



April 2014

HUD RENTAL ASSISTANCE DEMONSTRATION

Information on Initial Conversions to Project-Based Vouchers

GAO Highlights

Highlights of [GAO-14-402](#), a report to congressional committees

Why GAO Did This Study

Over the next several years, rental assistance contracts will expire for about 38,000 affordable housing units currently subsidized through three HUD rental programs. Owners of these units would no longer be required to maintain affordable rents or make their units available to low-income residents. Residents in these units are eligible to receive special tenant-based vouchers called tenant-protection vouchers to shield them from resulting rent increases. HUD's RAD program was created in 2011 to preserve affordable housing by, among other things, allowing owners to convert these tenant-protection vouchers to project-based vouchers for units in three designated HUD programs. Project-based vouchers result in a long-term contract between the property owners and PHAs, which administer the vouchers.

The Consolidated and Further Continuing Appropriations Act of 2012 mandated that GAO review these conversions under RAD. This report describes the results of these conversions.

GAO reviewed HUD program documentation and procedures; analyzed data on conversions as of March 1, 2014; and conducted interviews with HUD officials as well as nongeneralizable interviews with four PHAs and five property owners selected based on geography and other factors.

GAO is not making recommendations in this report.

View [GAO-14-402](#). For more information, contact Daniel Garcia-Diaz at (202) 512-8678 or GarciaDiazD@gao.gov.

April 2014

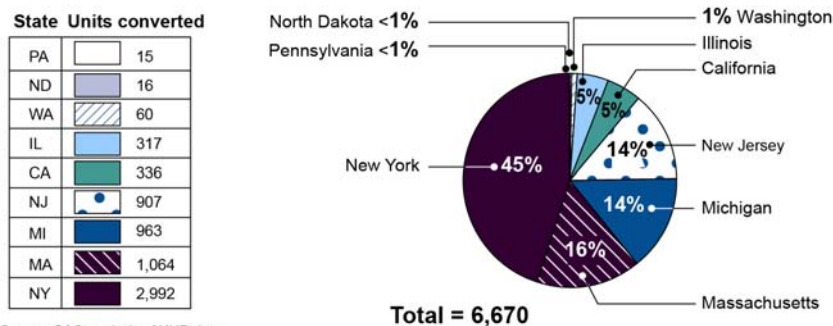
HUD RENTAL ASSISTANCE DEMONSTRATION

Information on Initial Conversions to Project-Based Vouchers

What GAO Found

Conversions to project-based vouchers under the Department of Housing and Urban Development's (HUD) Rental Assistance Demonstration (RAD) program will have a small effect on the percentage of total vouchers (made up of project and tenant-based) that are project-based. Residents with tenant-based vouchers can receive their assistance in any eligible privately owned rental unit, which means if they leave the unit, their assistance goes with them. In contrast, residents with project-based vouchers can only benefit from the assistance if they remain in the specific unit. As of March 1, 2014, property owners had converted a total of 6,670 units to project-based vouchers in nine states. The percentage of vouchers that are project-based including RAD conversions was 3.81 percent, and without RAD, would have been 3.45 percent. Further, the impact of these conversions on the overall long-term percentage of project-based vouchers will be small because the conversions are limited to the remaining 38,000 units assisted through the three designated HUD programs, which is relatively small compared to the over 2 million total outstanding vouchers. As the figure shows, most conversions have taken place in New York, Massachusetts, Michigan, and New Jersey—four states with a large concentration of units that were originally subsidized under designated HUD programs.

Number and Percentage of Units Converted to Project-Based Vouchers through the Rental Assistance Demonstration, by State, as of March 1, 2014



Source: GAO analysis of HUD data.

Note: Percentages may not total to 100 percent due to rounding.

Stakeholders GAO interviewed generally viewed the conversions to project-based vouchers as a useful tool in preserving affordable housing. Stakeholders explained that, absent RAD, property owners would have had few or no options for continuing some form of rental subsidy when their contracts expired. Further, RAD conversions provide a stable subsidy for their properties that allows them to better obtain financing. All five owners—representing nine properties GAO contacted—have recapitalized or plan to recapitalize their properties, including refinancing or restructuring their debt, in order to rehabilitate them. Housing organization officials and a housing expert also told GAO that RAD has helped to preserve the number of affordable housing units. PHA officials, property owners, and residents told GAO that these conversions have not adversely affected residents' housing choices.

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Abbreviations

HUD	Department of Housing and Urban Development
MAHRA	Multifamily Assisted Housing Reform and Affordability Act
PHA	public housing agency
RAD	Rental Assistance Demonstration
RAP	Rental Assistance Payment

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April 24, 2014

The Honorable Patty Murray
Chairman
The Honorable Susan Collins
Ranking Member
Subcommittee on Transportation, Housing and Urban Development,
and Related Agencies
Committee on Appropriations
United States Senate

The Honorable Tom Latham
Chairman
The Honorable Ed Pastor
Ranking Member
Subcommittee on Transportation, Housing and Urban Development,
and Related Agencies
Committee on Appropriations
House of Representatives

Over the next several years, rental assistance contracts will expire for about 38,000 affordable housing units currently assisted through the Department of Housing and Urban Development's (HUD) Rent Supplement (Rent Supp), Rental Assistance Payment (RAP), and Moderate Rehabilitation (Mod Rehab) programs.¹ HUD used the rental assistance provided by these programs—referred to as covered programs in our report—with other subsidies to develop affordable housing from the 1960s through the 1980s. Although these programs are no longer used to develop new units, many properties subsidized under these programs continue to offer rental assistance to eligible low-income residents today. However, upon contract expiration, owners of these properties will have

¹Rent Supp and RAP contracts are authorized under Section 101 of the Housing and Urban Development Act of 1965 and Section 236(f)(2) of the National Housing Act respectively, Rent Supp and RAP contracts cannot be renewed under the Multifamily Assisted Housing Reform and Affordability Act (MAHRA), and lose their project-based rental assistance when their contracts expire. The Mod Rehab program was established in 1978 as a form of project-based rental assistance to upgrade substandard, privately owned rental housing. While no new commitments are authorized under the Mod Rehab program, expiring contracts covering units in multifamily housing projects are eligible for renewal.

few options for renewing the assistance and will no longer be required to maintain affordable rents or make their units available to low-income residents.

