Public Housing Repositioning Wednesday - RAD & Section 18 Blends, 7/22/20

Caila Prendergast: There you go. So good afternoon everyone. Thanks for joining today's installment of the Wednesday Webinar series. Today, our topic is RAD and Section 18 blends. My name is Caila Prendergast and I'm one of your hosts today, along with Chad Ruppel, Jane Hornstein, and Will Lavy from HUD. Before I pass it over to Chad to get us started, I have a few housekeeping items that I want to go over.

If you've joined one of these webinars in the past, it's a similar situation. If you haven't, I just want to quickly go over this to let you know how to ask questions. So the first way that you can ask questions is in the right-hand navigation panel. You'll see the hand-shaped icon. You can raise your hand and we'll unmute your line and you can ask questions in that way. Or if you don't have microphone capabilities or you just aren't comfortable sharing your question out loud, you can type your question in the chat box and I will read it out to our panelists.

Everyone is muted upon entry, as I'm sure you've noticed. If you have any technical difficulties or questions throughout, just send us a message in the chat box. This webinar is being recorded and will be available on HUD Exchange shortly following the webinar. Immediately following the webinar, there will be sort of a pop-up on your screen. It usually goes into a little tab in whatever browser you're using, with just a short survey on the webinar. As you know, we're doing a few of these and we're always looking for feedback to improve. So just take a second and fill that out for us if you can. And with that, I'll pass it over to Chad.

Chad Ruppel: Thanks, Caila. So as Caila mentioned, we have two really main presenters here. We have Jane Hornstein from the Special Applications Center and Will Lavy from the Office of Recapitalization. I'll be turning it over to them shortly. I just wanted to give you a quick introduction. So many of you have probably participated on these webinar series in the past. We have a whole bunch of them planned and some of them that have already happened.

Today's focus is really a deep-dive into RAD and Section 18 blends. We're going to cover a number of things, obviously describe what a RAD Section 18 blend, why PHAs might want to utilize a blend, talk about some of the pros and cons. We'll give you examples of the different blends, explain how to apply, and then as with all these calls, we'll leave a lot of time at the end for any questions or considerations, comments you may have.

So as I mentioned, this is one of a series of these Wednesday Webinars. Each one is really designed to focus on a specific topic that we know PHAs or industry experts have had questions with regarding repositioning. If you missed our earlier discussions, don't worry. They're all recorded and available on HUD Exchange. And if any of these other discussions coming up look interesting, please go to HUD Exchange and register.

We have I think some great topics coming up and there's actually another topic we're planning to add at the bottom there to focus on PBV issues. So we're hoping that this is something that continues to be useful for everybody. And I would also add at the end of this discussion, there is going to be a survey. And if you would like another topic or if there's something else that's really

-- you're wondering about that you would like us to focus in on, please make sure to note that in your survey and we will add it to the schedule.

Also, if you haven't seen some of our additional resources, please go check it out. W have a HUD repositioning website. There's a growing list of handouts there. There's recordings that are available there. We in particular have a Introduction to Repositioning webinar series that you can record. It's a four-session series -- or watch that's recorded and available. It's four sessions. And if you would actually like to see a live version of this webinar series, registration spots are still available. We are having it starting the first week of August. It'll be on Tuesdays and Thursdays for the first two weeks, four sessions.

Like I said, there are slots available so if you haven't had a chance yet to just get the full introduction to repositioning training experience, please go check it out. It's open to PHAs, board members, anyone who's working with PHAs on repositioning. And I think you'll find hopefully it's a very useful tool and it will provide a lot more of the foundational knowledge that we don't really cover in these individual webinars. So with that, I'm going to turn it over to Jane to really dive into the presentation today.

Jane Hornstein: Thank you, Chad. Okay. Oh. Am I -- do I need to turn -- to do this? No.

Caila Prendergast: Yes, Jane. You have the presenter so you can just move through the slides.

Jane Hornstein: Okay. I don't know how to do this.

Caila Prendergast: Oh. That's okay. It's -- so just the little arrows on the top. I can do it if that's easier.

Jane Hornstein: There it is. Okay. Got it. Okay. So thank you, Caila. So that -- so we're going to talk about RAD Section 18 blends, and at the moment, we have two types of blends that we're going to talk about today. The first one being the 75-25 percent blend is what we call it. This type of blend was outlined in PIH Notice 2018-04. And what it does is it allows the housing authority to reposition up to 75 percent of their -- of a specific project as RAD and 25 percent as Section 18, just automatically. So it's a very simplified Section 18 application.

You don't have to do obsolescence, but it does involve substantial construction or rehabilitation and you cannot use the 9 percent credit with this, the 9 percent low-income housing tax credit. The other type of blend that we're looking at is the RAD Section 8 closeout blend and this is if you're down to your last unit. You reposition most of your other units and you have 75 or 100 left and you're wanting to go ahead and just close those out.

