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Report to the Ranking Member, Committee on Financial Services, House of Representatives

February 2018

RENTAL ASSISTANCE DEMONSTRATION

HUD Needs to Take Action to Improve Metrics and Ongoing Oversight

Accessible Version

GAO-18-123

GAO Highlights

Highlights of GAO-18-123, a report to the Ranking Member, Committee on Financial Services, House of Representatives

Why GAO Did This Study

HUD administers the Public Housing program, which provides federally assisted rental units to low-income households through PHAs. In 2010, HUD estimated its aging public housing stock had $25.6 billion in unmet capital needs. To help address these needs, the RAD program was authorized in fiscal year 2012. RAD allows PHAs to move (convert) properties in the public housing program to Section 8 rental assistance programs, and retain property ownership or transfer it to other entities. The conversion enables PHAs to access additional funding, including investor equity, generally not available for public housing properties.

GAO was asked to review public housing conversions under RAD and any impact on residents. This report addresses, among other objectives, HUD's (1) assessment of conversion outcomes; (2) oversight of resident safeguards; and (3) provisions to help preserve the long-term affordability of units. GAO analyzed data on RAD conversions through fiscal year 2017; reviewed a sample of randomly selected, nongeneralizable RAD property files; and interviewed HUD officials, PHAs, developers, academics, and affected residents.

What GAO Recommends

GAO makes five recommendations to HUD intended to improve leveraging metrics, monitoring of the use and enforcement of resident safeguards, and compliance with RAD requirements. HUD agreed with our recommendations to improve metrics and build on existing oversight.

View GAO-18-123. For more information, contact Daniel Garcia-Diaz at (202) 512-8678 or garciadiazd@gao.gov

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RENTAL ASSISTANCE DEMONSTRATION

HUD Needs to Take Action to Improve Metrics and Ongoing Oversight

What GAO Found

The Department of Housing and Urban Development (HUD) put procedures in place to evaluate and monitor the impact of conversion of public housing properties under the Rental Assistance Demonstration (RAD) program. RAD's authorizing legislation requires HUD to assess and publish findings about the amount of private-sector leveraging. HUD uses a variety of metrics to measure conversion outcomes. But, the metric HUD uses to measure private-sector leveraging—the share of private versus public funding for construction or rehabilitation of assisted housing—has limitations. For example, HUD's leveraging ratio counts some public resources as leveraged private-sector investment and does not use final (post-completion) data. As a result, HUD's ability to accurately assess private-sector leveraging is limited.

HUD does not systematically use its data systems to track effects of RAD conversions on resident households (such as changes in rent and income, or relocation) or monitor use of all resident safeguards. Rather, since 2016, HUD has required public housing agencies (PHA) or other post-conversion owners to maintain resident logs and collect such information. But the resident logs do not contain historical program information. HUD has not developed a process for systematically reviewing information from its data systems and resident logs on an ongoing basis. HUD has been developing procedures to monitor compliance with some resident safeguards—such as the right to return to a converted property—and begun a limited review of compliance with these safeguards. However, HUD has not yet developed a process for monitoring other safeguards—such as access to other housing voucher options. Federal internal control standards require agencies to use quality information to achieve objectives, and obtain and evaluate relevant and reliable data in a timely manner for use in effective monitoring. Without a comprehensive review of household information and procedures for fully monitoring all resident safeguards, HUD cannot fully assess the effects of RAD on residents.

RAD authorizing legislation and the program's use agreements (contracts with property owners) contain provisions intended to help ensure the long-term availability of affordable units, but the provisions have not been tested in situations such as foreclosure. For example, use agreements between HUD and property owners specify affordability and use restrictions that according to the contract would survive a default or foreclosure. HUD officials stated that HUD intends to develop procedures to identify and respond to risks to long-term affordability, including default or foreclosure in RAD properties. However, HUD has not yet done so. According to federal internal control standards, agencies should identify, analyze, and respond to risks related to achieving goals and objectives. Procedures that address oversight of affordability requirements would better position HUD to help ensure RAD conversions comply with program requirements, detect potential foreclosure and other risks, and take corrective actions.