HUD's Rental Assistance Demonstration (RAD) program was created, in part, to respond to this concern. Prior to the creation of RAD in 2011, HUD had limited authority to extend the availability of rental assistance at these properties when the contracts expired (or owners terminated them). However, HUD would make tenant-protection vouchers available to the residents living in these units to keep their rents affordable and prevent them from being displaced. Tenant-protection vouchers are "tenant-based"—that is, tied to the resident, not the unit. When the resident with a tenant-protection voucher leaves the unit, rental assistance is no longer available at that unit. As a result, the number of permanent housing units that target low-income residents and offer subsidized rents declines.

Among other things, the RAD program allows the owners of properties receiving rental assistance under the covered programs to convert these tenant-protection vouchers to project-based vouchers upon contract expiration or termination.² As preservation of affordable housing is one of HUD's goals for its housing policies, project-based vouchers tie the assistance to the property—and preserve the property's long-term affordability—because residents with project-based vouchers can only benefit from the subsidy if they remain in the specific unit. The conversions result in a contract between the property owners and a public housing agency (PHA), which administers the program. These conversions are also intended to allow property owners to leverage private debt and equity in order to address immediate capital needs.

The Consolidated and Further Continuing Appropriations Act of 2012 mandated that we review the long-term impact of conversions under RAD

²Conversion of units for which assistance has expired (known as retroactive conversions) requires individual consent from tenants because they have already been, or will soon be, issued tenant-protection vouchers. Units for which residing tenants do not provide consent are not converted to project-based vouchers. Conversion of units for upcoming expiration or termination of assistance (known as prospective conversions) does not require tenant consent, but it does require the owner of the property to provide tenants with a notice of the conversion, a briefing about the conversion, and an opportunity to comment on the briefing, and owners must submit tenant comments and the owner's responses to HUD. For both retroactive and prospective conversions, tenants may choose to move from their unit 1 year after the project-based contract is put in place for their unit and receive a voucher from their local housing agency, if available, to seek housing elsewhere.

on the ratio of project-based vouchers to tenant-based vouchers.³ This report examines (1) how HUD has implemented RAD conversions of tenant-protection vouchers to project-based vouchers for properties under the covered programs; (2) how these conversions are expected to affect the long-term percentage of project-based vouchers and costs to the voucher program; and (3) how these conversions have affected selected converted units and the housing choices available to assisted residents.

To address these objectives, we reviewed and assessed HUD guidance and procedures for implementing the RAD program. Specifically, to describe how HUD has implemented conversions of the covered programs under RAD, we reviewed HUD's RAD notices and guidance on processes and procedures the agency uses to process applications submitted for conversions. We compared HUD's guidance and procedures to the applicable federal internal control standards.⁴ We also selected nine properties in four geographically diverse locations that converted assistance to project-based vouchers, and we interviewed HUD field office staff who had worked on those conversions. To describe how conversions have affected the percentage of project-based vouchers to tenant-based vouchers and costs to the voucher program, we obtained and analyzed HUD data on conversions and data on the total number of tenant-based and project-based vouchers as of March 1, 2014. We assessed the reliability of the data by verifying that data fields, such as the total number of units in a property, total number of units converted to project-based vouchers, and dates for conversions, were reasonable and consistent with our data request, and determined that the data were sufficiently reliable for purposes of this report. We also obtained and analyzed documentation from HUD to determine the impact of these conversions on the budget. To determine how the conversions have affected selected converted units and the housing choices available to assisted residents, we interviewed the five property owners (or their representatives) for the nine converted properties we selected, and we interviewed assisted residents from the converted properties where possible. We also interviewed officials representing property owners and PHAs from the Council for Large Public Housing Authorities, the Public Housing Authorities Directors Association, the National Association of

³Pub. L. No. 112-55 125 Stat. 673-675.

⁴GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

Housing and Redevelopment Officials, the National Affordable Housing Management Association, and the National Leased Housing Association.⁵

We conducted this performance audit from September 2013 through April 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The RAD program was authorized by Congress in November 2011 under the Consolidated and Further Continuing Appropriations Act of 2012.⁶ The RAD program provides HUD the opportunity to test the conversion of units subsidized under HUD's public housing and certain other programs to long-term (typically 15 to 20 years), project-based voucher or rental assistance contracts—two forms of rental assistance that tie the assistance to the unit in order to provide subsidized housing to low-income residents.⁷ The goals of the RAD program include maintaining the affordability of federally assisted rental properties and improving their physical and financial condition. Specifically, property owners and PHAs (for the public housing program) can leverage the subsidy payments under the newly converted contracts to raise capital through private debt and equity investments to make improvements. The RAD program consists of two components. The first component focuses on the voluntary conversion of public housing properties, while the second component of RAD—and the focus of our review—addresses the following programs that provide subsidized rents to residents. The project-based contracts under these programs—generally between HUD and the owners of private rental housing—were entered into in the 1960s,

⁵ There were only five property owners for the nine properties because some of the owners owned more than one property.

