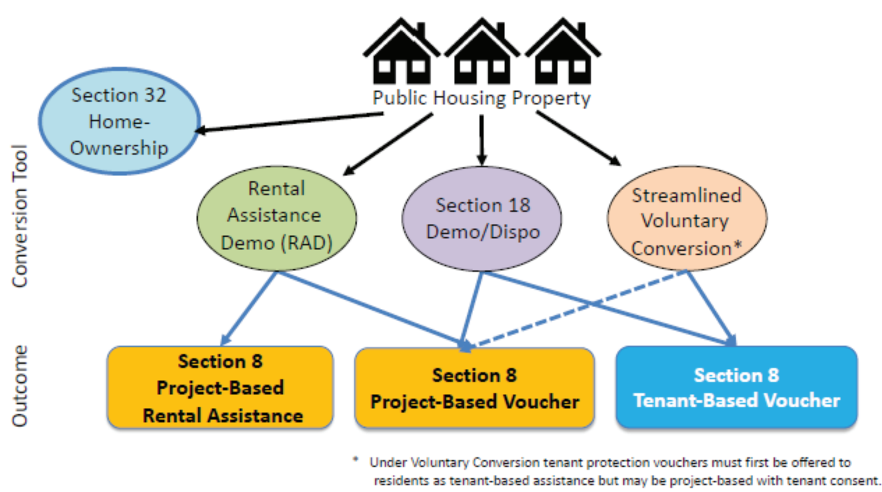


Repositioning Options To Leave Public Housing

- Options for PHAs that are seeking to exit Public Housing for financial or other reasons
  - Section 32 Homeownership
  - Rental Assistance Demonstration (RAD)
  - Section 18 Demolition & Disposition
  - RAD/Section 18 Blends
  - Voluntary Conversion (including Streamlined Voluntary Conversion), i.e., Section 22
  - Required Conversion (250 or more units with 10% vacancy), i.e., Section 33

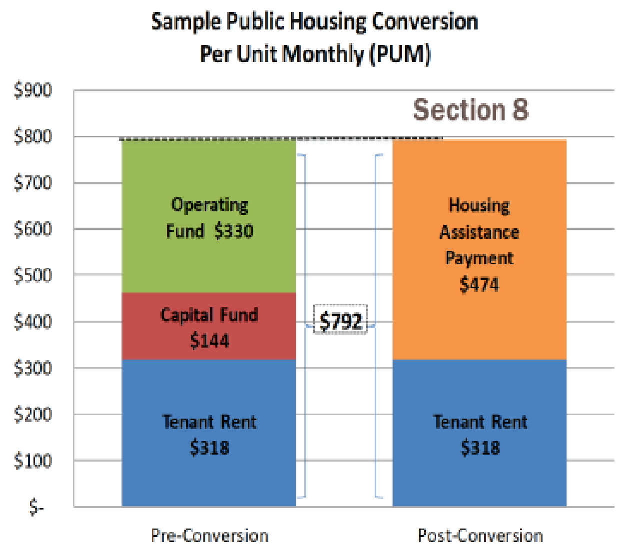
Public Housing Repositioning Options

Diagram obtained from conference materials prepared by HUD



Rental Assistance Demonstration (RAD)

Diagram obtained from conference materials prepared by HUD



- Allows PHAs to convert their existing public housing subsidy into a project based Section 8 subsidy – either Section 8 Project Based Voucher (PBV) or Project Based Rental Assistance (PBRA)
- Up to 455,000 public housing units authorized to convert
- Section 8 Contract Rents based on current public housing funding ("2018 RAD Rents" now available) with certain flexibilities available

RAD Highlights

- Capital Needs Assessment (CNA) identifies immediate and long-term needs
- Long-term Section 8 contract allows access to private sources of capital (e.g., tax credits, debt)
- Existing public housing funds can support conversion (i.e., predevelopment costs, rehab, establish property reserves, etc.)
- PHAs can rehab existing site, demolish & rebuild, or transfer assistance to a new location
- Advantages: operating reserves and unobligated Capital funds may be retained and transferred to RAD project at closing
- Disadvantages: rents are typically lower than Section 8 rents because they are based upon Public Housing funding level

What Is Section 18?

- Section 18 of the Housing Act of 1937 authorizes the demolition or disposition of public housing
- HUD's Office of Fair Housing and Equal Opportunity (FHEO) will review to make sure replacement vouchers can be used in market
- Requirements outlined in PIH 2018-04. HUD will generally approve a property under Section 18 if it is:
  - Health and safety concerns for residents
  - Physically or locational obsolete
  - Scattered site (non-contiguous) with operational challenges
  - Owned by a PHA with 50 units or less
  - Efficient and effective

Section 18 And PBV

- HUD issues new vouchers (Tenant Protection Vouchers) to PHAs following Section 18 approval
- Per HOTMA, vouchers can be project-based (i.e., PBV) at the former public housing site at standard PBV rents
  - Property is exempt from PBV "income-mixing" requirement
  - Property does not count against PHA's PBV program cap (20%)
  - Competitive selection not required if former public housing property will be owned at least in part by that PHA that administers the contract and property will be improved
- Advantages: Section 8 rents typically higher than RAD rents which are based upon Public Housing funding levels
- Disadvantages: Operating Reserves may not be transferred into the new project, and when the last of the Public Housing is removed the reserves are repaid to HUD

What Is Voluntary Conversion?

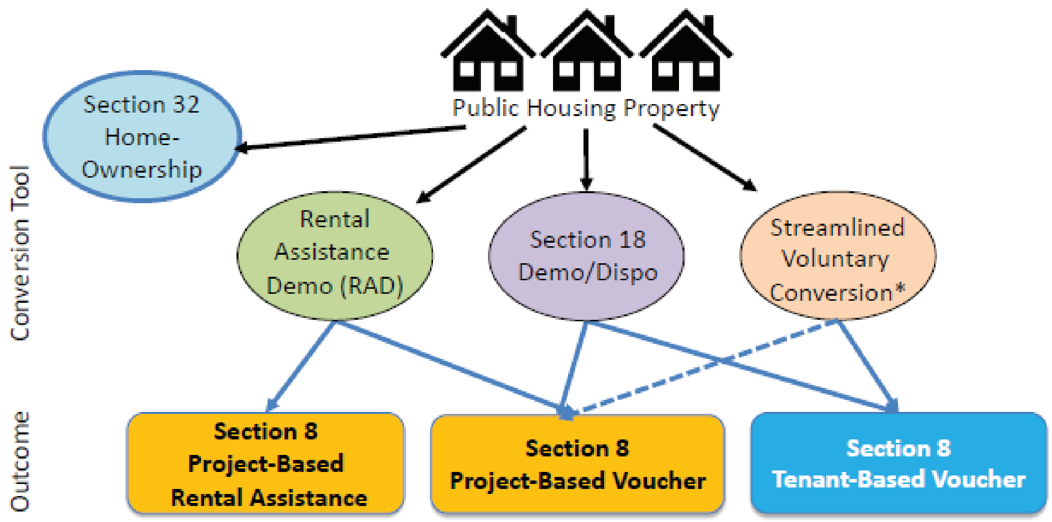
- Section 22 (Voluntary Conversion) authorizes conversion to vouchers if the PHA can demonstrate that it costs less to operate the property with vouchers than under public housing – see 24 CFR 972
- Tenant Protection Vouchers are tenant-based; residents may provide written consent to permit project-basing (PBV)
- Residents have a right to remain in the property with tenant-based voucher if the property will continue to be used as residential housing
- Streamlined Voluntary Conversion (SVC) PIH Notice 2019 – 05 waives the cost test for PHAs with 250 units or less that wish to close-out their public housing program
- FHEO review to ensure vouchers can be used in market