Contents

Figures

Abbreviations

CDBG	Community Development Block Grant
EID	earned income disregard
FSS	Family Self-Sufficiency
FHA	Federal Housing Administration
HAP contract	Section 8 Housing Assistance Payment contract

HOME	HOME Investment Partnerships Program
HUD	Department of Housing and Urban Development
IMS/PIC	Inventory Management System/Public and Indian Housing Information Center
IRS	Internal Revenue Service
LIHTC	Low-Income Housing Tax Credit
MTW	Moving To Work
PBRA	Project-Based Rental Assistance
PBV	Project-Based Voucher
PD&R	Office of Policy Development and Research
PHA	public housing agency
RAD	Rental Assistance Demonstration
ROSS-SC	Resident Opportunity and Self-Sufficiency Service Coordinator

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
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February 20, 2018

The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
House of Representatives

Dear Ms. Waters,

In 2011, the Department of Housing and Urban Development (HUD) reported that its public housing stock had approximately $25.6 billion in backlogged capital needs, with an average repair need of about $23,365 per unit, and according to HUD these figures have increased since then.[1] HUD's Rental Assistance Demonstration (RAD) program was created, in part, to address these capital needs. Under the traditional public housing program, public housing agencies (PHA) generally cannot use private funding sources to address the capital needs of their properties.[2] Furthermore, HUD estimates 10,000 units of public housing are demolished or disposed of each year due to disrepair.[3] RAD allows PHAs to access other programs that create incentives for private investments, such as the Low-Income Housing Tax Credit (LIHTC) program or insured loans available through the Federal Housing Administration (FHA), or

[1]HUD contracted with Abt Associates, Inc. to report on capital needs, which is the most recent assessment of its kind. See Meryl Finkel, Ken Lam, et al., *Capital Needs in the Public Housing Program* (Cambridge, Mass.: Nov. 24, 2011).

[2]Under the Capital Fund Financing Program, a PHA may borrow private capital to make improvements to public housing properties and pledge, subject to the availability of appropriations, a portion of its future year annual capital funds to make debt service payments for a bond or conventional bank loan transaction. But according to HUD and PHAs, the financing program does not provide access to an amount required to address the deferred capital needs of most properties because it is subject to future Capital Fund appropriations. About 3,300 PHAs administer about 1.2 million units of public housing nationally. PHAs also administer other HUD programs that provide housing assistance for low-income households, including Section 8 voucher programs.

[3]Separate from RAD, the demolition and disposition of public housing, which may include transferring the title (by sale), is authorized under Section 18 of the Housing Act of 1937, as amended. 42 U.S.C. § 1437p. HUD promulgated 24 C.F.R. Part 970, detailing the administrative steps required to perform demolition or disposition activity in accordance with the act.

conventional loans to address capital needs.[4] In RAD, properties move (convert) from the public housing program into Section 8 rental assistance programs. RAD also permits PHAs to transfer ownership of the public housing property as long as ownership or control of the Section 8 assisted units is by a public or nonprofit entity, although PHAs may elect to retain ownership. If approved by HUD, the PHA can transfer the public housing property to a for-profit entity to facilitate private investment through tax credits provided that the PHA preserves its interest in the property.

You asked us to examine the public housing component of the RAD program to determine if it is achieving the goals it was enacted to accomplish, including the long-term preservation of affordable units and protection of residents. This report examines (1) HUD's assessment of the physical and financial outcomes of RAD conversions to date; (2) how RAD conversions affected residents and what safeguards were in place to protect them, including while temporarily relocated; (3) what challenges, if any, PHAs faced in implementing RAD; and (4) the extent to which RAD provisions are designed to help preserve the long-term affordability of units.