⁶Pub. L. No. 112-55 125 Stat. 673-675.

⁷Project-based voucher contracts are between a PHA and the property owner, while project-based rental assistance contracts are between HUD and the property owner. HUD provides subsidies to PHAs to operate and maintain public housing units. The public housing program serves eligible low-income families and individuals including, the elderly and persons with disabilities.

1970s, and 1980s, typically for terms of 15, 20, or 40 years. New contracts cannot be authorized under these programs, and current contracts are either not eligible for renewal or have limited contract renewal provisions.

- The Rent Supp program was authorized in Section 101 of the Housing and Urban Development Act of 1965, which authorized rent supplements on behalf of needy tenants living in privately owned housing and was the first project-based assistance program for mortgages insured by HUD's Office of Housing. Eligible tenants pay 30 percent of the rent or 30 percent of their income toward the rent, whichever is greater. The Rent Supp program provides payments directly to the project owner to cover the difference between the tenant's payment and the HUD-approved rent. Rental assistance under Rent Supp contracts is not eligible for renewal.
- The RAP program was established by the Housing and Community Development Act of 1974 to provide additional rental assistance subsidies to property owners on behalf of very low-income tenants. RAP was available only to Section 236 properties and was the predecessor of the project-based Section 8 program.⁸ Eligible tenants under the RAP program generally pay 30 percent of their monthly adjusted income or 10 percent of gross income toward rents, whichever is greater. HUD pays the difference between the tenant payment and the HUD-approved rent directly to the owner. Rental assistance under RAP contracts is not eligible for renewal.
- The Mod Rehab program provides project-based rental assistance for low-income families and is intended for housing units that require a moderate level of repair. Contracts under the Mod Rehab program are between the owner and PHA.⁹ Eligible tenants generally pay 30

⁸The Section 236 program, which was established by the Housing and Urban Development Act of 1968, combined federal mortgage insurance with interest reduction payments to the mortgagee for the production of low-cost rental housing. Under this program, HUD provided interest subsidies to lower a project's mortgage interest rate to as low as 1 percent. This program no longer provides insurance or subsidies for new mortgage loans, but existing Section 236 properties continue to operate under the program. The interest reduction payment results in lower operating costs and subsequently a reduced rent structure.

⁹HUD and the PHAs have an annual contributions contract—a written contract under which HUD agrees to make payments to the PHA and the PHA agrees to administer the housing program in accordance with HUD regulations and requirements.

percent of their monthly adjusted income toward rents. PHAs pay the difference between the tenant payment and the approved rent directly to the owner. Mod Rehab projects with expiring housing assistance payment contracts are eligible for renewal, but renewal options are limited in that the assistance is generally only renewed in the form of a 1-year contract, which makes it difficult for property owners to secure financing for capital improvements.

Under RAD, owners may elect to apply for a long-term, project-based voucher contract for their property rather than have PHAs provide eligible residents tenant-protection vouchers when a property's rental assistance contract with HUD (or with a PHA in the case of the Mod Rehab program) expires or the contract is terminated due to prepayment of the mortgage (in the case of Rent Supp and RAP).¹⁰ Tenant-protection vouchers are a type of assistance provided under the Housing Choice Voucher (voucher) program. The voucher program pays subsidies to property owners to help very low- and extremely low-income households rent units on the private market.¹¹ The voucher program currently serves over 2 million households. PHAs administer the program on HUD's behalf, including special-purpose vouchers, such as tenant-protection, and project-based vouchers.¹² Eligible owners apply to HUD to request approval for the conversions and must take specific steps and meet certain criteria, such as notifying residents of the conversions, obtaining consent from each resident who has already received a tenant-protection voucher in order to convert their unit, and passing housing-quality-standards inspections for

¹⁰In some cases, such as certain types of prepayments, PHAs can issue an "enhanced" voucher. Enhanced vouchers are a special purpose voucher, similar to a tenant protection voucher, that provides some benefits that supplement the regular vouchers—such as a special payment standard, which can sometimes result in a PHA subsidizing rent that exceeds the voucher program's limits. However, if enhanced vouchers are converted to project-based vouchers, PHAs are to administer them in accordance with project-based voucher program requirements.

¹¹The voucher program is authorized under Section 8 of the United States Housing Act of 1937, as amended. Very low-income and extremely low-income households are those with incomes at or below 50 percent and 30 percent, respectively, of the area median income.

¹²Program regulations allow PHAs to set aside up to 20 percent of their voucher budget authority as project-based vouchers, but conversions under RAD are not subject to these limits.