Small And Very Small PHAs

- PHAs operating 50 or fewer public housing units are eligible for a streamlined RAD approval or Section 18 disposition
  - Streamlined RAD approval does not require a financing plan or a physical needs assessment
  - PHA may also keep title to property under RAD and Section 22
  - PHAs approved under Section 18 or Section 22 qualify for TPVs
  - PHAs must commit to terminating, transferring, or consolidating their public housing program
  - If approved under Section 18 or 22, possible to attach PBV to project after conversion/disposition (tenant-consent required for Section 22)
- PHAs operating 250 or fewer public housing units are eligible for a streamlined Section 22 voluntary conversion if removing all Public Housing
  - Voluntary Conversion “cost analysis” waived

How To Identify The Best Tool

Diagram obtained from conference materials prepared by HUD



* Under Voluntary Conversion tenant protection vouchers must first be offered to residents as tenant-based assistance but may be project-based with tenant consent.

Comparative Program Characteristics

Diagram obtained from conference materials prepared by HUD

Section 18

- ✓ Justifications:
  - Unsafe/unhealthy location and infeasibility
  - Scattered Sites
  - 50 or fewer units remaining in PH inventory
  - Efficient and effective low-income housing
  - Physical obsolescence
- ✓ Replacement TPVs for any occupied units in past 24 months
- ✓ Can project-base TPVs
- ✓ No replacement housing required
- ✓Eligible for DDTF and ARF

RAD

- ✓RAD Contract Rents = Current Public Housing Funding
- ✓PBRA or PBV
- ✓Preserve FSS Participation
- ✓Can use PH $$ in development budget to support conversion
- ✓Long-Term Use Agreement
- ✓Resident Right to Return
- ✓Replacement Housing Requirement
- ✓Not eligible for DDTF or ARF

RAD/Section 18 "Blend"

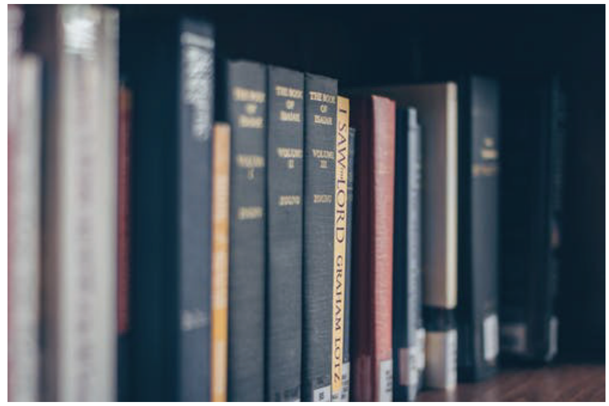
- ✓Eligible properties include those whose rehab or construction costs are at least 60% of Hard Construction Cost (HCC) limits, provided not using 9% credits
- ✓75% of the units convert through RAD and 25% disposed through Section 18 w/ PBV replacement
- ✓Project will receive TPVs for 25% of all occupied units
- ✓Residents receive all relocation and other protections of RAD

Voluntary Conversion

- ✓ Must demonstrate that vouchers cost less than cost of public housing or **have 250 or fewer public housing units and will close-out**
- ✓ Not eligible for ARF or DDTF
- ✓ PHA can project-base the TPVs, *but needs voluntary consent of residents*

Resources

- Reading
  - RAD Notice Rev 4 – H 2019-00/PIH 2019-23
  - Section 18 Notice – PIH 2018-04
  - Streamlined Voluntary Conversion Notice – PIH 2019-05
- Acting
  - RAD Application – radresource.net
  - Section 18/ Voluntary Conversion application - PIC



Rental Assistance Demonstration Program (RAD)

Origins of RAD

- Rental Assistance Demonstration
- Originally approved in HUD Appropriations Act of 2012 and additional units added in subsequent years
- Allows conversion of Public Housing stock to independently owned stock
  - Project Based Vouchers (funded through the HCV program)
  - Project Based Rental Assistance (funded through the HUD Multifamily program)

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General Planning

- Financial feasibility of plan
  - Conversion and construction costs (the development side of the equation)
  - Ability to operate post conversion (the operating side of the equation)
- Lender or Investor Meetings
  - Debt or equity may be needed from outside sources
  - Prior debt in PHA name must be retired or settled
- Resident Meetings
  - Two resident meetings to be held

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Development Budgets

- Dependent upon condition of the property
- CNA = Capital Needs Assessment: anticipates capital needs for next 20 years
  - General repairs and replacements will be expected
  - Reserve account requirements determined to assure cash available when repairs needed

Development Budgets

- Development budgets may include:
  - Acquisition costs
  - Professional fees
  - Developer fees (10%)
  - Contractor costs
  - Relocation costs

Development Budgets

- Existing debt must be paid
  - No pre-existing lien or debt attached to buildings is allowed to be absorbed (e.g. EPC, CFFP, etc.)
  - Title search to determine if any lenders or creditors have claim to property
- More of an issue with mixed-finance AMPs than traditional
- EPC and CFFP debt will have to be settled during conversion process

- Factors to consider
  - Newer properties will require less work for conversion
  - Older properties more desirable to convert in order to address capital needs that CFP cannot satisfy
- Current physical condition
  - Estimated construction costs
  - Planned sources of funding

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Sources and Uses Report

- PHAs may have existing reserves or available capital funds
  - Greatly simplifies process
  - Cash in AMP when converted can go to the RAD property or be transferred to other AMPs
  - If no other AMPs and not earmarked for RAD, reserves go back to HUD
- Pre-development costs
  - PHA may use up to $100k in existing reserves without prior approval

- Debt from lenders
  - Certain lending institutions or towns and municipalities can offer funding
- Investors
  - Low Income Housing Tax Credits (LIHTC) offered to investors
  - Receive 4% or 9% depending on arrangement
  - Frequent source of funding

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Operating Budgets

- Determine if future operations will be profitable
  - HUD requires only consideration of property and not PHA
- Pro Forma must be built
  - Projected income statement, revenue and expenses, for the next 20 years