In this situation, you can pick. If you have over 50, you can get up to 50 units as public housing and the other -- the remainder can be RAD. If you have less than 50 units but you still want to do the blend and there's good reason to consider that, which is what we'll talk about today, then you can look at doing -- and let's say you have 30 units. You might want to do four units of RAD and 26 units of Section 18. So there's lots of ways to mix and match with that one. And again, in both of these situations, under the Section 18, you are not required to do the obsolescence test which is for Section 18. I -- we're not -- that's not what we're looking at for these.

The benefits of the blend is it allows you to -- there's a lot more flexibility in the use of public housing funds towards repositioning. So this is one of the few tools in which if you have reserves, you should seriously look at a blend because you can bring your public housing funds into a new development as part of the RAD budget. You cannot do that with Section 18 and you can't do it with streamlined voluntary conversion. But under the RAD blends, you can.

It -- what it does is it allows you to get a higher overall income with those Section 18 units at the higher rent level. And that's not going to be true on all the public housing authorities, but for the vast majority, your voucher rents are going to be higher than your -- what you're currently getting under public housing subsidies. So this is a way to increase your cashflow pretty simply.

In addition, residents' rights. So all the resident rights that are allowed under RAD, which is the rights to return to the property after any renovations, right to tenant participation funding, and the right to tenant grievance procedures -- all of that applies across the board. In Section 18, they go directly from public housing into the voucher program. This gives that transition time and also gives them some rights. Over-income families have their right to have their incomes adjusted over time. That's all accounted for with the RAD units and those protections go to all households now.

In addition, with these, there's a streamlined application process through RAD. It's a very simple process and we'll talk more about that in the next two slides. So at this point, I guess I can turn it over to Will Lavy.

Caila Prendergast: Okay. So Will --

Will Lavy: Thanks.

Caila Prendergast: -- I just made you the presenter. You should be good to go.

Will Lavy: Excellent. Thank you. So we'll just go over to the next slide. We'll dive a little bit deeper into each of the blend types. Can you move over the slide [inaudible] please? Or am I able --?

Caila Prendergast: Oh. Yeah. So I have --

Will Lavy: Oh. I can do that.

Caila Prendergast: I think you're able to do that. Yeah. Mm-hmm.

Will Lavy: Sorry about that, everyone. So let's go a little bit deeper into each of the two blend types. So first of all, the 75 -- we call it the 75-25 blend. This is specifically discussed in PIH Notice 2018-04, which is -- should be the tabletop notice you keep at your side to understand how things can be approved under Section 18 and under what justifications. One of the justifications that was added through this notice was permission that when there's a RAD conversation that involves new construction or substantial rehab without the use of 9 percent tax credits, HUD will approve 25 percent of the units through Section 18.

And those units would then -- the PHA would be issued a protection voucher, funding, and those vouchers would be project-based at the site, resulting in a site that's 75 percent converting through RAD and 25 percent going through Section 18 and resulting in a project lease voucher contract that way. So just a couple of notes. Noted that it qualifies for new -- the property needs to be newly constructed or substantially rehabilitated.

We define substantial rehab as having a RAD scope of work with a hard construction cost including general requirements, overhead and profit, payment and performance funds, exceeds 60 percent of a HUD-published housing construction costs for a given market area. So this is not the same way that the SAC might look at PHAs justification under the obsolescence standard under Section 18 where there are strict definitions of what kind of work can be included or excluded.

Under this, if -- it's just based on the work that is proposed in the conversion. As long as it meets the standard, the property should qualify. [Inaudible] it's available on the RAD Resource Desk where a PHA can test whether or not -- after filling in information about their area and the unit types that they're construction and the proposed costs, they can test whether or not they -- you meet the threshold.

So how does this help? So in the very simple way, the -- very often, the regular project-based voucher rents are higher than the RAD rents. Not always, but in most cases they are. So if you take, for example, a 100-unit property with RAD rents of $800 per unit per month, the standard PBV rents in that market, let's say, are $1,200. So if you blend these two with 75 percent RAD and 25 percent Section 18, the end result would then end up in a regular project-based voucher contract, blended rents come out to $900 per unit.

And that additional revenue is enough to leverage an additional $20,000 per unit in debt financing alone and possibly more depending on interest rates. So that's a really significant bump in the juice that's in the property to leverage financing. So our hope here is to really be able to facilitate more of these transactions by providing this or enabling this increase in revenue.

As an example, here's one of our first blends, a property called Sooner Haven in Oklahoma City. It's 150 units where through the blend, 113 units converted through RAD, project-based voucher contract, and 37 units were moved through Section 18 and placed under a non-RAD project-based voucher contract. The higher revenue enabled the housing authority to raise an additional $2 million in debt and in total they were able to do sub-rehab totaling $94,000 per unit in construction costs.

I'll transition now to their closeout plan. So same PIH notice that I referred to, 2018-04, allows a PHA to dispose of its remaining public housing units through Section 18 if the PHA has 50 or fewer units, as long as the PHA commits to closing out its public housing program. So again, the property doesn't need to meet any other Section 18 standard. The PHA doesn't have to show that the property is obsolete. It just has to have 50 or fewer units.