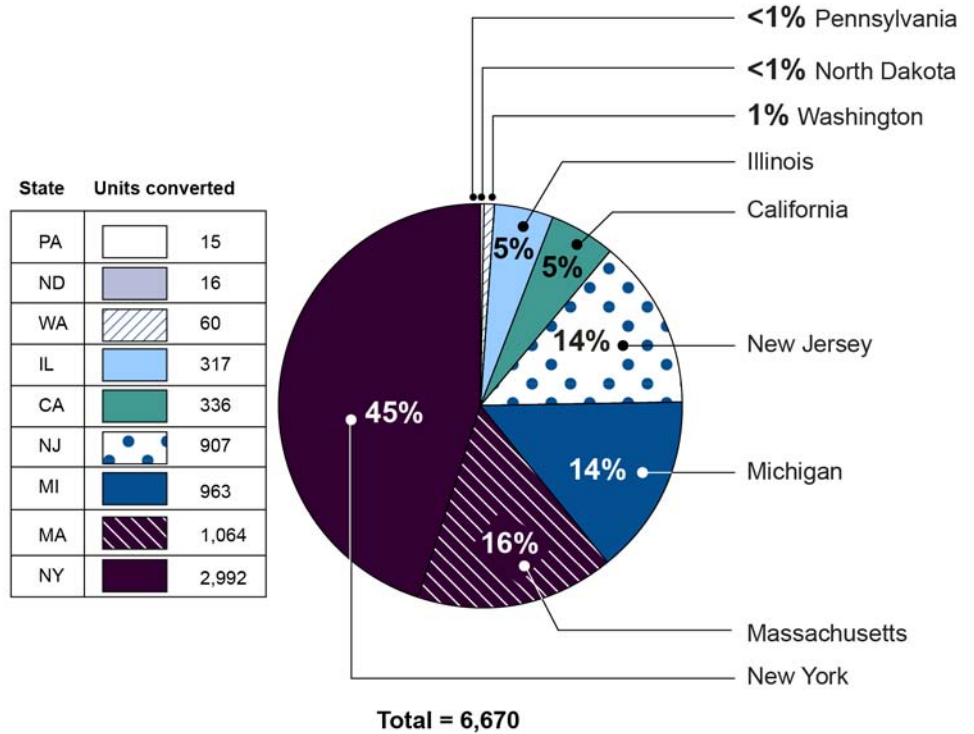
the units proposed for conversion.¹³ Once approved, the conversions allow the owners to convert their current assistance to long-term, project-based voucher contracts.

After the conversion, if residents decide to move, they would lose their assistance because it is tied to the unit. However, project-based vouchers provide a mobility option for residents. The mobility option for residents allows them to apply for a tenant-based voucher from their local PHA and be placed at the top of the PHA's wait list for tenant-based vouchers after having resided in the converted unit for 1 year. The ability of residents to relocate, however, is subject to the availability of vouchers from the PHA.

As of March 2014, HUD had approved project-based voucher funding for a total of 8,014 units, of which 6,670 units (61 properties) had their rental assistance converted to project-based voucher assistance through RAD. There is a high concentration of conversions in certain geographic areas due to the Rent Supp and RAP programs being concentrated in these areas. Specifically, a large percentage of conversions have taken place in New York, Massachusetts, Michigan, and New Jersey (see fig. 1). Approximately 38,000 affordable housing units continue to be assisted under the Rent Supp, RAP, and Mod Rehab programs. This number includes 22,233 Mod Rehab units within 385 projects; 4,713 Rent Supp units within 89 projects; and 10,915 RAP units in 113 projects.

¹³HUD began accepting applications for conversions to project-based vouchers in March 2012, and the demonstration was initially set to expire on September 30, 2013, but has been extended through December 31, 2014, through the 2014 Consolidated Appropriations Act of 2014. Pub. L. No. 113-76, Division L, § 239 (2014).

Figure 1: Number and Percentage of Units Converted to Project-Based Vouchers through the Rental Assistance Demonstration, by State, as of March 1, 2014



Source: GAO analysis of HUD data.

Note: Percentages may not total to 100 percent due to rounding.

HUD Established an Effective Process for Conversions to Project-Based Vouchers under RAD

HUD has developed an effective process for managing applications and implementing conversions of assistance to project-based vouchers under RAD. Internal control standards for the federal government state that properly communicating, executing, and documenting transactions related to a program is critical to establishing effective implementation of that program.¹⁴ HUD issued notices and hosted webinars to provide program instructions and selection criteria for conversions under the RAD program. HUD also developed a specific checklist for the processing of applications to convert rental assistance under the covered programs to project-based vouchers and created a database to track these conversions. Property owners and PHA officials we spoke with generally

¹⁴[GAO/AIMD-00-21.3.1.](#)

stated that HUD provided effective assistance throughout the conversion process.

HUD Issued Notices and Hosted Webinars to Notify Applicants of the Availability of Conversions under the RAD Program

Federal internal control standards note the importance of open and effective communication channels for the implementation of programs.¹⁵ HUD issued an initial notice in March 2012 that authorized conversions under RAD for the covered programs and sought comment through this notice on eligibility and selection criteria for the conversions. HUD then issued a final notice for implementation of the RAD program in July 2012 and a revision of the final notice in July 2013. HUD's notices provided guidance to owners of covered-program properties with instructions on how to apply to convert the assistance their properties are receiving to project-based vouchers. The notices also included requirements property owners must meet, such as communicating with the local HUD field office and expressing interest in the RAD conversion, contacting a PHA that could potentially administer the project-based vouchers, and conducting the required resident notifications and briefings on the conversions. The July 2013 revised notice also included clarifications related to the conversions. For example, the revised notice clarified that only occupied units in a property are eligible to be converted to project-based vouchers.

HUD also took steps to communicate program requirements to property owners, PHAs, and residents. For example, HUD conducted webinars for property owners and PHAs on the process to apply for conversion, required documentation, and time frames. HUD has established an online resource desk that includes information and web links to various RAD program resources, including a searchable list of frequently asked questions that can be specifically sorted by questions related to conversions under the covered programs. HUD's RAD website also contains an area specifically for residents to learn more about the RAD program, how it may impact their assistance, and their housing choices.

