



To: State HFAs  
From: Ellen Lurie Hoffman and Garth Rieman  
Subject: HUD's Transforming Rental Assistance Initiative  
Date: April 7, 2010

### **Executive Summary**

The Obama Administration's Budget for Fiscal Year (FY) 2011 proposes to initiate a multi-year effort called the Transforming Rental Assistance (TRA) initiative. The primary goals of this initiative are to preserve HUD-funded public and assisted housing, stem the loss of affordable units, enhance housing choice for residents, and streamline the administration of HUD's rental assistance programs. The Budget requests \$350 million in FY 2011 to fund the first phase of this initiative, which would preserve approximately 300,000 units of public and assisted housing and expand housing choices for families with Housing Choice Vouchers (HCVs).

This spring, HUD plans to submit to Congress proposed legislation to authorize the voluntary conversion of public and assisted properties to long-term property-based Section 8 rental assistance and make other changes to HUD's programs to advance the streamlining goals of TRA.

The Department continues to seek input on TRA and posed a number of outstanding questions for stakeholders in a [discussion draft](#) it released March 31. HUD's goal is to balance the sometimes competing goals of preservation, tenant choice and opportunity, and market discipline. Comments on HUD's revised proposal may be sent to [tra@hud.gov](mailto:tra@hud.gov).

### **Complexities of the Current System**

HUD provides rental assistance to more than 4.6 million households through at least 13 different programs, each with its own rules, administered by three operating divisions with separate field staff. Assistance under these programs is delivered through an infrastructure that includes some 4,200 public housing agencies (PHAs), 17,000 private owners with individual federal contracts, and hundreds of nonprofit entities. To access assistance, eligible individuals or families typically must place their name on the waiting list of each agency, owner, or entity administering assistance in the area.

HUD's FY 2011 Budget justification says the inefficient administrative structure of HUD's rental assistance programs impedes fair access to scarce resources, resulting in variable wait times. Depending on the type of assistance received, an assisted family may have to sacrifice affordability when choosing to relocate. HUD also says the current decentralized administrative system for rental assistance and the lack of a universally available mobility option may reinforce concentrations of households by race and income.

HUD says the current rental assistance system is also difficult for developers and owners of HUD-assisted housing. The public housing program essentially prohibits most PHAs from leveraging

debt to address modernization needs. Small, single asset owners often struggle with compliance requirements that are disproportional to the available resources or to the level of financial risk posed by their properties. Portfolio owners may be subject to myriad rules and regulations. Current law makes it very difficult to move project-based assistance from one property to another, impeding the ability of owners to reconfigure units to meet local need or transform fully assisted properties into mixed-income communities. Developing new mixed-income housing and connecting assisted housing residents to services is made more difficult by the lack of alignment between the levels of government that allocate capital and service funding and the administration of most rental assistance resources. HUD proposes TRA to help address these issues.

### **Eligible Properties**

HUD's proposal would offer PHAs and a limited number of private owners managing HUD-supported housing an option to voluntarily convert from their current subsidy to long-term property-based rental assistance. In 2011, the following types of properties would be eligible for this voluntary initiative:

- Public housing;
- Properties assisted under HUD's multifamily programs owned by PHAs; and
- Privately-owned properties with contracts under the Rent Supplement program, Rental Assistance Program (RAP), or Section 8 Moderate Rehabilitation program (excluding properties funded under the McKinney Act).

Public housing-only agencies would have a priority for conversion, but would still need to meet threshold requirements to participate. PHAs that administer vouchers may apply through a competitive process. As part of the competition, HUD may require PHAs to commit a share of their turnover vouchers (i.e. vouchers which become available as families leave the HCV program) to persons residing in converted properties wishing to exercise their Resident Choice Option. HUD may give a priority to agencies that agree to combine the administration of their HCV program with PHAs serving adjacent communities. PHAs also may strengthen their bid to convert by showing significant organizational capacity, a long term commitment to preserving public and assisted housing, planning quality rehabilitation, and requesting competitive rent levels. The eligibility criteria for private owners of HUD-assisted properties seeking to convert are under development.

### **Conversion Process**

HUD anticipates requiring the following property-level analysis as part of the conversion process:

1. A physical needs assessment, to ensure that conversion would make a property physically and financially sustainable, including an assessment of the costs and benefits of making the property energy efficient.
2. A rent comparability study performed by an independent entity in order to establish post-conversion rents for each property.

The new rental assistance contracts would not require a change in ownership of converted properties. PHAs would retain ownership of the converted properties currently in their portfolios and

could continue to develop, own, and operate additional affordable housing in accordance with their mission.

Converted properties would receive a new property-based Section 8 rental assistance contract. Generally, HUD would require owners to maintain the same number of “hard” assisted units with the new contract. HUD’s proposal indicates that the new contracts typically would have an initial term of 20 years, with options to extend, and would be subject to a long-term use agreement. The contract’s funding is expected in annual funding increments, like other project-based contracts authorized or renewed in recent years. Funding will be subject to annual appropriations. The FY 2011 Budget includes \$290 million to fill the gap between the funds otherwise available for the selected properties and the first year cost of the new contracts, including administration.