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Operating Income

- Estimated future income based on RAD rent levels
  - HUD will provide these numbers based on PBRA and PBV (more info later in this session)
  - Subsidy (HAP Payment) to be based on contract rent minus family contribution

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Operating Expenses

- Estimated future expenses based on historical expenses adjusted for renovations made. Items requiring special consideration:
  - Maintenance costs
  - PILOT vs Taxes
  - Insurance
  - Utilities
  - Salaries and benefits
  - Management fee agreement
  - Formerly shared costs

Review of Pro Forma

- HUD reviews as part of application process
- Investors review for profitability to assure basis is inclusive of any possible costs
- Developers review for accuracy of future repairs costs
- PHA should review to determine impact on remainder of agency

Resident Relocation

- Right to return to the property post conversion
- Relocation should be minimized as much as possible
  - Relocation costs can be extremely expensive and must be included in any RAD application with detailed plan and source for funding
  - HUD does not provide separate funding for relocation – no TPVs
- Choice Mobility: PBV and PBRA have different post conversion mobility rules, more about this later

Resident Participation Funding

- Funding for Resident Participation still required after converting to RAD
- Post conversion the funding is set at $25 per unit per year which is a major decrease
  - $15 of that total goes to resident council if applicable
  - $10 goes to participation activities
- Public Housing Resident Participation rules to be followed (see PIH 2013-21)

Application Approval

- HUD issues a Commitment to enter into Housing Assistance Payment (CHAP)
- Sets milestones to be met in order to receive Housing Assistance Payments (HAP) contract and complete conversion

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Awarding of HAP Contract

- Project is removed from Public Housing inventory and ACC
  - May only apply to portion of project
- HUD releases Declaration of Trust to allow for change in ownership from HUD to new party
- HAP contract effective first day of month after close

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Funding of HAP Contract

- Funding follows calendar year
- Operating funds received through Public Housing until December 31 of first partial year in which the closing occurs
- Project Based Voucher or Project Based Rental Assistance funding effective January of next calendar year after closing

Sufficiency of Funding

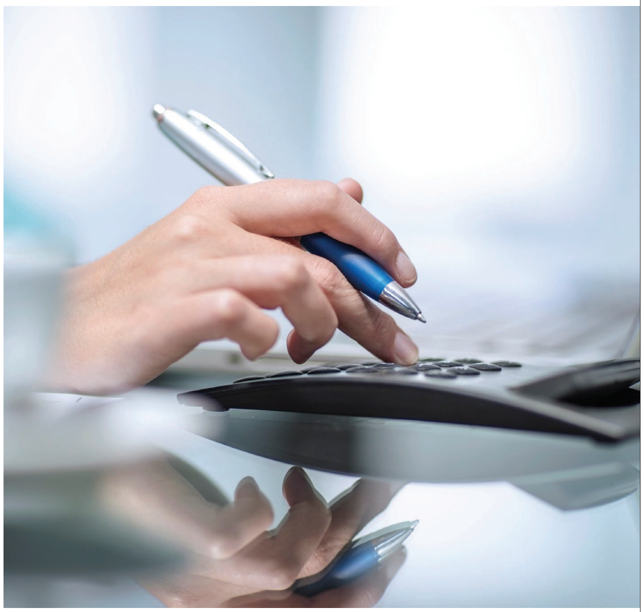
- Sources of HUD funding during first partial conversion year will be equal to the remaining operating subsidy and a portion of capital funds
- Operating expenses may be in excess of funding available because contract rents are delayed until first full calendar year
- What can be done?
  - Typically realized after deal closed
- HUD will not provide any additional funding in the initial partial year, beyond existing OpSub and CFP amounts
- HUD will allow PHA Operating Reserves to be used to cover any funding insufficiencies
- Must be listed with Finance Plan submitted with application
  - Calculation should be prepared in advance of closing
  - Estimate Operating Subsidy and future HAP expectation in comparison to expenses

RAD and PHAS Scoring

- AMPs designated as converting to RAD will not be scored
  - Issuance of CHAP defines moment when AMPs no longer scored
- If CHAP revoked then AMP will be scored retroactively
- If partial AMP converting then entire AMP not scored
  - Post conversion the AMP will be scored again with remaining AMPs
- CHAP issuance will not automatically stop scoring
- PIC must be updated to show AMP is designated as converting to RAD
- PIC inventory module is used to select AMP as having been awarded a CHAP
  - If this is not done the AMP will still be scored regardless of CHAP

RAD and PHAS Scoring

- Check FDS before you enter data to determine if AMP is marked “Yes” for RAD
- PIC and REAC only connect when submission is created
- Entire FDS will need to be deleted and redone if AMPs are not checked for accuracy when FDS is created



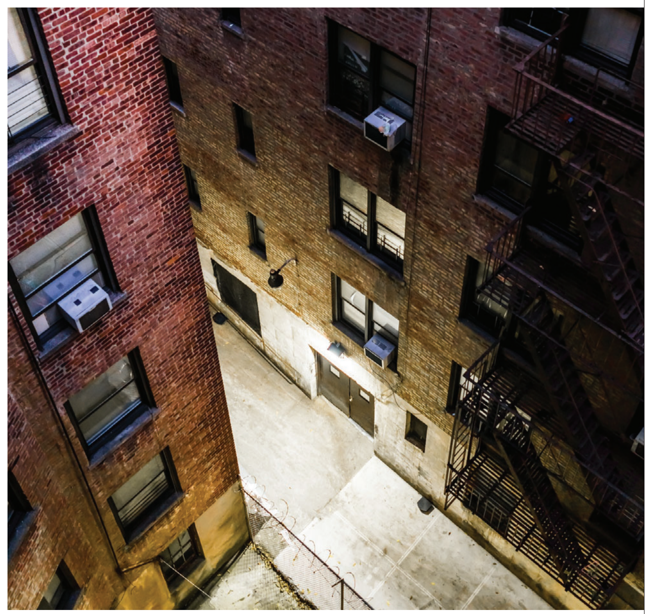
RAD and PHAS Scoring

RAD Impact on Agency

- Removing an AMP or even a partial AMP can have a substantial ripple effect on the Agency as a whole
- Some agencies looking to convert entire portfolio to RAD
- RAD application process puts no emphasis on the impact on the rest of the Agency

HUD Motivations for RAD

- HUD pushing RAD to help solve some major Public Housing problems
  - Capital improvements backlog
  - Serially underperforming projects
  - Extensive ownership costs
- Demonstrate effectiveness and success of initiative



PHA Motivations for RAD

- May receive favorable rents and want to retain profits
- Capital funds insufficient to provide needed renovations
- Legacy of executive staff
- Less involvement with LIPH rules and requirements
  - Operating Fund proration
  - Operating Subsidy calculations
  - Changing Capital Funds
  - Scoring concerns
- Become a small PHA
  - Capital Fund Flexibility
- Removal of COCC if units decrease below 400 or 250

PHA Motivations for RAD

- Section 226 exemption available if less than 400 units
  - All expenses allocated to active projects and programs under an allocated overhead account
  - No fees paid within the Authority
- Small PHA
  - No special exemption required for COCC to be removed
- If PHA is underperforming it will show on programs now instead of on a COCC
- Become a management company
  - Some PHAs are looking to no longer own stock but continue to manage it and receive fees
- Fees are typically substantially lower for converted project than as a Public Housing property
  - Level of staffing and service will need to be adjusted for reduced fees
  - Point of contention at many PHAs
- Is this a good idea for the PHA?