To examine physical and financial outcomes in properties, we obtained and analyzed RAD data on conversions as of September 30, 2017. We assessed the reliability of the data by verifying that data fields—such as the total number of units converted, dates for conversions, and financial information—were reasonable and consistent with our data request, and by reviewing internal HUD procedures and data dictionaries, and determined that the data were sufficiently reliable for the purposes of describing rehabilitation and new construction in RAD projects and evaluating RAD leveraging metrics. In addition, we obtained HUD documentation to review the methodology used to calculate RAD leverage metrics. We also reviewed RAD documentation and selected conversion files. We randomly selected a nongeneralizable sample of files for converted properties (31 files closed as of July 19, 2017) that planned to incur construction costs (undergo rehabilitation or new

[4]The LIHTC program, established under the Tax Reform Act of 1986, is the largest source of federal assistance for developing affordable rental housing. LIHTC encourages private-equity investment in low-income rental housing through tax credits. The program is administered by the Internal Revenue Service (IRS) and allocating agencies, which are typically state or local finance agencies established to meet affordable housing needs of their jurisdictions. GAO, *Low-Income Housing Tax Credit: Actions Needed to Strengthen Oversight and Accountability*, GAO-17-784T (Washington, D.C.: Aug. 1, 2017).

construction). We reviewed published RAD evaluations and metrics. We interviewed PHAs at each of eight locations we visited and developers at five of those locations (some PHAs acted as the developer). We selected site visit locations to include a range of PHA sizes from small to large, and PHAs that proposed a range of construction costs for RAD conversion (from no construction costs to $594 million in construction costs). Using a nonprobability sample based on PHA size, RAD subsidy type, planned rehabilitation and resident relocation, number and size of RAD transactions, transaction closing dates, construction costs, and location we selected and spoke with an additional 10 PHAs by telephone about HUD postclosing monitoring. We also reviewed HUD's postclosing procedures and interviewed HUD officials about their processes.

To determine how RAD affected residents in converted units, we analyzed HUD public housing and Section 8 household data before and after conversion including demographic characteristics of residents and changes in rent, income, and household location. We determined that some statistics were sufficiently reliable for the purpose of describing some characteristics of RAD households, while others were not. We discuss our assessment of household data reliability later in this report. Further, for additional information on our data reliability assessment and determination see appendix I. To describe safeguards for residents, we reviewed legal requirements in HUD notices and HUD documentation on RAD monitoring and compliance procedures. We also reviewed selected conversion files to help determine how HUD implemented safeguards and interviewed HUD about its implementation of resident safeguards. Finally, we held focus groups with residents during our site visits to better understand any effects on their living conditions.

To determine challenges PHAs faced in implementing RAD, we reviewed HUD guidance and related documents for PHAs in the program. We also interviewed 8 PHAs during our site visits and spoke with another 10 PHAs by telephone about the benefits and challenges of participating in the RAD program.

To examine provisions designed to help preserve long-term affordability of units, we reviewed the RAD authorizing statute and amendments and HUD notices.[5] For a nongeneralizable sample of 31 randomly selected

[5]In 2011, Congress passed legislation including RAD. It has since been amended multiple times. It can be found as a note to 42 U.S.C. §1437f.

properties, we examined templates for contractual agreements for RAD closings and analyzed closing contracts to determine if agreements matched program requirements. We interviewed HUD staff and staff of 18 PHAs (8 site visit PHAs and 10 by teleconference) to obtain their views on the potential strengths or weaknesses of preservation provisions in the case of default or foreclosure.

We conducted this performance audit from February 2016 to February 2018 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 and signed into law by the President in November 2011 under the Consolidated and Further Continuing Appropriations Act, 2012 with amendments in 2014, 2015, 2016, and 2017.[6] The RAD program consists of two components. The first component of the RAD program—and the focus of our review—provides PHAs the opportunity to convert units subsidized under HUD's public housing program and owned by the PHAs to properties with long-term (typically, 15–20 years) project-based voucher (PBV) or project-based rental assistance (PBRA) contracts. These are two forms of Section 8 rental assistance that tie the assistance to the unit to provide subsidized housing to low-income residents.[7] In a RAD conversion, PHA-owned public housing properties can be owned by the PHA, transferred to new public or nonprofit owners, or transferred to private, for-profit owners

[6]Pub. L. No. 112-55, 125 Stat. 552, 673 (2011); Consolidated Appropriations Act, 2014, Pub. L. No. 113-76, § 239, 128 Stat. 5, 635 (2014); Consolidated and Further Continuing Appropriations Act, 2015, Pub. L. No. 113-235, § 234, 128 Stat. 2130, 2757 (2014); Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, § 237, 129 Stat. 2242, 2897 (2015); and Consolidated Appropriations Act, 2017, Pub. L. No. 115-31, § 239, 131 Stat. 135, 789 (2017).