We have been working Recap and the Special Applications Center have been working together to figure out how to blend that combination, that 50 or fewer units provision, with RAD. So we do allow PHAs to combine it with RAD to include all of the PHA's remaining public housing units.

So the conversion can be more or less than 50 and must include all of the remaining units. Let me see if this is -- so in other words, the -- if the PHA has 80 units, 30 of the units can convert through RAD and 50 of the units could -- would convert through Section 18. Similarly, if a PHA had 40 units, it could convert 10 units through RAD and 30 units through Section 18. So there's a few different options there.

So why would you do this? So for one thing, if a PHA has more than 50 units, it's probably trying to, but it's still relatively small, it's trying to figure out what to do with all of its stock. And so this is a nice way of combining the benefits of the higher rents for the last 50 units with RAD. And you get all the same benefits that Jane talked about earlier RAD provides, including flexibility the PHA can bring over or contribute into the conversion, into the property, its remaining public housing funds.

Obviously, as I said, this can increase the rents at the property. The RAD resident rights, which include things like the prohibition against rescreening and right of return and certain protections surrounding increases in rent, those all apply. So the housing authority can commit and promise to residents a robust set of protections.

So here is an example of a closeout blend. Bear with me for a second. So after taking two other properties through Section 18, one that met obsolescence and the other that some other scattered site units, the housing authority of Butte had 131 units remaining across three properties. So it had 131 units and it says, all right. What do I do with these? The units needed work. And wanted to figure out how to reposition the rest of its stock. They couldn't do it with RAD alone.

So it utilized the RAD Section 18 closeout blend to convert 96 of the units which were in two properties through RAD and 35 units that was in another property through Section 18. The properties were combined under a single tax credit transaction to support the substantial rehab of all 131 units. That wasn't required. It just so happens that these -- or that wasn't -- that's not a requirement of the closeout blend, per se. If the properties were in great condition, they would not have had to do the substantial rehab. But they did -- because of the units converting through RAD, they did a capital needs assessment on overall stock, knew that it -- that they needed work and so pursued the tax credit transaction.

In the process, by the way, the housing authority was able to trade in all of its future projected DDTF from Section 18 actually. So this housing authority was going out of business. Or not -- I shouldn't say going out of business. This housing authority was ending its public housing program, transitioning over to Section 8 and had a number of the Section 18 actions that were producing what we call demolition disposition transition funding which provide capital funds or

-- for five years after the demolition or disposition action. RAD allowed the DDTF to be captured in the transaction to -- that future DDTF to be incorporated into the RAD rent.

So they were also able to end up with higher RAD rents and facilitating the rehab of the property. And the PHA was able to contribute $32,000 in public housing capital funds to fill any additional cap. So that's a nice example of a PHA using the blend to really meet a core community need and significantly improve these projects.

You might be saying, well. This sounds great, Will. But that sounds like a nightmare, having to navigate both the RAD process and the Section 18 process, working with the two offices and hoping that they operate in parallel and are coordinated and work out in the end. Well, the good news is we've made it as easy as we possibly could. The Office of Recapitalization is your primary point of contact when you utilize the blend because we are treating it overall as a RAD transaction, including all of our underwriting standards, many of which are similar to some of the Section 18 requirements.

For example, an environmental review. There's no need to do two environmental reviews. We do one and that will count for both programs. So you start off by submitting an application for RAD for the entire property [inaudible] under either [inaudible] by the way. The application is processed like any other RAD application through the RAD resource desk. Usually it takes 30 to 60 days to approve the application. It requires board approval, resident meetings. We've got a training on the resource desk on how to complete the application.

After the application, the PHA works with the transaction manager to -- or the PHA works through the requirements of converting the property through RAD so it develops [inaudible] a capital needs assessment, develops a financing plan, submits that to us and we will then revise the CHAP to exclude the units, if it qualifies under the Section 18 blend, RAD Section 18 blend, we will modify the CHAP award to remove the units that are going to go through Section 18.

In the financing plan, the PHA is giving us all the standards things they -- it is HUD or any other RAD conversion plus we've itemized on some FAQs five and six additional things that are needed in order to also satisfy Section 18 requirements. But you submit them all to one place on the RAD resource desk, so you don't have to go into two different systems.

We work internally with the SAC. We give them the documents they need. They create the [inaudible] application and let us know if anything's missing or anything's deficient and we coordinate jointly with the housing authority. And when it's all approvable, when we're ready to approve the financing plan, we issue our RAD converting commitments and the SAC simultaneously are there to issue the Section 18 approval letter. It's all coordinated and the PHA doesn't have to worry about having to coordinate with two different offices.

The closing of the RAD conversion and the Section 18 disposition occurs simultaneously with the PHA entering into the RAD HAP contract for the RAD units and to -- under a PBV HAP or sometimes as necessary [inaudible] to enter into a HAP contract if the property is newly constructed or [inaudible] rehab [inaudible] rehab. And the -- so the HAP contract's settled, the units are removed from pick, and we record a RAD use agreement that's generally on the entire property.