PHA as Management Company

- Strongly recommended the PHA forms a new entity or business activity separate from COCC
  - Keep fees completely non-federal
  - Any remaining project or HCV fees still go to COCC
  - Management fee charged to post conversion property goes to business activity
- Pros
  - Additional source of non-federal funds as management fees received
  - Maintain similar staffing levels
- Cons
  - Properties sold and not managed have led to substantial staff reductions
  - Investors have excessive demands
  - Different type of accounting/audit

PHA as Management Company

- Traps to avoid
  - COCC and maintenance staff maintained at similar levels despite reductions in fees
  - Reliance on uncertain revenue sources in the future
  - PHA long term contracts for benefits or other costs not shifted when sold
- Beware of pressure to close deal and lack of focus on future of PHA
  - Negotiate management fees
- Budget future of COCC

COCC Budgeting

COCC BUDGET								
CHART OF ACCOUNTS:	ORIGINAL COCC	Reduction in Fees Due to RAD Conversion	Absorption of Salaries and Benefits	Absorption of Admissions Expenses	Reallocation of Postage and Software	Absorption of Protective Services	Absorption of Tenant Services Expenses	ADJUSTED COCC
OPERATING RECEIPTS								
COCC FEES REVENUE	3,889,132	(192,706)	-	-	-	-	-	3,696,426
INTEREST ON GEN. FUND INVEST.	22,500	-	-	-	-	-	-	22,500
TOTAL OPERATING RECEIPTS	3,911,632	(192,706)	-	-	-	-	-	3,718,926
OPERATING EXPENSES								
TOTAL SALARIES	1,904,504	-	23,355	-	-	-	-	1,927,859
TOTAL SUNDRY	825,638	-	-	-	(7,972)	-	-	817,667
TOTAL FEES AND CHARGES	-	-	-	49,279	-	-	-	49,279
TOTAL TENANT SERVICES	60,525	-	23,941	-	-	-	147,087	231,553
TOTAL UTILITIES	112,500	-	-	-	-	-	-	112,500
TOTAL MAINTENANCE LABOR	-	-	14,574	-	-	-	-	14,574
TOTAL MAINTENANCE MATERIALS	11,520	-	-	-	-	-	-	11,520
TOTAL MAINTENANCE CONTRACTS	15,188	-	-	-	-	-	-	15,188
TOTAL PROTECTIVE SERVICES	15,975	-	-	-	-	7,285	-	23,260
TOTAL GENERAL EXPENSES	965,782	-	30,935	-	-	-	-	996,717
TOTAL NONROUTINE MAINTENANCE	-	-	-	-	-	-	-	-
TOTAL OPERATING EXPENDITURES	3,911,632	-	92,805	49,279	(7,972)	7,285	147,087	4,200,116
NET RECEIPTS LESS EXPENSES	-	(192,706)	(92,805)	(49,279)	7,972	(7,285)	(147,087)	(481,190)

Project Based Voucher Impact

- Additional Project Based Vouchers will require additional HCV staff
  - Caseworkers
  - 50058 Completion
  - No admin fee in first partial year
- Additional VMS Reporting – begins January 1 of following year
  - Focus on the Two Year Tool
  - Restricted Net Position Calculation
  - Shortfall Prevention

Project Based Rental Assistance Impact

- New system to learn if not familiar with PBRA
  - Tenant Rental Assistance Certification System (TRACS)
  - 50059 Completion
  - Contract directly with HUD
- Multifamily reporting system
  - Owner certified submissions
  - Additional audit requirements

PBV vs. PBRA

Comparing and Contrasting the Two Primary RAD Choices - Pros and Cons

Project Based Voucher (PBV)

- Part of Housing Choice Voucher Program
- Vouchers are specific to a project unit and cannot be transferred
- Former AMP is now (typically) owned by party other than PHA that acts as landlord – LLC, 501c3, or LP

Three Parties (PBV)

- HUD
  - Continues to provide funding through typical Section 8 Vouchers
- Authority Administering Contract
  - Check processing
  - Recertifications
  - Inspections
- Owner of the Project
  - Purchaser or project
  - Receives tenant and HAP income as rent in exchange for building use

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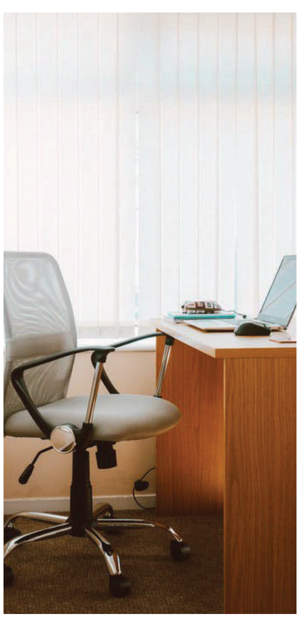
Project Ownership (PBV)



- Possible owners of project after conversion
  - Outside Entity
  - Component Unit Entity
  - Housing Authority
- Authority cannot be both owner an administrator
- Must establish a new wholly-owned entity or managing agent

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Reporting (PBV)

- May or may not be reported on FDS, depending on ownership of project after conversion and whether the new owner is a component unit of the PHA
- VMS reporting begins in first full calendar year after conversion
- HCV program increases
  - Units reported
  - HAP income and expense

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PBV Considerations

- Sometimes AMP's converting to RAD Under PBV will be treated as "PHA-Owned units"
- HUD regulations require Housing Authority's that have PHA-Owned units to arrange for independent inspections and rent reasonableness
- HOTMA revised the definition of PHA-Owned units soften the criteria resulting in less PHAs that will be subject to this
- PBV Units and HAP expenses will be reported in VMS under the applicable RAD Field
- PBV Units will earn Administrative Fee in the HCV program, an additional benefit for PHAs electing to covert under this model
- However, the two items above do not commence until the first day of the first full calendar year after the HAP contract begins

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Project Based Rental Assistance (PBRA)

- Reported on FDS as either Multifamily housing program or Component Unit
- HUD enters into a HAP contract with owner of the project

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Two Parties (PBRA)