¹⁵[GAO/AIMD-00-21.3.1.](#)

HUD Developed Multiple Tools to Help Ensure Consistent Processing and Approval of RAD Applications

Federal internal control standards point to the importance of proper execution and documentation of transactions when implementing program procedures.¹⁶ HUD developed a specific checklist for the processing of applications to convert rental assistance under the covered programs to project-based vouchers. HUD field office staff who review RAD applications that owners submit use the checklist to help ensure that materials submitted by property owners are complete and meet HUD requirements for conversion. For example, the checklist includes specific fields for HUD field staff to indicate that the RAD applicant has supplied the required resident notification material, such as a copy of the notification letter to residents living at the property, any comments received from residents regarding the potential conversions, and a copy of the property owner's responses to the residents' comments. The checklist also includes fields for other required information, such as documentation of how many units are planned for conversion. HUD headquarters officials we spoke with also told us that they conduct regular conference calls with staff working on these applications in HUD field offices. HUD officials explained that these conference calls help to ensure that applications are being processed similarly nationwide.

HUD has also developed a RAD database to track and document applications the agency receives for conversions, as well as their progress. HUD's database includes a tracking sheet for each project, which provides information on the project, such as date the completed RAD application was received, the number of units proposed for conversion, and the expiration date of the current rental assistance the project is receiving. The tracking sheet also includes a section specifically for tracking the various stages of the conversion process, such as HUD's review of the application, the selection of the PHA, and HUD's notification of the owner that the application has been approved. The RAD database also contains information on the conversions that have taken place, such as the number of units for each project for which rental assistance was actually converted to project-based vouchers based on HUD's verification of documentation once the conversions take place, and the PHAs that are administering the vouchers. Similar data for projects going through the conversion process are also available in the RAD database.

¹⁶[GAO/AIMD-00-21.3.1.](#)

Property owners and PHA officials we spoke with generally stated that HUD staff answered questions about the conversion process and provided effective assistance to close projects. Most property owners we spoke with stated that HUD readily answered questions about the RAD conversion process and provided clarification on guidance when necessary. For example, most property owners we spoke with stated that HUD staff were present at the resident meetings, were effective at explaining the process to residents, and helped residents understand that the conversions under RAD to project-based vouchers would provide rental assistance to keep their units affordable once the assistance their units are currently receiving expires. Officials from most PHAs we spoke with stated that HUD staff communicated regularly with them and provided responses to questions regarding the conversion process. They also stated HUD staff provided the necessary assistance to close projects in a timely manner.

RAD Conversions Will Have a Small Effect on the Long-Term Percentage of Project-Based Vouchers

Conversions of rental assistance to project-based vouchers under the covered programs have not substantially affected the overall percentage of project-based vouchers. Further, the impact of the conversions on the long-term percentage of project-based vouchers is limited to the remaining contracts for the three programs—a relatively small number compared to the overall voucher program. Additionally, these conversions of rental assistance should not affect voucher program costs because HUD uses the same calculation for providing budget authority for the project-based vouchers converted under RAD as it does for calculating budget authority for the tenant-protection vouchers.

RAD Conversions Have Had a Small Effect on the Percentage of Project-Based Vouchers

RAD conversions have had a small effect on the number and percentage of total vouchers (project-based and tenant-based vouchers). Although RAD has increased the number of project-based vouchers nationally, the increase was not enough to substantially affect the overall percentage. For example, as of March 1, 2014, there were 2,055,349 tenant-based vouchers and 81,364 project-based vouchers—8,014 of which HUD approved for funding RAD conversions. As a result, the percent of project-based vouchers increased slightly from 3.45 to 3.81 percent (see table 1).

Table 1: Total Vouchers Nationwide, and Percentage of Project-Based Vouchers, as of March 2014

Tenant-based vouchers	Pre RAD conversions			Post RAD conversions			Percentage point difference	
	Project-based vouchers	Total vouchers	Percent of total vouchers that are project-based	Project-based vouchers from RAD	Total project-based vouchers	Total vouchers		Percent of total vouchers that are project-based
2,055,349	73,350	2,128,699	3.45%	8,014	81,364	2,136,713	3.81%	0.36%

Source: GAO analysis of HUD data.

RAD conversions can have a larger impact on the percentage of project-based vouchers for smaller PHAs compared to larger PHAs. For example, the Brockton Housing Authority (Massachusetts)—a smaller local PHA—had a total of 61 project-based vouchers prior to RAD conversions of rental assistance under the covered programs. This PHA now administers an additional 463 project-based vouchers for three properties that converted rental assistance, for a total of 524 project-based vouchers out of 1,716 total vouchers. Since it has a small portfolio of vouchers, the percentage of vouchers that are project-based increased from about 5 percent to about 31 percent. Conversely, the percentage of project-based vouchers for the Michigan State Housing Development Authority—a larger state PHA—changed only slightly. This housing agency added 495 vouchers to their 2,075 project-based vouchers, for a total of 2,570 project-based vouchers. Since this PHA has a larger portfolio of vouchers (24,113 total vouchers), the increase of project-based vouchers as a result of RAD did not substantially impact the percentage of project-based vouchers, increasing it from about 9 percent to about 11 percent. The remaining two PHAs we selected had a percentage point difference between about 1 percent and 2 percent in project-based vouchers due to RAD conversions. Table 2 summarizes the number and percentage of project-based vouchers for the PHAs we analyzed.

Table 2: Total Vouchers for Selected PHAs, and Percentage of Project-Based Vouchers, as of January 2014

Location	Pre RAD conversions				Post RAD conversions				Percentage point difference
	Tenant-based vouchers	Project-based vouchers	Total vouchers	Percent of total vouchers that are project-based	Project-based vouchers from RAD	Total project-based vouchers	Total vouchers	Percent of total vouchers that are project-based	
Housing Authority of the County of Los Angeles	22,834	305	23,139	1.32%	162	467	23,301	2.00%	0.69%
Michigan State Housing Development Authority ^a	21,543	2,075	23,618	8.79%	495	2,570	24,113	10.66%	1.87%
New York State Homes and Community Renewal	40,489	3,013	43,502	6.93%	1,077	4,090	44,579	9.17%	2.25%
Brockton Housing Authority (Massachusetts)	1,192	61	1,253	4.87%	463	524	1,716	30.54%	25.67%

Source: GAO analysis of PHA data.