So let's back a little higher level. Four takeaways here. We've got two types of blends. The 75-25 blend and the closeout blend. If you have a project that needs moderate rehab or more and you don't have 9 percent in tax credits, consider the 75-25 plan. Run those numbers. See if that gets you there to be able to support the rehab the property needs by blending in some regular project-based vouchers.

If you're planning to close out your public housing program and you want to carry over public housing funds or you've got over 50 units and all that, consider a closeout blend. And then on the processing perspective, all blends start with a RAD application. And we maintain -- we try to maintain a single point of contact with the PHA to make it as easy as possible.

We're starting to wrap up here, so start to think of what your questions are going to be. Few more details. Other ways RAD and Section 18 can work together. I mentioned this in the Butte example, but PHAs can use DDTF from earlier Section 18 removals to increase the RAD rents. The PHAs are thinking about repositioning larger portfolios, one thing you should think about is if they're -- so one of the early steps is a Section 18 action, say, the disposition of scattered sites or something like that.

That will -- once completed, that will trigger DDTF and those -- that amount -- HUD will project what that amount will be and can allow housing authority to trade that in for higher RAD rents. Also, PHAs can use proceeds from earlier Section 18 disposition towards a RAD conversion. So I'll use the same example. If a PHA is thinking about repositioning its whole portfolio and its first step is to dispose of some scattered sites, it should be thinking about, well. The proceeds that it earns from those scattered sites, how -- where can those best be deployed elsewhere in the portfolio? Maybe as part of a RAD conversion or some other action.

So those are just a couple of other considerations. We've got more on this kind of information on a different webinar, one of the earlier ones that's posted now on the repositioning website, called Developing a Repositioning Strategy. Still want more? So we've got two really solid FAQs on this topic, on both topics, on the 75-25 blend and the closeout blend that covers in more detail eligibility on some of the rules around -- that -- around the project-based voucher program that you might not be thinking about and processing our requirements. So please check those out if either of these have piqued your interest. Both are available on the RAD resource desk and on the HUD's repositioning webpage.

You can also of course, and should also of course, contact your local public housing field office to talk about these options. They can -- they'll answer your questions as best they can. They can also connect you with the other folks at HUD who -- if they are unable to answer your question. And you can e-mail repositioning@HUD.gov. Okay. I think we are ready to turn to questions from the audience. I think folks --

Caila Prendergast: All right. We've had a bunch come in while you were talking, Will, so I'll just go ahead and get right to it. The question, "What is the benefit of the housing authority disposing of 25 percent of the units?"

Will Lavy: Sure. So the disposition -- thank you for asking this question. The disposition -- you can view disposition in two ways. One is a true arms' length disposition where you're selling off a property for fair market value and you're not going to use it for affordable housing anymore. That's really not what we're talking about in this context.

Typically, what's happening in this context is the disposition is to an instrumentality of the PHA or a nonprofit affiliate of the PHA or maybe the tax credit partnership that's redeveloping. So the -- overall, if you've got a hundred unit property that's going through a blend and let's say it's a tax-credit transaction, all 100 units are going to be on the ground [inaudible] all 100 units are being sold into the tax-credit partnership, both units that are converting through RAD and those that are going through Section 18.

And that's technically a disposition. That's a Section 18 disposition. It's not selling off the property and walking away from it. It's really a reinvesting in the property. So Jane might be able to provide some more detail, but a disposition can just be a -- or any conveyance of the property to another entity and can be for a preservation purpose.

Jane Hornstein: Right. And keep in mind that if they do, it would be -- there's two HAP contracts. There would be the first through RAD and then the second would be for the units that go Section 18 and they would have a separate HAP contract. But you can project base and actually you must project base those units as part of the blend. So it wouldn't be a straight out disposition. It would be a -- it fits into this project, to the new project.

Will Lavy: Right. One's expectation here, these are all being done as part of a preservation action, preservation and improvement. So the units that go through Section 18 are to be project -- will end up under a project-based voucher contract.

I received one question by the way. Caila, I'm not sure if you see this, but it's somewhat related, which is to what I last said, is whether the units that go through Section 18 can only go to a project-based voucher contract. And that is currently the case. Because of the late work, Section 18 triggers the issuance of tenant protection vouchers. Those vouchers get issued to the housing agency and can then be project-based under [Inaudible] 983.

We've heard from a number of agencies, either those that don't have a voucher program and have generally been pursuing project-based rental assistance, which is a contract directly with HUD in the RAD conversions, or some that have a voucher program, but through all the RAD conversions are doing TBRA conversions. And they want to take advantage of the blend but would love to be able to get those units to a TBRA contract.

HUD did propose this in an appropriation bill in that FY 21 -- the Housing Appropriation Bill which would be the bill that could be in effect as soon as October. So it's something that Congress is considering, whether or not to allow those vouchers to be turned into a TBRA contract. But we don't currently have that authority and we don't know what direction Congress will stick with that.

All right. Caila, back to you.

Caila Prendergast: All right. Thanks. Yes. Next question. "So all 50 must be in one conversion and not two separate conversions?"