- HUD
  - Provide funding through typical TRACS directly to owner
- Owner of the Project
  - Purchaser or project
  - Receives tenant and HAP income as rent in exchange for building use

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Project Ownership (PBRA)

- PHA remains as owner under the PHA's Tax Identification Number (reported in Multifamily column of FDS)
- Or the PHA creates a separate legal entity that may or may not be a component unit (reported in component unit column of FDS)

Reporting PBRA/Options

- Reported on FDS as Component Unit if owned by PHA after conversion, or under Multifamily CFDA if owned by PHA (14.195 Section 8 Housing Assistance Payments program)
- Not reported on VMS if acquired by or transferred to a non component unit
- No longer reported if sold to outside business or individual

PBRA Considerations

- PHA's unfamiliar with PBRA should be forewarned to not underestimate how difficult the transition is into this completely different world
- New software is needed that is certified compliant with TRACS (HUD's drawdown systems for Multifamily / PBRA)
- PBRA properties receive oversight from the Multifamily division of HUD, which is completely different than PIH
- Refer to HUD's PBRA Guide at hud.gov/rad for more details

PBRA Considerations

- PBRA is more highly regulated than PBV
- The Annual Financial Submission, which is required in addition to any FDS submission requirements, is very intricate, somewhat antiquated, and completely different than the FDS
    - FDS experience will not help you
- Make sure you carefully understand PBRA before finalizing this important decision

Comparing PBV and PBRA

	PBV	PBRA
Funding	Funded through the HCV Program. Safest option from a funding perspective because PHA decides how to handle shortfalls due to proration. More details later.	HAP contract renewal subject to Annual Appropriations as approved by Congress. HUD has never failed to renew a PBRA contract despite funding issues in past.
Number of Assisted Units	Formerly, up to 50% of units may be assisted unless a single-family home, elderly/disabled, or families offered supportive services. Cap has been lifted and 100% now allowed.	No limit on percentage of PBRA units in a project, can be 100% of project.

Comparing PBV and PBRA

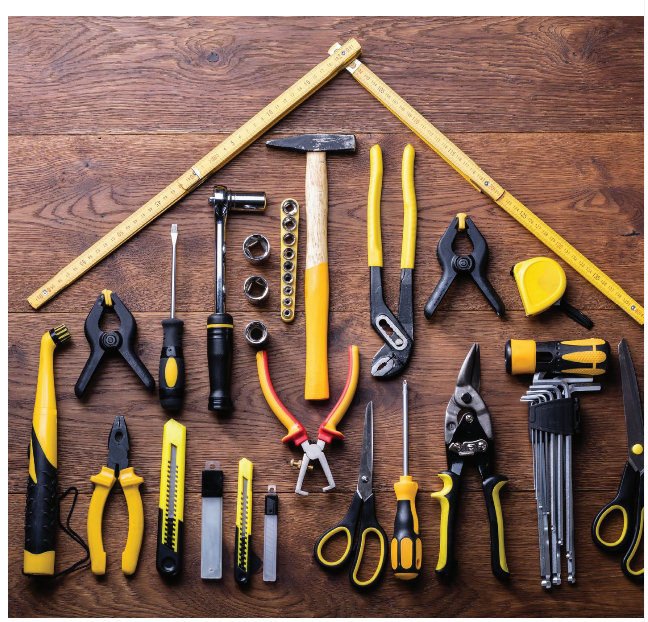
	PBV	PBRA
Initial Contract Rent Term	Must be for at least 15 years and may be up to 20 years. Can automatically extend for another 15 years.	20 year initial term.
Contract Renewal	Mandatory renewal from administering PHA to owner/landlord.	Mandatory renewal from HUD to owner/landlord.
Rent Caps	Limited by LOWER of “reasonable rent” or 110% of Fair Market Rent.	Cannot exceed 120% of Fair Market rent unless current funding is below market in which case cannot exceed 150%

Comparing PBV and PBRA

	PBV	PBRA
Rental Increases	OCAF annual adjustments as published in federal register up to reasonable rent charged for unassisted units.	OCAF annual adjustments as published in Federal Register.
Vacancy Payments	May pay up to two months of vacancy payments per unit at discretion of PHA (24 CFR 983.352)	Project eligible for 60 days of vacancy payments (24 CFR 880.611)
Rehab Assistance Payments	Same for Both (see next slides)	Same for Both (see next slides)
Tenant Admittance	Same for Both (see next slides)	Same for Both (see next slides)

Rehab Assistance Payments (RAP)

- Construction Period
- During rehabilitation units undergoing rehab or construction are eligible for payments
  - Equal to subsidy prior to conversion under LIPH and CFP



Tenant Admittance

- Same for both conversion types
- No re-screening required for initial tenants
- All initial tenants have right to return once rehab/construction done
- Rent increases can be phased in over 3-5 years if RAD conversion yields increases of over 10% or $25
- Residents can establish and operate a resident organization that will be funded at $25/occupied unit annually with resident participation funding
- Mandatory requirement under RAD to fund resident participation
  - See PIH 2013-21 for details

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Comparing PBV and PBRA

	PBV	PBRA
Choice Mobility	Tenant can move with voucher after 12 months of occupancy. Receives next available tenant based voucher, limited to 75% of turnover vouchers.	Tenant can move after 24 months from HAP contract or move-in date. PHA can limit this to 1/3 of turnover vouchers and up to 15% of units.
Inspections	HQS	UPCS
Management and Occupancy Reviews	Not Required	Required
REAC Annual Financial Statements	Reported on FDS as part of HCV Program, and also Component Unit, or Business Activity, or Multifamily on FDS	Reported on FDS as PBV is, but also required to have a submission into the HUD Multi-family system (“AFS”)

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RAD Funding

After the Deal is Done

Budgeting Rental Income

- PIH Notice 2012-32 discusses that income under RAD will not be a decrease from previous funding
  - RAD deal loses appeal if less total income is to be received
- This is done by setting the current expected rent as the PUM for each property based on current funding and including LIPH, CFP, and RHF
- However, this is not the last step of the process! HUD also considers rent caps for PBV and PBRA as well as rent reasonableness