Note: Due to rounding, the sum of the percentage point difference and the percent of total vouchers that are project-based pre-RAD may not equal the percent of total vouchers that are project-based post-RAD.

^aThe data for the Michigan State Housing Development Authority are as of December 2013.

Based on completed RAD conversions and the small number of potential remaining conversions, the effect of RAD conversions on the long-term percentage of project-based vouchers will be relatively small. Specifically, the change in the long-term percentage of project-based vouchers is limited to the remaining contracts for the covered programs. The remaining active contracts for the Rent Supp, RAP, and Mod Rehab programs include about 38,000 units, which is relatively small compared to the over 2 million vouchers currently assisting low-income residents. Further, not all of the units are likely to be converted to project-based vouchers.¹⁷ Even if all of these units were converted as of March 1, 2014,

¹⁷Mod Rehab properties can be converted under the first component of RAD, which allows for the assistance to be converted to project-based rental assistance or project-based vouchers.

the maximum change in the nationwide percentage of project-based vouchers would be an increase from 3.45 percent to 5.48 percent. Finally, HUD funding of RAD conversions is limited by the availability of funding for tenant-protection vouchers.

Conversions to Project-Based Vouchers Should Not Affect Voucher Program Costs

On the basis of our review of HUD documentation, conversions to project-based vouchers should not affect voucher program costs compared to providing tenant-protection vouchers. HUD documentation on the conversion process shows that HUD uses the same calculation for providing budget authority for the project-based vouchers converted under RAD as it does for calculating budget authority for the tenant-protection vouchers. Specifically, when HUD issues tenant-protection vouchers to protect residents from rent increases upon the expiration of rental assistance, a local PHA with jurisdiction in the area is selected to administer the tenant-based vouchers. HUD then determines the budget authority for these vouchers by calculating the PHA's average per-unit per-month cost of all the vouchers, and multiplying that amount by the number of eligible households receiving tenant-protection vouchers. That funding is then added to the PHA's voucher budget authority.

For example, for a property that converted to project-based vouchers under RAD in the state of Washington, a total of 35 units were eligible for conversion to project-based vouchers upon expiration of a Rent Supp contract on July 31, 2013. The average per-unit per-month cost of that property's administering PHA's voucher program was \$475. Therefore, the total cost of the tenant-protection vouchers per month would have been \$16,625 (35 residents x \$475). Because RAD allows for the conversion of tenant-protection vouchers to project-based voucher contracts, HUD used the same exact calculation to fund the 35 project-based vouchers that were funded for this property. As such, conversions of the tenant-protection vouchers to project-based vouchers under RAD would result in the same amount used to fund the project-based vouchers that would have funded the tenant-protection vouchers. Additionally, tenant-based and project-based voucher subsidies are generally subject to the same payment standard limits. The subsidies are based on payment standards that cannot exceed 110 percent of the fair-market rent

established by HUD for standard rental housing given the unit size the voucher will be used for in that area.¹⁸

Program requirements that allow assisted households with project-based vouchers to move to a different unit will not add to the cost of these conversions. According to project-based voucher regulations, residents with a converted project-based voucher can move after a year of residing in the unit and be eligible for a tenant-based voucher. The project-based voucher would remain available for another eligible household, and the household intending to move would be placed on the PHA's waitlist for the next voucher that becomes available (i.e., after another voucher holder exits the program). As a result, households with project-based vouchers that move to another unit and continue receiving voucher assistance would not increase the net number of vouchers and the amount of funding required.

Stakeholders Generally Viewed RAD Conversions of Covered Program Units as Useful in Preserving Affordable Housing

Stakeholders we spoke with generally said that the RAD program is a useful tool in helping to preserve affordable housing and improve units converted to project-based vouchers. Furthermore, residents, property owners, and PHA officials we spoke with told us that residents' housing choices have not been negatively impacted by the conversions.

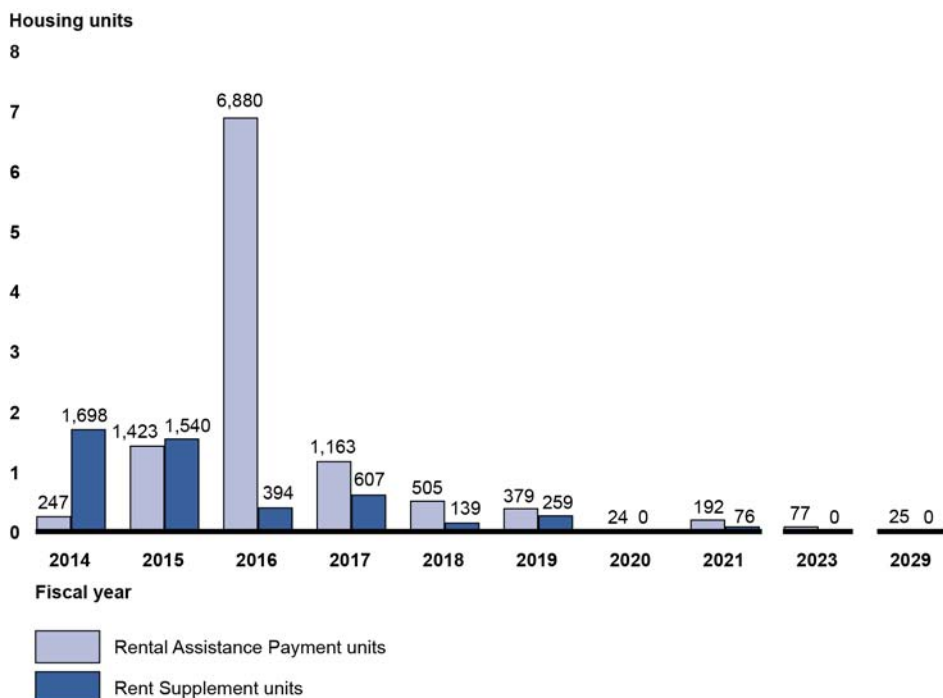
Stakeholders Utilized RAD Conversions to Preserve and Improve Affordable Housing Units