Will Lavy: All 50 must be in one conversion. So the -- if we're talking about the closeout blend, is the question is -- you should review this all as a single transaction or a single -- yah. Single transaction or can they be split into two. So I believe we require that the -- that it all be a single transaction. That if it's a 60-unit property, that we are reviewing all 60 units and reviewing all 60 units together as a whole and processing that as a single transaction.

if it's 60 units but it's actually in two different properties -- 30 units here and 30 units there -- we'll -- assuming those units, those two properties can still be considered a project, if they're really managed together as one single entity, we -- that would be processed together as a single transaction and not split apart. Does that -- if that doesn't answer the question, if whoever asked it might -- maybe unmutes their phone or maybe submits a follow up question. Whatever's most helpful.

Caila Prendergast: Shannon, does that answer your question?

Shannon: Hey Will. Yeah. It's Shannon. Yeah. So in the scenario -- can you hear me, by the way?

Will Lavy: Yeah. Hi, Shannon.

Shannon: Okay. Hey. So in the scenario that you presented, I forget how many total units there were in the property, but 96 -- there were three properties, 96 went as RAD. I don't know. Thirty-five went as Section 18. So I was just thinking it comes up pretty regularly that there's smaller housing authorities and they have a property that has maybe 12 units. And so you hate for the rest of the units that you couldn't capture -- what is it, 38 of the last 50 even though they're closing out in a previous RAD transaction.

So I was just trying got think of a way where you could capture all 50 but not necessarily in the same conversion. But that they are exiting public housing. I don't know if that makes any sense.

Will Lavy: Shannon, would you mind stating the scenario again?

Shannon: Okay. All right. So a housing authority has -- they're going to go -- Section 18 -- they want to use the last 50 -- well, actually this is probably more relevant to a different situation. But I was just thinking a public housing authority wanted to go with the last 50 units, could they split the last 50, or even as a closeout plan, could they split the last 50 between two different transactions if they closed at the same time?

Will Lavy: I think we generally require that it all be done as a single transaction.

Shannon: Okay. That's -- yeah. I was just trying not to waste 32 units.

Will Lavy: But Shannon, there might be other considerations in what you're saying. So if you want to follow up separately.

Shannon: Yeah. Okay. Thank you.

Will Lavy: All right. Yeah.

Caila Prendergast: Okay. Next question. "So for the Butte example, why not maximize the 50 units at Section 18 to get the highest rents? Why do they only do 35 for Section 18 and the remaining RAD? I think this is the latest."

Will Lavy: All right. Yeah. So indeed, yeah. They could have got -- they -- what they did was they did individual -- I believe they were individually buildings -- let's just say they were buildings -- and for administrative ease, I think because they're going to be different contracts, they chose to have 36 units under a regular PBV contract and the two other buildings together, RAD contracts. They potentially could have gone -- could have taken a few more units through Section 18, as the question notes, and I think they chose not to for administrative reasons. The difference in rents was not so great to persuade them to do that.

Caila Prendergast: Okay. Next question. "How do you project the amount of DDTF?"

Will Lavy: So we work with the Capital Fund Office to do so. If a PHA wants a back-of-the-envelope approach, they can look up -- the Capital Fund posts for every public housing development how much each development generated towards the PHA's overall capital fund. And DDTF is really -- it follows the same formula. So if a property generated $200,000 this year for the capital fund, if it's removed through Section 18 and DDTF is triggered, it'll get $200,000 the next year, depending on if we're patient, of course.

What we ask PHAs to do is to tell us they are interested in doing this. We have a RAD rent adjustment guide and -- that talks about the process here. But you approach HUD, you say you're interested in doing this; you want to get an estimate of the rents. We coordinate with the Capital Fund Office so that they kind of sign off on the amounts. We report that back to you and if you want to trade it in, we give you a little certification form saying, yes, I'd like to increase my RAD rents and I would -- I agree that I will reject the future DDTF.

Caila Prendergast: Okay. Excellent. Next question. "How do you project the financial after RAD pro forma as compared to current public housing model?"

Will Lavy: So in every RAD [inaudible] blend is underwritten by the Office of Recap. The underwriting standards are defined in attachment 1A of the RAD notice. So we require an operating pro forma that projects out 20 years showing revenue and expenses.

We expect that any reductions in operating expenses below what -- how the property's operating today are justified. The PHA provides a justification of decreases. Oftentimes, energy-efficiency programs or new traditions in management models or other reasons the operating expenses might decrease. So you can look at, again, attachment 1A as a RAD notice to see how we are looking at revenue and expenses and underwriting the conversion.

Caila Prendergast: Okay. Thanks. We'll head over to the next question. "Are separate tasks required for each public housing project?"

Will Lavy: So separate [champs ?] are required for each transaction or each conversion. Sometimes, PHAs are able to combine properties from multiple AMPs if they have the justification for why that is reasonably considered a project, why -- how it can meet the standard of a single and manageable and marketable entity. Most of the time, transactions that we see come though RAD are an AMP or are actually a part of an AMP that -- and where the PHA long term is actually going to -- or if there's partners can operate the property as a -- they're going to operate the project as a subset of how the AMP is currently structured.