[7]PBV contracts are between a PHA and the property owner, while PBRA contracts are between HUD and the property owner. HUD provides subsidies to PHAs to operate and maintain public housing units. The public housing, PBV, and PBRA programs serve eligible low-income families and individuals, including the elderly and persons with disabilities.

when necessary to access LIHTC financing, if the PHA preserves its interest in the property in a HUD-approved manner.[8] The second component of RAD converts privately owned properties with expiring subsidies under old rental assistance programs to PBV or PBRA in order to preserve affordability and encourage property rehabilitation.[9]

The goals of the RAD program include preserving the affordability of federally assisted rental properties and improving their physical and financial condition. Specifically, postconversion owners (PHAs, nonprofits, or for-profit entities) can leverage the subsidy payments under the newly converted contracts to raise capital through private debt and equity investments, or conventional private debt, to make improvements. The RAD program provides added flexibility for PHAs to access private and public funding sources to supplement public housing funding. These financing sources may include debt financing through public or private lenders; mortgage financing insured by FHA; PHA operating reserves; replacement housing factor funds; seller or take-back financing; deferred developer fees; equity investment generated by the availability of 4 percent and 9 percent LIHTC; or other private or philanthropic sources.[10]

PHAs also may pursue various options for their conversions, which often depend on property needs and available financing, including property rehabilitation or new construction. Additionally, PHAs may undertake conversion involving no property rehabilitation or new construction to meet certain financial goals or for future rehabilitation or new construction, as long as the PHA can demonstrate to HUD that the property does not need immediate rehabilitation and can be physically

[8]The LIHTC program encourages private-equity investment in low-income housing through tax credits and is administered by IRS and state or local housing finance agencies. Investors in projects that provide affordable housing can claim a tax credit. The 9 percent tax credit can be claimed for financing representing a 70 percent subsidy for new construction not receiving other federal subsidies, while the 4 percent credit can generally be claimed for financing representing a 30 percent subsidy for new construction or rehabilitation.

[9]GAO-14-402.

[10]Replacement Housing Factor grants consist of Capital Fund grants awarded to PHAs that have removed units from inventory for the sole purpose of developing new public housing units. Seller take-back financing typically consists of a PHA lending the value of the housing units conveyed to the ownership entity (a limited liability corporation) in the form of a note subordinated to any first-mortgage financing. Deferred developer fees consist of a PHA lending or contributing a portion of its developer fee back to the project to be repaid from available cash flow.

and financially maintained for the term of the Section 8 Housing Assistance Payment contract (HAP contract).

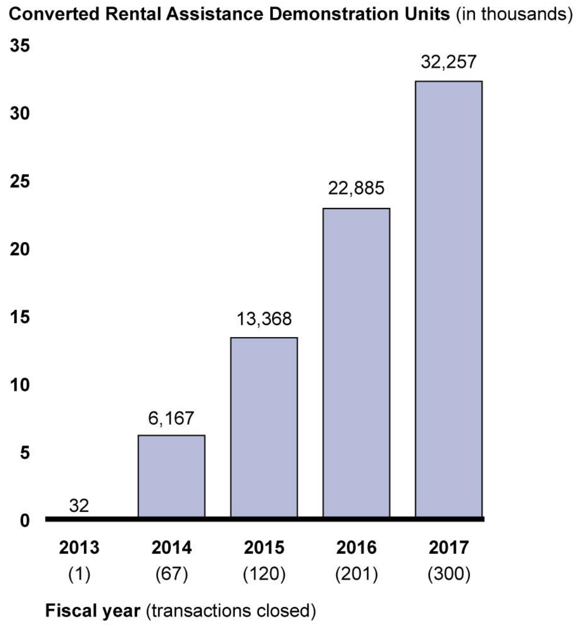
The RAD authorizing legislation and RAD Notice also specify requirements for ownership and control of converted properties. That is, converted properties must have public or nonprofit ownership or control, with limited exceptions. The RAD authorizing legislation, RAD Notice, HAP contracts, and RAD Use Agreement also establish procedures to help ensure that public housing remains a public asset should challenges arise, such as default, bankruptcy, or foreclosure.