Property owners, PHAs, residents, housing organizations, and a housing expert we spoke with generally viewed the RAD program as a useful tool for preserving affordable housing. For example, representatives of a property owner involved in a large number of conversions told us that without RAD, they would not have preserved as many of the affordable housing units as they have, and that those units would have most likely been lost as affordable housing. Also, one housing expert said that RAD provides a good mechanism for keeping properties with expiring

¹⁸For tenant-based vouchers, HUD may approve payment standards higher than 110 percent of fair-market rents in cases of high rent burdens in high-rent areas.

assistance in the affordable housing pool and putting them on a long-term plan that can better maintain the property. Officials from the Brockton Housing Authority (Massachusetts) stated that if the owner of a cluster of properties in its jurisdiction had not converted, the units would have become market rent units, and would no longer be affordable to low-income residents. Further, a housing expert and some housing officials stated that these conversions represent the last opportunity to preserve project-based assistance for expiring units under the Rent Supp, RAP, and Mod Rehab programs. According to HUD data, contracts subsidizing a total of 15,628 units under Rent Supp and RAP will be expiring in the coming years, and about half of these units (7,274 units) are scheduled to expire in fiscal year 2016 alone (see fig. 2).

Figure 2: Number of Units with Expiring Contracts under the Rent Supplement and Rental Assistance Payment Programs, by Fiscal Year, as of March 2014



Source: HUD.

Notes: Mod Rehab units with expiring contracts are not included because individual PHAs, and not HUD, maintain this information, which is not readily available. Additionally, Mod Rehab contracts can be renewed in 1-year increments upon expiration.

All five property owners we spoke to—representing nine properties—had recapitalized their properties or planned to do so in order to conduct major rehabilitation on the sites we selected. All are utilizing or considering low-income housing tax credits—eligible developers can obtain and “sell” low-income housing tax credits to investors to raise capital (or equity) for their projects.¹⁹ The long-term (typically 15 year) project-based voucher contract provides a stable subsidy that can be used to attract investors and strengthen the underwriting. PHA officials and HUD field office staff who administer and oversee RAD conversions to project-based vouchers consistently told us that, in their experience, most property owners plan to recapitalize or have recapitalized their properties, in order to rehabilitate the property. The following are examples of recapitalization and rehabilitation for some of the property owners (or their representatives) we spoke with.

- The owners of a property located in Michigan that converted under RAD recapitalized in order to rehabilitate a substantial part of the property. This recapitalization included refinancing with a long-term mortgage. In addition, the long-term project-based voucher contract allowed the owners to obtain a competitive low-income housing tax credit that provided significant funds to use toward repairs. The owners of the property stated that they completed upgrades to 160 units and common areas that totaled about \$8 million. This rehabilitation was completed at the end of December 2013. The types of rehabilitation included new cabinets, carpet, vanity, windows, and heating and cooling systems.
- The owner of a converted property in California, told us that the property will undergo about \$11 million in comprehensive rehabilitation by early 2015. The owner said he utilized low-income housing tax credits and other financing tools. The rehabilitation will include new flooring, kitchens, bathrooms, windows, doors, and appliances. For the exterior, the owner plans to install a new roof, paint the exterior, and add community gardens and a playground, among other improvements.

¹⁹The owners of a low-income housing tax credit project are permitted to claim tax credits on their income tax return. Technically, what is sold to the investor is not the credit but an ownership interest in the project (through a partnership or other entity).

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- For one of the largest clusters of properties to have converted thus far—a set of three buildings located in the Bronx, New York—representatives of the property owners estimated that there will be about \$75 million spent on rehabilitation for the three buildings that were converted, covering over 1,200 units. In order to fund the rehabilitation, the owner’s representatives said they utilized low-income housing tax credits and other financing tools. The rehabilitation is scheduled to be completed by 2016 and includes major upgrades to units (including bathrooms and kitchens), common areas, site improvements, a more efficient heating system, and improvements to the exteriors of the three buildings. Figure 3 shows what the planned rehabilitation for each unit’s bathrooms and kitchen will look like based on a unit that has already been renovated in one of the buildings.

Figure 3: Example of Planned Rehabilitation for a RAD Conversion in the Bronx, New York



A unit prior to rehabilitation including the bathroom (top) and kitchen (bottom) scheduled to be renovated by 2016.

Source: GAO.

A unit that has been renovated including the bathroom (top) and kitchen (bottom).