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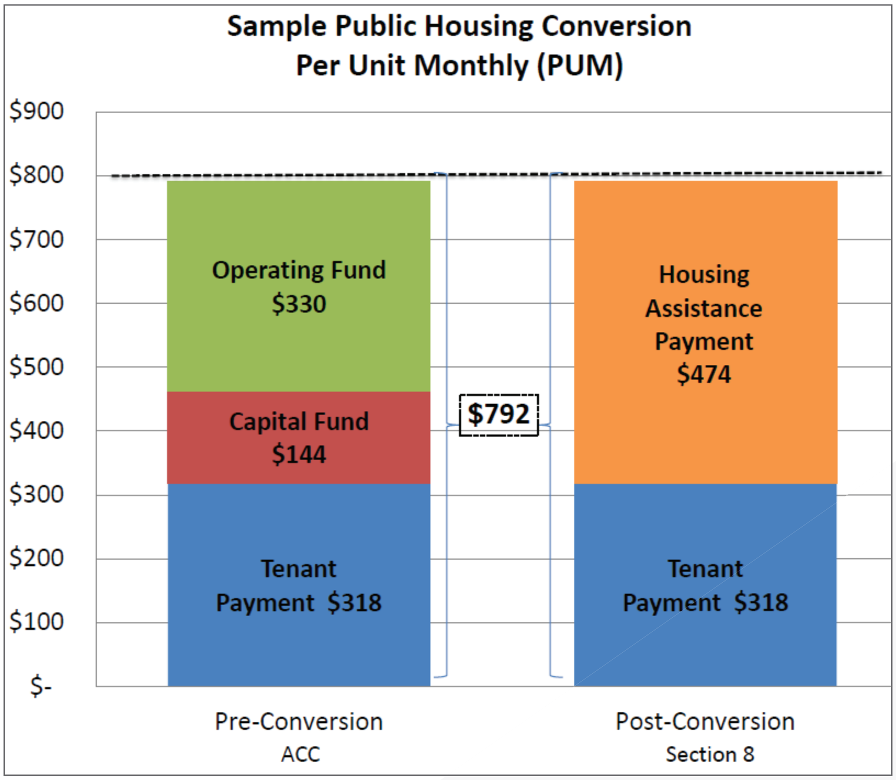

Budgeting Rental Income

- PBV contract rent is the lower of several options
  - Current Public Housing funding
  - 110% of FMR less utilities
  - Reasonable rent
- Example
  - Current PUM revenue (operating subsidy + rent income) previously averaged $792/unit but
  - Reasonable rent is $680
- The project will receive no greater than $680 (HAP + rent) average PUM income after PBV RAD conversion
  - Lower amount may be received if the rent caps cause it to be lower
- Reasonable Rent Calculations incredibly important

Budgeting Rental Income

- PBRA rent is lower of 120% of FMR less utilities or the current funding rent
  - Current Public Housing funding
- Example:
  - Current Funding $792
  - Reasonable Rent (PBV) $680
  - If FMR = $600
  - 110% of FMR (PBV cap) $660
  - 120% of FMR (PBRA cap) $720

HUD Funding

Conversion Year and Ongoing Funding

Funding Overview

- Projects undergoing RAD conversion will be funded with Operating and Capital Funds for the entire calendar year in which the HAP contract is issued
- On January 1st of the upcoming year, funding will change from Operating and Capital Funds to PBV or PBRA

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Operating Subsidy and CFP Overview

- At closing, a PHA shall provide a certification that it will make Operating and Capital funds available, in amounts determined by HUD
- PHA uses funds to make monthly HAP payments for the remainder of that calendar year
- Portion of Capital Funds will be moved into two new RAD Budget Line Items in eLOCCS that the PHA can use to make HAP payments to the property

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HAP Contract Timing

- Once the PHA meets all the milestones in the CHAP, HUD will execute a HAP contract for PBV or PBRA as well as a RAD Use Agreement for the project
- Normally, the effective date of a HAP contract will be the first day of the month following closing
- “Closing” refers to the process during which the project is released from the Public Housing Declaration of Trust and Public Housing ACC, the new HAP contract and RAD Use Agreement are executed, any debt and/or equity financing agreement is entered, and the terms and conditions of the RAD Conversion Commitment are recorded

HAP Contract Timing Example

For example, if the PHA went to closing on January 10, 2020:

- January 31, 2020
  - Public housing ends
- February 1, 2020
  - The HAP contract will begin
- January 1, 2021
  - Funding begins from PBV/PBRA

Funding in Conversion Year

PBV

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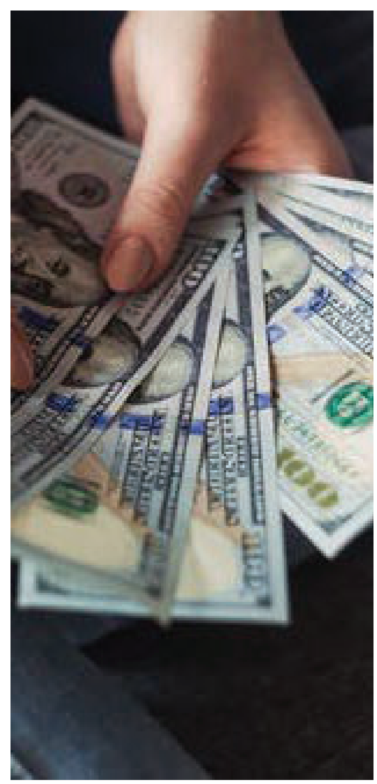
Conversion Year Funding

- Funding based on completed Operating Subsidy Tool (52723) for the current year plus CFP funding applicable to the AMP
- Subsidy and CFP funding continues to flow through ELOCCs and be drawn down for converted AMP
- Funding level in first partial year is just like prior to RAD



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Funding During Conversion Year

- Amount of first partial year funding not based on HAP contract rents - Is this enough?
- HUD will NOT provide any additional funding to project if the Operating Subsidy and CFP funds are insufficient to cover expenses
- How can we handle a potential shortfall in Subsidy and CFP funding provided vs HAP payments needed?

Calculating Potential Gap

- Calculate remaining Operating Subsidy to be received based on approved 52723 after Proration
- Calculate portion of Capital Fund Grant that will be available for HAP Payments
- Estimate the operating expenses for the rest of the year

Determining Funds Available

- New Budget Line Items (BLIs) have been created in eLOCCs for RAD Operating Subsidy and CFP
  - **1503** – Funds to be used for HAP for remainder of calendar year from effective date of HAP contract from Operating Subsidy and CFP
  - **1504** – Funds to be used for Development to be available at closing, CFP Only

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Conversion Year Funding Tool – Opfund

Instructions: Use this worksheet to estimate the Operating Funds that will be available for HAP subsidy for a converted project for the remainder of the Calendar Year in which it converts. Moving to Work (MTW) agencies with an "Alternative Subsidy" MTW Agreement should utilize the worksheet entitled "Op Fund for Alt-Subsidy MTWs"

PIC Development #	1	*(transferred from Capital Fund worsheet)*	
Public Housing Units to be Removed Through RAD	100	*(transferred from Capital Fund worsheet)*	
HAP Effective Date	2/1/2017	*(transferred from Capital Fund worsheet)*	
Step 1. All PHAs should complete the following four fields.			
1. Enter the Operating Fund Eligibility in 2015 based on your submitted HUD -52723 "Operating Fund Calculation for Operating Subsidy"	$850,000	3. Is this a "full conversion" or a "partial conversion"? i.e. At closing, will all (full) or only some (partial) of the units in the PIC Development be removed from PIC?)	Full Conversion
	x		
2. Enter the estimated 2015 Operating Fund Pro-ration level	85.63%	4. How many ACC units are currently in the PIC Development?	100
	=		
Estimated Pro-Rated Operating Fund Eligibility for PIC Development #	$727,855		
	x		
% of Monthly Operating Funds Attributable to the Converting Units	100.00%	(For Full Conversions, this value is 100%. For Partial Conversions, this value is derived from Step 2)	
	x		
Months Remaining in Calendar Year from HAP	11	(Calculated based on HAP effective date)	
	÷		
	12		
	=		
Estimate of Operating Fund subsidy available for HAP i	$667,200.42	#N/A	