Oversight of RAD conversion and properties is primarily divided among three HUD offices. The Office of Recapitalization is responsible for administering the conversion process but generally does not oversee converted properties. Before conversion, the Office of Public and Indian Housing oversees the properties. After conversion, oversight remains with Public and Indian Housing for properties that convert to PBV contracts and transfers to the Office of Multifamily Housing Programs for PBRA.[11]

The RAD program has been implemented and expanded in phases. Since its authorization, the RAD unit cap gradually increased from 60,000 units in 2011 to 225,000 units in May 2017. The RAD program is currently fully subscribed with all 225,000 units allocated. As of September 30, 2017, 689 conversions were closed that involved a total of 74,709 units (see fig. 1 for a breakdown by fiscal year). Additionally, 706 conversions involving 79,078 units were in the process of structuring conversion plans. The remaining conversions under the cap were allocated to specific properties and in the process of having commitments issued or reserved under multi-phase or portfolio awards, according to HUD officials.

[11]Other HUD offices may be involved in the conversion process including the Office of Fair Housing and Equal Opportunity, Office of Community Planning and Development, Office of General Counsel, or Federal Housing Administration.

Figure 1: Number of Transactions Closed and Converted Rental Assistance Demonstration Units by Fiscal Year



Source: GAO analysis of Department of Housing and Urban Development data. | GAO-18-123

RAD conversions begin with the submission of an application by PHAs after which they are notified of selection. The PHA is then required to submit a financing plan within 180 days or a later deadline based on the nature of the financing proposed.

A RAD conversion is considered closed when the HAP contract is signed and financial documents are executed. The properties are considered converted to Section 8 assisted housing on the effective date of the HAP, which is generally the first day of the following month. Once the RAD conversion is closed, the PHA or ownership entity can move forward with its submitted proposals or RAD-related rehabilitation or new construction and is responsible for complying with RAD requirements and associated contracts. In some cases, rehabilitation can take place in advance of conversion closing if public housing funds are being used.

Most RAD Conversions Involved Construction and Tax Credits, but HUD's Leveraging and Construction Metrics Are Limited

Most RAD Conversions Involved Property Rehabilitation or New Construction, and Financing Often Included Tax Credits

Most Conversions Involved Construction and Many Used Tax Credits

Most RAD conversions involved some type of construction. Our analysis of HUD data showed that as of September 30, 2017

- 417 of 689 closed conversions (61 percent) involved planned rehabilitation to the property, 86 (12 percent) new construction, and 186 (27 percent) no construction; and
- 361 of 706 active RAD conversions (51 percent) involved planned rehabilitation, 89 (13 percent) new construction, and 256 (36 percent) no construction.[12]

HUD officials stated that they approve conversions that involve no immediate planned rehabilitation or new construction as long as the property has no immediate needs to be addressed. Such conversions allow PHAs to better position themselves to access additional capital to address future rehabilitation or construction plans.

Our review of 31 conversion files also showed that the scope of proposed physical changes varied among RAD conversions. For properties that included scope of work narratives, physical changes included renovations to mitigate hazardous materials, aesthetic renovations, code and accessibility compliance, and construction of new buildings, among other changes.

[12]As discussed previously, a closed conversion is one in which financial documents and a contract for housing assistance payments have been signed or executed.

Financing for RAD conversions involved multiple public and private sources, but many conversions used LIHTC. Our analysis of HUD data showed that as of September 30, 2017, 173 of 689 closed RAD conversions (25 percent) utilized 4 percent LIHTC, 99 (14 percent) utilized 9-percent LIHTC, and 416 (60 percent) did not use LIHTC.[13] By dollar amount, major financing sources were 4 percent LIHTC at $2.4 billion; new first mortgages at $1.8 billion; and 9 percent LIHTC at $1.1 billion.

Construction costs constituted the highest-dollar use of financing for RAD conversions, but not all conversions incurred construction costs, as discussed earlier.[14] On average, construction costs per closed conversion were $6.4 million (ranging from no construction costs to $236 million) and nearly $60,000 per-unit converted to RAD. Construction costs represented the highest-dollar use of financing for closed RAD conversions at $4.4 billion followed by building and land acquisition costs, and developer fees. For more information on financing sources and uses, see appendix II.