Stakeholders and Residents Generally Said That Residents' Housing Choices Have Not Been Negatively Impacted

Residents, property owners, and PHA officials we spoke with generally told us that residents' housing choices have not been negatively impacted by the conversions. Conversions to project-based vouchers include a mobility feature for residents who would like to move after living in a converted unit for 1 year. A few housing officials we spoke to stated that the mobility feature could create resident turnover because if residents decide to leave the unit after 1 year, they would be placed at the top of the administering PHA's tenant-based voucher waiting list. This may negatively impact individuals who have been on the voucher waiting list because they may have to wait longer to receive a voucher, depending on availability. Residents, property owners, and PHAs for the most part told

us that resident mobility did not seem to be an issue at the properties we visited, but some also stated that it may be too soon to tell because the 1-year waiting period for resident mobility had not yet passed. For example, one PHA official told us that in low-vacancy areas—including those where RAD conversions to project-based vouchers are taking place—preservation of these units, particularly when rehabilitation is included, results in residents preferring to stay in their units and not wanting to be relocated. The official explained that in New York City, for example, it can be difficult and costly to find units; as a result, residents would prefer to not relocate if they are satisfied with the unit they are living in. Further, residents we spoke to at three properties told us that they were planning on staying at the property, so mobility was not a concern for them. The residents also said that they had a good experience with the RAD conversion process and were happy with the program because it allowed them to stay in their current unit and continue to receive rental assistance. Since renovations at the residents' properties had not yet begun, residents we spoke with were not able to comment on improvements as a result of the conversions.

Agency Comments

We provided a draft of this report to HUD for review and comment. HUD did not provide written comments, but did provide technical comments, which we incorporated, as appropriate.

We are sending copies of this report to interested congressional committees and HUD. The report also is available at no charge on the GAO website at <http://www.gao.gov>. If you or your staffs have any questions about this report, please contact Daniel Garcia-Diaz at (202) 512-8678 or garciadiazd@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix II.



Daniel Garcia-Diaz
Director
Financial Markets and Community Investment

Appendix I: Objectives, Scope, and Methodology

This report examines aspects of the second component of HUD's Rental Assistance Demonstration (RAD) program, which allows the owners of properties receiving rental assistance under the Department of Housing and Urban Development's (HUD) Rental Supplement (Rent Supp), Rental Assistance Payment (RAP), and Moderate Rehabilitation (Mod Rehab) programs—referred to as covered programs—to convert tenant-protection vouchers to project-based vouchers upon contract expiration or termination. Specifically, this report examines (1) how HUD has implemented RAD conversions of tenant-protection vouchers to project-based vouchers under the covered programs; (2) how these conversions are expected to affect the long-term percentage of project-based vouchers and costs to the voucher program; and (3) how these conversions have affected selected converted units and the housing choices available to residents.

To examine how HUD has implemented conversions to project-based vouchers, we reviewed RAD program notices and documentation on processes and procedures the agency uses to process applications submitted for conversions. We also reviewed documentation on what information HUD collects for the conversions and how the conversions are tracked throughout the various stages of the application process. We also reviewed HUD's online RAD resources and webinars for explaining the RAD program. We compared HUD's guidance and procedures to the applicable federal internal control standards.¹ We selected nine properties in four geographically diverse locations (California, Massachusetts, Michigan, and New York) that participated in the conversions, and we spoke with cognizant officials from the HUD field offices in these locations. We selected the nine properties to reflect a mix of properties that have converted under RAD based on the following factors: (1) number of units converted at the property; (2) the program that the property was receiving rental assistance under (Rent Supp, RAP, or Mod Rehab); (3) the location of the property (urban or nonurban); and (4) geographic dispersion.

To describe how conversions have affected the percentage of project-based vouchers to tenant-based vouchers, we obtained and analyzed HUD data on conversions and vouchers. The voucher data included the

¹GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

total number of tenant-based and project-based vouchers and the number of project-based vouchers created as a result of RAD conversions as of March 1, 2014. We calculated the percentage of vouchers that are project-based and assessed the extent to which RAD conversions to project-based vouchers affected the percentage. We assessed the reliability of RAD and voucher data by verifying data fields, such as the total number of units in a property, total number of units converted to project-based vouchers, and dates for conversions. We also performed other electronic tests, such as comparing data to different sources, and we conducted interviews with knowledgeable agency officials. We found that RAD conversion and voucher data were sufficiently reliable for our purposes. We also obtained and analyzed documentation from HUD to determine the impact of these conversions on the budget. Specifically, we examined HUD documentation on conversions to project-based vouchers and the costs of funding tenant-protection vouchers (absent RAD) when the rental assistance would have expired compared to the funding of project-based vouchers (through the RAD conversion). We also interviewed public housing agency (PHA) and HUD officials regarding the potential impact of the conversions on the costs of the voucher program.

To examine how the conversions have affected selected converted units and the housing choices available to residents, we conducted nongeneralizable interviews with the five property owners (or their representatives) representing the nine converted properties we selected, and we interviewed residents from the three converted properties we visited as we were able to schedule meetings with residents on-site. We also interviewed officials from the PHAs administering the vouchers for the converted properties and HUD field office staff who oversaw the conversions for the nine selected properties. Additionally, we interviewed officials representing property owners and PHAs, such as the Council for Large Public Housing Authorities, the Public Housing Authorities Directors Association, the National Association of Housing and Redevelopment Officials, the National Affordable Housing Management Association, and the National Leased Housing Association.

We conducted this performance audit from September 2013 to April 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: GAO Contact and Staff Acknowledgments

GAO Contact

Daniel Garcia-Diaz, 202-512-8678 or garciadiazd@gao.gov

Staff Acknowledgments

In addition to the contact named above, Paul Schmidt (Assistant Director), Tarek Mahmassani, John McGrail, Jessica Sandler, Jennifer Schwartz, Jena Sinkfield, Andrew Stavisky, and Verginie Tarpinian made key contributions to this report.

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