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Operating Subsidy Conversion Example

- Example shows a full conversion where 100% of operating subsidy is moved to BLI 1503 for HAP
- May also select partial conversion which will generate a new spreadsheet requesting unit data and will allocate the percentage being converted to the total subsidy available
- Data entered will be checked against information in PIC and will generate error if different

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Conversion Year Funding Tool – CFP

Step 1 (REQUIRED): Please enter the PIC development number of the converting property, the number of units included in the conversion, and the effective date of the new Section 8 HAP Contract

Enter PIC Development Number:	AK001000247		
Enter Public Housing Units To Be Removed Through RAD:	100	---->	# of ACC units in RAD PIC Removal application
Enter Estimated or Actual Contract Effective Date:	2/1/2017	---->	(All Contract effective dates start on the first of a month)

Amount to Move to Capital Fund BLI 1503 (RAD)

FY 15 Development $ Amount		**Units Converting**		**Standing Units**		**Remaining in CY from HAP Effective Date**				**Calculated Amount**
$ 195,819	x	100	÷	120	x	11	÷	12	=	$ 149,584

If requesting the "Calculated Amount" you are done and there is no need to complete step 2.

Step 2 (OPTIONAL): If requesting an amount that is less than the Calculated Amount above, 1) enter the "Requested Amount" in the cell below and 2) have the new project owner (transferee) sign this form. *(This section only needs to be completed if the amount requested is less than the Calculated Amount above.)*

Requested Amount

Signature of Authorized Representative

Name of Signatory

Official Title

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Collecting the CFP Funds

- Revised 50075.1 must be submitted with BLI 1503 and 1504 written in with amounts
- RAD closing coordinator reviews amounts
- Post-closing eLOCCs is updated so funds may be drawn down
- Operating funds moved automatically to 1503 and available after tool received

Closing Funding Gap

- Financing plan must be submitted to HUD
- Plan contains estimated revenues as calculated from tool
- May fund "Operating Deficit Reserve" in Financing Plan to address funding gap and absorb the year 1 loss
- "Allows" PHA to include Operating Reserves, CFP Proceeds or other reserves in Financing Plan to cover this
- No new HUD funding after conversion to cover deficit, it is the PHA's responsibility to address with existing resources
- Essentially telling Authorities to plan ahead for a gap (so there is no gap)

Funding in Calendar Year After Conversion

PBV

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New Calendar Year After Conversion

- Beginning the next calendar year, the project will receive HAP funding through either the PBV or PBRA program
- Account for this revenue following the usual HCV or PBRA program accounting rules

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Funding During First Year After Conversion

- Subsidy based on the RAD contract rents
- Information gathered in different ways
- Field office needs a basis for HAP funding as there is no VMS data to rely on

Funding 2nd Calendar Year After Conversion

PBV

Funding During 2nd Calendar Year
Return of the VMS

- Funding based on VMS data that has been submitted during first calendar year
- VMS reporting is required during first calendar year to provide basis for second calendar year
- VMS recently updated for RAD reporting, additional fields added

VMS Reporting

- Common question is "How do we report RAD vouchers once HAP contract is issued?"
  - In conversion year they are NOT reported in VMS as this would inflate total HAP used for funding
  - Funding is being provided from Operating Subsidy/Capital Fund in the first partial year
  - Reporting in VMS would duplicate funding
- In first full calendar year, RAD amounts reported on VMS (HAP, Units Leased, etc.)
- In second calendar year, funding based on VMS data from first full calendar year
  - "Rebenchmarking" / HAP Renewal Funding

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VMS Updates

VMS FIELD REVISIONS/ADDITIONS – EFFECTIVE MAY 2016

Tab 1 – Voucher UML/HAP

- Rental Assistance Component 1 (UML) – RAD 1 leasing information will no longer be reported in the Tenant Protection field
- Rental Assistance Component 1 (HAP) – RAD 1 expense information will no longer be reported in the Tenant Protection field
- Rental Assistance Component 2 (UML) – RAD 2 leasing information will no longer be reported in the Tenant Protection field
- Rental Assistance Component 2 (HAP) – RAD 2 expense information will no longer be reported in the Tenant Protection field

PBRA Funding

- Year of conversion
- First calendar year after RAD conversion year
- Second calendar year after RAD conversion

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Funding Differences

- Main Difference between PBV and PBRA is funding
    - PBRA from Multi-Family Housing
- Tenant assistance payments go directly to the project
- Authority does not administer vouchers
- Good option if PHA not looking to expand HCV program or deal with issue of HAP contracts with itself

PBRA Funding

- Similar to PBV, the conversion year (first partial year) is funded through Operating Subsidy and Capital Funds
- In first calendar year after conversion, HAP funding is determined based on information provided through HUD systems

Tenant Rental Assistance Certification System (TRACS)

- Process tenant recertifications
- Subsidy billing conforming to HUD specifications
- Software must be TRACS compliant to send required electronic data to HUD
  - Form HUD 50059

Enterprise Income Verification (EIV)

- Verify tenant employment and income information
- Provide family composition
- Conversion from PIH EIV access at HAP contract date and obtain Multi-Family EIV access within 90 days from HAP contract being signed

PBRA Continuous Funding

- HUD 50059-A should be prepared to provide funding from time period between executing RAD conversion commitment and the HAP contract effective date
- Due by the 10th of the previous month
- Will maintain eligibility for funding throughout process

PBRA Funding Timeline

CLOSING

- Obtain access
- to TRACs
- Obtain access to EIV within 90 days of HAP Contract

CONVERSION YEAR

- Prepare form HUD-50059 and 50059-A for all tenants
- Submission required prior to HAP contract effective date
- Due 10th of the month preceding voucher payment month
- Amount is $0 for conversion year due to Operating Subsidy and Capital Fund

NEW CALENDAR YEAR

- Prepare form HUD-50059 and 50059-A for all tenants
- Report the actual amount of HAP calculated to receive funding

RAD Conversion Entries

RAD Conversion Options Creates Multiple Possibilities for Conversion Entries

- RAD has many conversion options
  - Each has specific accounting requirements
  - Greatly increases level of complexity
- Each deal can be unique
- Three of the most common setups for RAD transactions
  - PBV Conversion with Property Owned by PHA’s Instrumentality (LLC, 501c3, etc.)
  - PHA Owned PBRA (Multifamily)
  - Sale of Property to a LIHTC Partnership

Important Considerations

- Under the first two options shown on the previous slide (i.e. transactions not involving Low Income Housing Tax Credits)
- PHA, or an affiliate will typically be the owner of the property
  - Such as an instrumentality of the PHA: an LLC with the PHA as sole member or a 501c3 created by the agency)
- Under the third option in the previous slide (i.e. transactions that involve Low Income Housing Tax Credits)
- Limited Partnership (LP) will typically be the owner
  - This occurs because PHAs do not pay income tax and therefore cannot benefit from the tax credits. A LP is formed with investors who benefit from the tax credits as explained earlier, and in return make capital contributions that serves as additional funding for needed improvements.