If you have questions about the aggregation of properties towards an -- into a project or a transaction, please contact us. We would love to have that conversation as early as possible so PHAs don't go down a road where they -- under one assumption and have that eventually potentially unwind that.

Caila Prendergast: Okay. Thanks. Next question. "Does the closeout blend require a limit or cap on units that can be Section 18? For example, if 50 units are remaining, can 49 be converted under Section 18?"

Will Lavy: So in other words, if you've got a 60-unit property, could you take not 10 units through that and 15 is through Section 18 but 11 through that and 49 units through Section 18? I don't see a problem with that, Jane. Do you see any issue with that?

Jane Hornstein: No. Not at all.

Will Lavy: [Inaudible] right. Yeah.

Jane Hornstein: Yeah. No. They can do that.

Caila Prendergast: Okay. Next question.

Will Lavy: Question that was -- if I could -- was just sent to me but I'll just -- I'll say it out loud for everyone's benefit which is, "In a closeout blend, if you've got 70 units and they're going to take 50 through Section 18 and 20 through RAD, does the PHA have the discretion to choose which of the units go through Section 18 and which of the units go through RAD? And could they take the -- three of the four-bedroom units through Section 18 and two-bedroom units through RAD?"

And again, that's -- I think it's up to the PHA to ultimately get the moved under which approach. Caila, back to you.

Caila Prendergast: Okay. Thanks. "So for long-term planning, since RAD rents are lower than PBV, how long are the DDTF funds available to increase RAD rents?"

Will Lavy: So the DDTF -- some people think of it like DDTF is like their -- the property is getting a separate stream of funds. What we actually do is you do not get the DDTF through the capital fund. Instead, you get higher RAD rents, so all the funding is incorporated into the Section 8 HAP contract that's signed at the closing. In there is -- in the 20- -- it's not a dollar for dollar increase; it's five years of DDTF. We even advertise that out over 20 years of a HAP contract. So if you trade in a dollar to DDTF, it doesn't turn into a dollar of increased rent. But it's captured over the 20-year period.

Caila Prendergast: Okay. Next question. "So the housing authority is required to close out of public housing. Would it continue to get [R ?] for DDTF for the units that closed out as Section 18? If yes, what would we do with those funds? Or do they stop at closing?"

Jane Hornstein: So the only way they would be eligible for those funds is in fact if they have a use for them. So if you don't have a use for them, then no. You don't get them. And they have to be used in public housing. I mean, they can be used for things like an accountant to close out your books. But other than that, if you don't have any public housing left, then you're done and you can't take them.

Caila Prendergast: Okay. Thanks. "So is this process any different if you have a BNI grant?"

Will Lavy: No. I can't think any difference if the housing authority is also using Choice Neighborhood grants. And indeed, that there's a bonus, which is based in the Office of Recapitalization, that the same person who does our RAD conversions for -- that are also involved in Choice Neighborhood grants also is deeply familiar with the RAD Section 18 blends. And so you're in great hands.

Caila Prendergast: Okay. Thanks. "So on the blend protection slide, it said that over-housed can stay under PBV. But in a typical Section 18 conversion, over-housed have to move to meet the PBV standards; is that correct?"

Will Lavy: Right. So whenever -- one of the things that we described in the RAD notice is that whenever RAD and regular project-based vouchers are combined in the same project, the RAD rights extend to the residents of the PBV properties -- the PBV units as well. One of those protections, the overriding -- [inaudible] protection is the prohibition against rescreening. So even though families are technically being admitted into the Section 8 program, they can't be rescreened. They're grandfathered in.

More specifically, the question was about the protection for over-housed families. The requirement under RAD is that the family can remain over-housed but should be -- they must be moved to an appropriately sized unit if one is available in the project. It's not an allowance for the family to remain over-housed forever. If they're in a three-bedroom unit but they're more appropriately housed in a two-bedroom unit, when one frees up at the property, it's expected that they would be moved into the two-bedroom unit.

Caila Prendergast: Okay. Next question. So we've touched on this a little bit, but I just want to make sure that we capture everybody's questions. "Can you explain a little bit more on the DDTF topic? How does that work on a Section 18 removal? Does that Section 18 removal need to be demolition? Or what would happen to the tenants?"

Will Lavy: So in the context of RAD Section 18 blends, the Section 18 approval, I believe, Jane, is always a disposition approval.

Jane Hornstein: Yes.

Will Lavy: So you don't need to secure demolition approval. Thank you for confirming. It's a disposition approval and so that might be one part of the question. Another part of that question was, what triggers DDTF? Is it demolition or disposition? I think the answer is both. The other demolition or disposition approval under Section 18 triggers DDTF. So that could be the disposition of scattered sites that a PHA is doing today or it could be the demolition and disposition of an obsolete property that the PHA did two or three years ago. A lot of actions would have triggered DDTF.

Jane Hornstein: Right. Because it's -- they're basically an extension of your capital fund for a five-year period after the demolition or disposition to help reposition whatever else is going in. But it has to be for capital fund purposes. It stays with public housing. So if you're transitioning out of the public housing program and there's no use for it, then you can't take it.