### **Conversion Rental Assistance Options**

#### Long-term Property-based Section 8 Rental Assistance Contract

HUD is proposing policies for these contracts that would be similar to those that now apply to project-based Section 8 properties renewed under the Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA). As under MAHRA, private owners that seek to renew Section 8 contracts under the new authority would be allowed to renew at terms similar to existing programs with current use restrictions.

HUD would be a party to the contract with the owner and contract administration would be carried out by Performance-Based Contract Administrators (PBCAs). HUD could add new PBCAs to manage these additional contracts, as well as offering existing PBCAs the opportunity to increase the number of properties they oversee. Renewal funding for these properties would be provided under the project-based rental assistance account. For these converted properties, the authority for the Section 8 funding would be a new subsection of the U.S. Housing Act, Section 8(n).

#### Project-based Voucher (PBV) Contract

Owners of properties that are “small” or partially assisted would have the option of converting to a PBV contract under Section 8(o)(13). HUD proposes to:

- Eliminate the option to project-base vouchers in all of the units when a property serves particular populations, given the absence of structured oversight in the PBV program.
- Align basic policies of the two types of property-based rental assistance, which would simplify the programs, making them easier for developers, owners, administrators, and tenants to understand, and facilitate future shifts of properties to a less-regulated, mixed-income model.

Owners opting for PBV subsidies would have a contract with a PHA that administers a voucher program. PHAs could administer the PBV contracts for properties they own, subject to third party inspections and rent determinations. If a PHA does not have a voucher program or one of sufficient size, HUD would award the additional vouchers for converted units to another entity to administer. Converted PBV units would not count toward the cap on the share of vouchers a PHA may project-base, but no agency would be permitted to project-base more than 40 percent of its vouchers.

The rental assistance contract for converted properties would remain in place, whether or not the loan is insured by FHA, if a lender forecloses on a loan. HUD's legislative proposal also may include other policies to help ensure the long-term affordability of converted properties and to protect tenants.

### **Resident Choice**

According to HUD's revised TRA proposal, once an assisted household has resided for two years in a property converted to a project-based contract under the new Section 8(n), the household would be eligible to receive an available HCV to move to a location of their choice. The property-based rental assistance would remain with the unit. HUD also could have the option of making funding available from the tenant-based rental assistance account for additional moving vouchers. For example, the FY 2011 Budget would give HUD authority to reallocate voucher funding that agencies leave unspent above the level of allowable reserves.

HUD's proposal indicates that PHAs that make vouchers available for TRA as part of the conversion process or the competition to administer contracts for the converted properties would not be expected to use more than one out of every three available vouchers for families exercising their Choice Option. This limitation is designed to enable most turnover vouchers to serve applicants on voucher waiting lists. When tenants exercise their Choice Option, new families would be able to receive rental assistance by moving into the vacated units, so the total number of new households receiving HUD-funded rental assistance each year would not decrease as a result of extending a Choice Option to converted properties.

According to HUD's proposal, the Choice Option for residents of properties assisted under Section 8(n) would be more limited than for residents of properties that have PBV contracts. Under the PBV program, residents who want to move receive the next available voucher after one year. This policy is designed to encourage agencies to choose to project-base assistance only in properties in which tenants would want to continue to live, and helps give assisted tenants the same right to move at the end of their lease term as unassisted families. For the long-term property-based Section 8 rental assistance contracts, however, which are intended to preserve already-assisted properties, HUD proposes that this modified Choice Option is more appropriate.

### **Other Tenant Rights and Opportunities**

Under HUD's TRA proposal, residents of converted properties would continue to pay 30 percent of their adjusted income for rent. Conversion would not be grounds for eviction, and eviction after conversion would be permitted only for good cause. PHAs would continue to be required to have at least one assisted tenant on their board. PHAs with 550 or more vouchers and remaining public housing units would continue to be subject to annual planning requirements, and residents of all HUD-assisted properties owned by the PHA would be eligible to participate in the planning process. Residents of converted properties would have the right to organize independently of their landlords or PHA, like the rights now enjoyed by residents of HUD-assisted multifamily properties.

### **Applicant Issues**

According to HUD's proposal, eligibility requirements for admission to assisted units in converted properties would not change under TRA. At least 40 percent of households moving into a converted property assisted under the new Section 8(n) each year must be extremely low-income.

Admission to PBV properties would continue to be subject to the targeting requirements of the HCV program, in which 75 percent of new households receiving HCV assistance from a PHA each year must be extremely low-income. Owners would be able to maintain site-based waiting lists, subject to fair housing requirements. HUD would ensure that information about the location of HUD-assisted properties and how to apply is transparent to applicants and would try to achieve a “single-stop” application process for HUD rental assistance.

### **Expanding Access to Opportunity**

In addition to creating the Choice Option for residents of converted properties, the first phase of TRA would include other measures to expand access to opportunity for recipients of HUD rental assistance. Up to \$50 million of the \$350 million requested for TRA in the FY 2011 Budget would be available to PHAs for two purposes:

1. To offset the one-time costs of combining HCV program administrative functions to increase efficiency and expand locational choice; and
2. For outreach to encourage landlords in a broad range of communities to participate in the program and to provide additional services to expand residents’ housing choices.

### **Next Steps**

HUD will continue to gather comments from stakeholders as the Department drafts a legislative proposal for TRA. For more information, please contact Ellen Lurie Hoffman at [eluriehoffman@yahoo.com](mailto:eluriehoffman@yahoo.com).