Structure and Ledgers for PBV Without LIHTC

- The RAD Property will be in a new fund you will establish to be reported on the FDS
  - Component Unit (if owned by a legally separate organization such as an LLC or 501c3)
  - Business Activities (if the PHA owns the property outright).
- Transfer of property and any other applicable assets and liabilities will be recorded from AMP(s) to this new fund
- Under PBRA, the RAD Property is also under a new fund that you will establish, to account for the Multifamily property and related fixed assets, other assets, and liabilities
- A transfer of the property and any other applicable assets and liabilities will need to be recorded from the AMP(s) to this fund
- If the PHA will continue to own the property, this fund will be reported under the Multifamily column of the FDS (CFDA 14.195)

Structure and Ledgers for PBV Without LIHTC

- If the RAD property is owned by a Component Unit (LLC, 501c3, etc.), this fund will be reported in the Component Unit column of the FDS (blended or discretely presented)
- Under PBRA, the property will also be reported to REAC on the Multifamily submission
  - This is completely different from the FDS and will require some homework on your part to determine how to get set up and do the required reporting.

RAD Conversion Entries for PBV or PBRA (Non-LIHTC)

- On Public Housing/AMP to remove the property and other assets and liabilities:
  - Dr Equity Transfer FDS11040 (if Property to be owned by PHA) or Special Item FDS 10080 (if property to be owned by affiliate)
  - Dr Liabilities as applicable
  - Cr Fixed Assets
  - Cr Other Assets as applicable
- On RAD Property (Component Unit or Business Activities) to rebook the property in its new ledger:
  - Dr Fixed Assets
  - Dr Other Assets as applicable
  - Cr Liabilities as applicable
  - Cr Equity Transfer or Special Item as per above

Borrowing Funds for Improvements, and Completing the Improvements

- RAD Property (Component Unit or Business Activities) borrowing funds
  - Dr Cash
  - Cr Note Payable
- RAD Property (Component Unit Business Activities) completing improvements
  - Dr Building Improvements
  - Cr Cash

Operating Activity and Replacement Reserve

- RAD Property (Component Unit or Business Activities)
  - Normal accounting as in Public Housing, receivables, payables, receipts, disbursements
- RAD Property (Component Unit or Business Activities)
  - Dr Replacement Reserve (restricted cash)
  - Cr Cash

PBV and PBRA Effect on Structure and Ledgers When LIHTC is Added

- When LIHTC is introduced into the transaction, the structure becomes a lot more complicated
- Frequently the property is "sold" by the PHA to the ownership entity which occurs in a couple of steps
  - Declaration of trust (DOT) is removed, allowing the property to be transferred to Business Activities or another nonfederal entity within or attached to the PHA (e.g. instrumentality)
  - Property is then sold by the PHA from business activities to the owner-entity (e.g. LIHTC partnership), and this is usually not a cash sale but a sale with take back financing, meaning a note receivable on the PHA's books

PBV and PBRA Effect on Structure And Ledgers When LIHTC is Added

- Note receivable for seller financing should reside on the business activity fund: payments received are considered nonfederal funds
  - Typically cash flow notes
  - Note is not repaid unless the property has net cash flow and then only in the order stipulated in the partnership agreement or LLC operating agreement

Conversion Entries

- Property Is Sold to Limited Partnership to Facilitate Tax Credits
- You will need a new G/L under business activities to hold the note receivable due back from the LP (the take-back financing)
- This G/L sometimes reflects the PHA's role as General Partner in the Limited Partnership entity
  - In some cases, in the LP agreement the General Partner (the PHA or an affiliate) agrees to sell the property to the partnership in exchange for a note and may loan other funds into the LP as well
- We do not recommend booking the Note Receivable(s) LIPH!
  - If any payments are received you want those to be de-federalized. Under the RAD Notice PIH2012-32, RAD disposition proceeds are non-federal funds
  - Also, when the property eventually comes back to the PHA you want it to come back to Business Activities, not Public Housing.

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LIHTC Books and Financial Statements

- You will also need to establish books for the Tax Credit Limited Partnership owner-entity.
- Party responsible for establishing and keeping those books is most likely addressed in the management agreement
  - This will likely be the third party manager, or if managed by the PHA the books will most likely be the responsibility of the PHA

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LIHTC with Third Party Management

- Note that when employing LIHTC, the property is sometimes managed by the PHA but many times by a property management firm or managing agent
- In that case the lion's share of the management fees will not come to the PHA but will go to the managing agent
- The employees managing and maintaining the property will not be PHA employees but will work for the management firm

Recording Transactions

- **Step One:** Transfer property from AMP to business activities
- Public Housing/AMP
  - Dr Equity Transfer
  - Dr Liabilities as applicable
  - Cr Fixed Assets
  - Cr Other Assets as applicable

- **Step Two:** To Receive Property On Business Activities Fund
  - Established to sell the property and hold the seller financing / Note Receivable
- Business Activities Fund
  - Dr Fixed Assets
  - Dr Other Assets as applicable
  - Cr Liabilities as applicable
  - Cr Equity Transfer

Recording Transactions

- **Step Three:** Sale of RAD Property to tax credit owner-entity LP
- Business Activities Fund
  - Dr Note Receivable
  - Cr Fixed Assets
  - Cr Other Assets as applicable
  - Dr Liabilities as applicable
  - Cr Gain or Loss on Sale or Deferred Gain (depending upon circumstances and as defined by GAAP)
- GASB 62 for more information

- **Step Four:** Purchase of Property by tax credit LP
- LP that will own the RAD property (this is LIHTC entity)
  - Dr Fixed Assets
  - Dr Other Assets as applicable
  - Cr Liabilities as applicable
  - Cr Note Payable to PHA or 501c3
  - Cr Other Notes Payable or other transaction debt

Recording Transactions

- Tax Credit Investor Contributions and Improvements from borrowings and/or capital contributions
- Capital Contributions
  - Dr Cash
  - Cr Capital Contributions
- Rehab Expenses
  - Dr Building Improvements
  - Cr Cash

Questions?

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