But if you have a use for it within your portfolio, then you could use it. So if you have them for another -- if you've already done one, that's how you have an obsolete building, that you got Section 18 for, you would get DDTF for that and that could go into another building that you're doing RAD on. [Inaudible]

Caila Prendergast: Okay. Thanks. We have someone that was question raised. So I'm going to unmute your line, Mr. Schiff. Hi Mr. Schiff. Can you hear us?

Joe Schiff: Yes.

Caila Prendergast: You had a question icon. Do you want to ask your question out loud?

Joe Schiff: Sure. My question basically was if we do a -- "If we have 100 units and we want to do a 75-25 split, if I understand what Jane said earlier, we have to -- we're going to end up with two HAP contracts. If that's the case, can we do the 75 percent as a PBRA project and the 25 percent is PBV? Because that's all we can do at this time."

Will Lavy: Yes. RAD conversion or units converted to RAD could go to either PBV or the PBRA. But as you know, for the units that go through Section 18 could only result in a PBV contract.

Joe Schiff: How would that complicate operations of the project?

Will Lavy: So it's a good question. We have had a few pieces where PHAs have done that and it will be good for us to do some follow up with those housing authorities about their experience. We've heard of a few smaller issues -- office management and things like that. But essentially, there are lots of properties in the country that have multiple forms of assistance on different units and [inaudible] at the unit level and family level, the PHA and owner would be operating the -- those units and treating those families in accordance with each of the program's requirements. So, indeed, it's definitely more complicated, which is one of the reasons we've asked Congress to allow that to [inaudible] streamline someone.

Joe Schiff: I guess my question, Will, is what are the differences in the programs from a resident perspective? You know, they pay the same rent; right? 30 percent of adjusted income. They have the same resident rights because the RAD rights go with it. How does it complicate operations?

Will Lavy: I see. So subsidy administration is different so how the -- so there's two perspectives. From a resident's perspective, the biggest difference I can think of is the choice mobility requirement where the PBRA units have a right to [inaudible]

Joe Schiff: Right. One year. Two years. Uh-huh.

Will Lavy: And then they're PBV after one year. I'll try to think if there are any others, but that's the biggest one that stands out at me. It's probably more from the owner's perspective of having to handle and manage different requirements. But we can think a little bit more about that and see if we can put together a shortlist.

But like you say, in a lot of cases, for most things, tenant rent calculations and the RAD resident rights and the forms of lease can be their -- they can be made almost identical. So while they might be separate forms, the provisions of the leases can be made to be virtually identical. But it's worth us thinking through a little bit more, if there are any other notable differences from a resident's perspective.

Joe Schiff: One last thing. I've been around longer than I want to think about. You are doing an outstanding job on trying to educate us. Thank you very much.

Will Lavy: Thank you, John.

Caila Prendergast: All right. Thanks, Joe. Next question. Under a Section 18 blend, does the noncontiguous requirement still apply?

Jane Hornstein: With the scattered sites? No. That's -- the noncontiguous is for scattered sites which is a different justification. If you want to do your last 50 in there, it's a [inaudible] I don't know if that answered that question.

Caila Prendergast: Okay. Yeah. I'll have -- ask that question, to follow up if he wants some more clarification. Next question. Can you provide some more info on how to project base TPVs?

Will Lavy: So Amaris [ph], if you're there, I'd appreciate your help to answer this question. Hey, Amaris. Is that you unmuting?

Amaris: Hi. Yes. This is me. Can you guys hear me?

Will Lavy: Yeah.

Amaris: Okay. Great.

Will Lavy: So in the context -- repeat the question, Amaris. In the context of PHA -- let's keep it simple -- trying to project base those vouchers back on the former public housing property, what does that look like?

Amaris: So it's -- the question seems pretty broad and I can take the next hour going through the TPV requirements. What I will say is that there are some resources available right now. There are some PBV FAQs and some tenant protection voucher FAQs -- I think it was part of the presentation -- that you can take a look at that give a lot of very helpful information.

I'm not sure if Chad announced this, but there will be a project-based voucher training coming up in December. So I think we can kind of go through it there with more detail. But I -- if whoever asked the question wants to reach out to me, then we could go through it. But for now, I would say look at those FAQs and that should put things in perspective.

Will Lavy: I'll just add -- thanks, Amaris. Indeed, there's a lot of information to digest there. Just some observations from the Recap side. One, it's doable. It's not a very challenging process. But two, we know a lot of housing authorities haven't done it before and we've observed some mistakes made and we've worked with housing authorities to protect them. So please, if you have not done it before, take the time to use the resources Amaris is talking about, the FAQs and the forthcoming training, to really get up to speed.

Chad Ruppel: But I would also add, so we don't reference the FAQs in this PowerPoint, but we have in some of our other ones and you can find them from the same repositioning website that we do reference here. So I was talking earlier, we have this nice repositioning website with a number of resources all in one spot. And so you should be able to find a -- both the tenant protection voucher FAQs and the project-based voucher FAQs there.