Stakeholders Cited Various Factors Influencing Financing for RAD Conversions

PHA officials and developers we interviewed cited various factors that influence financing sources needed for RAD conversions. For example, property needs assessments help establish the level of rehabilitation or new construction that would address the capital needs of the property. In turn, needs assessments can derive from physical assessment results and incorporate federal, state, or local compliance requirements. For instance, rehabilitation or construction would need to address the accessibility requirements of the Americans with Disabilities Act and local building codes, among other requirements.

PHA officials and developers we interviewed also said they had to consider competition or access to financing for RAD conversions. For example, PHAs noted that tax credit applications and other financing had

[13]As noted earlier, the LIHTC program encourages private-equity investment in low-income housing through tax credits. The 9 percent tax credit can be claimed for financing representing a 70 percent subsidy for new construction not receiving other federal subsidies, while the 4 percent credit generally can be claimed for financing representing a 30 percent subsidy for new construction or acquisition cost of existing buildings.

[14]Construction costs include planned rehabilitation or new construction.

to be competitive. Some PHAs we interviewed also noted that while the 9 percent LIHTC provides more equity to finance low-income units (finances 70 percent of the costs of the units), there is more competition for the 9 percent LIHTC, while the 4 percent LIHTC can be automatically awarded for certain deals involving tax exempt bonds and federally subsidized projects. Thus, while some PHAs and developers might prefer to obtain 9 percent LIHTC, they often apply for 4 percent LIHTC to increase the chances of obtaining some tax credit equity. For example, one particular PHA that had used both 4 percent and 9 percent LIHTCs noted that in one transaction it had to compete against 74 applicants for 25 available awards of 9 percent credits.

HUD's Metric for Financial Outcomes—the RAD Leverage Ratio—May Not Be Accurately Calculated, Partly because Final (Postcompletion) Financial Information Is Not Used

The RAD Leverage Ratio Does Not Reflect the Amount of Private-Sector Leveraging

The RAD authorizing statute requires HUD to assess and publish findings regarding the amount of private capital leveraged as a result RAD conversions. A leverage ratio relates the dollars other sources provide to the dollars a program provides to an institution or a project. HUD uses various quantitative, qualitative, and processing and efficiency metrics to measure conversion outcomes. To meet the RAD statutory requirement, HUD published an overall RAD leverage ratio that has fluctuated between 19:1 and 9:1 since 2014.[15] HUD's most recent leverage ratio in fiscal year

[15]HUD's Office of Policy Development and Research (PD&R) has an ongoing RAD evaluation to assess the preservation of affordable housing, the amount of private capital leveraged as a result of RAD conversion, and the effect of RAD conversion on unit residents and contracted with Econometrica, Inc. for the analysis and reporting. U.S. Department of Housing and Urban Development, *Status of HUD's Rental Assistance Demonstration (RAD) Evaluation and Results to Date* (Washington, D.C.: Sept. 30, 2014).

2017 was 19:1, nearly double what the agency reported the prior year.[16] We asked HUD officials why the leverage ratio nearly doubled between 2016 and 2017 and received conflicting information during the course of our audit.

- Initially, officials noted that the ratio was intended to replicate the methodology used by PD&R in its September 2016 report.
- Subsequently, the officials clarified that they did not follow PD&R's methodology for categorizing financial source data. Specifically, officials did not review or make manual adjustments to the financial data PHAs entered in open source fields to ensure sources actually represented public, private, or other funding categories when calculating the leverage ratio.
- Finally, they noted that they disagreed with the methodology used in the PD&R September 2016 report and stated that there are various ways to calculate leverage. For the purposes of announcing the most recent leverage ratio in 2017, HUD officials decided that a leverage ratio comparing federally appropriated public housing resources would reflect the amount of financing leveraged had RAD not existed.[17]