Caila Prendergast: Okay. Thanks. Next question. Does the housing authority receive additional budget authority along with the Section 18's PBV award?

Jane Hornstein: They get -- wait. Say that again -- additional --

Caila Prendergast: Budget authority.

Will Lavy: Yeah. So --

Jane Hornstein: Yes. They just get the TPV award. Right.

Will Lavy: Yeah. So the TPV award adds new vouchers to the PHA's voucher ECC and funding. They get the unit increments and new funding to cover the cost of the new voucher.

Caila Prendergast: Okay. Great. Next question. Can you explain a little bit mor4 about the process for converting TPVs to PBVs?

Jane Hornstein: I think we may have covered that question already.

Caila Prendergast: Mm-hmm. Okay. Didn't know if there was anything else to add. What is the -- or can you explain more how the DDTF helps the housing authority to increase RAD rents?

Will Lavy: Sure. So on the RAD [inaudible] test, if you are looking into details, you've got CHAP amendment and rent adjustment guide that talks about the various ways in which the RAD rents can be adjusted. One of those ways is by trading in DDTF and we have a formula for that. We say if you are projected over the next five years to get $1 million in DDTF, then we -- you can choose to trade that $1 million in, the $1 million you've going to get over the course of five years, and instead increase your RAD rents by following a relatively simple equation. $1 million divided by 20 divided by the number of units that are converting through RAD.

So that amount is how the RAD rents increase and then the PHA would not receive the DDTF with the capital fund grant in the future years, which if the PHA's closing out would be a good use of that DDTF because they wouldn't otherwise have a way to use it.

Caila Prendergast: Okay. So I have one more question in my queue. Just last calls to attendees for any questions that you might have. Reminder, you can raise your hand to ask the question out loud or type it in the chat box for me to read out loud. This last question is, will PBRA be an option for the 25 percent instead of PBV soon?

Will Lavy: So as I said, we've requested it in the FY 21 budget. What that means is the administration has asked Congress to include it when it passes a budget by October. So we'll have to wait to see what happens in the 2021 budget. This is a little confusing to folks because -- that in the budget bill, there could also be authorizing language like this. But that's how it works.

We don't -- I think it's very likely we don't have a budget by October and there's a continuing resolution, in which case, it would be delayed a few months before we find out, and then once that is -- and if it is passed. I shouldn't presume anything. If Congress accepts the proposal, then HUD would have to implement a provision through a new notice and some new documents.

So that would take a number of months to complete. So it's not an option now. If it were authorized, it would still take a number of months before it can be implemented and available to the housing authorities.

Caila Prendergast: Okay. Thanks. So I don't have any more in my queue. Will, any more that came directly to you?

Will Lavy: I have one question. Generally asking, if you're doing some rehab of your portfolio and you need to increase the remaining cap units [inaudible] accessible units, if one of those units that you're turning into an accessible unit is occupied, do you -- does the resident have a right still to return or remain in that unit or is the PHA supposed to relocate the unit -- that resident elsewhere?

The resident has a right to remain in the property. The right to return is a right to remain in the property so they could be moved to a different unit at the property. They could not be disallowed from moving back to the property. And I don't think I have any --

Caila Prendergast: Okay. I had another come in while you were answering that one. This is a scenario. The housing authority has a 12-unit property left in public housing and decides to do a Section 18 disposition at fair market value under the last 50. What can they use sale proceeds on?

Will Lavy: So in this case, is it RAD alone or is it -- okay. I'm sorry. Is this a RAD Section 18 blend or is this just -- it sounds like it's just the Section 18 under 50.

Caila Prendergast: Shannon, can you provide some clarity?

Shannon: Yes. It's -- there's no RAD involved. I was just trying to sneak a question in for Jane.

Jane Hornstein: [Inaudible] So we're hoping to have more guidance out in the next week or two, but for now, it can be used for the provision of low-income housing. So things -- you can use it for any capital funds used, any operating fund used. You can use them for PBV development. I don't know if that answers --

Shannon: So it's not just restricted to Section 9? It can be used --

Jane Hornstein: No. We --

Shannon: -- for Section 8? Okay.

Jane Hornstein: It can. As long as it's creating new housing, absolutely. Yes.

Shannon: Right. Okay. Thank you.

Caila Prendergast: All right. I think with that, that's all the questions that we have for today and I'll pass it over to maybe Will or Chad to close us out.

Chad Ruppel: I just want to quickly say again thanks to Will and Jane for presenting, and Caila, thank you also. And I see that you've posted in the chat box the link for people to register for the upcoming webinar, so if anyone enjoyed this and wants to get registered for the other upcoming Wednesday Webinars, the link is there in the chat box.

And also, a link to the Introduction to Repositioning Public Housing webinar that again is coming up in just two weeks. It's a four-part series and really provides much more of a foundational knowledge for just repositioning type things. So thank you and I just encourage everyone to please, if you're interested, register and another chance to learn more about repositioning.

Caila Prendergast: Great. Thanks everybody. And remember to fill out the survey that pops up on your screen when you exit the webinar.

(END)