[16]In September 2014, PD&R published a RAD report, researched and written by an independent contractor, which found a leverage ratio of 19:1 (investment capital for every dollar of public housing funds used). The overall leverage ratio was calculated by dividing total non-HUD funds by total HUD funds for 323 awarded RAD projects (both active and closed): $3.7 billion in non-HUD funds and $189 million in public housing funds. Within the 323 awarded RAD projects, the report compared the proposed and actual financing sources and construction costs of 51 closed conversions. With proposed financing, the leverage ratio for the 51 closed conversions was 8.83:1, and with the actual financing, the leverage ratio was 9.20:1. U.S. Department of Housing and Urban Development, *Status of HUD's Rental Assistance Demonstration (RAD) Evaluation and Results to Date* (Washington, D.C.: Sept. 30, 2014). In September 2016, PD&R published an interim report that found RAD had yielded almost a 9:1 leverage for 185 closed properties. The report identified $2.5 billion in total financing, of which $250 million came from public housing authority funds for the 185 closed conversions. U.S. Department of Housing and Urban Development, *Interim Report Evaluation of HUD's Rental Assistance Demonstration*, (Washington, D.C.: September 2016). During fiscal year 2017, HUD reported a leverage ratio of 19:1. U.S Department of Housing and Urban Development, "Rental Assistance Demonstration Generates $4 Billion in Public-Private Investment in Distressed Public Housing," press release no. 17-033 (Washington, D.C.: May 11, 2017).

[17]During fiscal year 2017, HUD issued a press release announcing that RAD generated $4 billion in public-private investment, leveraging $19 in private investment for every taxpayer dollar in public housing funds. U.S Department of Housing and Urban Development, "Rental Assistance Demonstration Generates $4 Billion in Public-Private Investment in Distressed Public Housing," press release no. 17-033 (Washington, D.C.: May 11, 2017).

We found, and officials from HUD acknowledged, three limitations to the RAD leverage calculation. First, HUD generally had data on funding sources and amounts a RAD conversion proposed to use (at the time of its application to HUD and at the time of closing of construction financing) rather than data after construction is completed on funding sources and amounts. HUD officials stated that they were reviewing final closing packages to confirm that the data reflect the latest reported information on sources and uses of funds for each conversion at closing. However, sources and uses of funds and amounts at the time the RAD conversion is closed may differ from amounts upon completion of construction. In October 2017, HUD implemented procedures to verify completion of planned construction activities and costs, which we discuss later in this report.

Second, HUD's leverage ratio, published in 2017, did not manually adjust funding source data to accurately account for all sources in calculating the leverage ratio for RAD.[18] Specifically, HUD did not isolate funding sources that were federally appropriated, contributed by the PHA, or contributed by state or local municipalities to calculate leverage. For example, among approximately $2 billion from other financial sources, HUD included Moving to Work (MTW) funding (which may include public housing capital funds, public housing operating funds, and voucher funds) and tax credit equity as leveraged sources. However, these are not necessarily private sources, which we explain later in this report.[19] As a result, HUD's current calculation does not reflect the amount of private-sector leveraging. HUD calculated and published a RAD leverage ratio in May of 2017 using the following formula:

[18]In HUD's September 2016 interim report, Econometrica noted that HUD's reported data on closed transactions do not provide detailed descriptions of "other sources", abbreviated descriptions were provided in the form of notes that are not always clear or consistent, and data required crosswalks between applications and closed transactions to develop estimates for the allocation of other sources across their four categories (PHA funds, additional third-party loans, seller or take-back financing, and other sources). U.S. Department of Housing and Urban Development, *Interim Report Evaluation of HUD's Rental Assistance Demonstration*, (Washington, D.C.: September 2016).

[19]HUD's Moving to Work demonstration program gives participating PHAs the flexibility to design and test innovative strategies for providing and administering housing assistance in their communities. To implement such strategies, participating agencies may request waivers of certain provisions in the United States Housing Act of 1937, as amended. 42 U.S.C. § 1437 et seq. For example, agencies may request to waive certain provisions in order to combine the funding they are awarded annually from different programs into a single, authority-wide funding source.

$$\text{Total leverage ratio} = \frac{\text{(total dollars from all sources – public housing dollars)}}{\text{public housing dollars}}$$

To calculate the RAD leverage ratio, HUD uses some but not all financial source data it collects (see app. II for a list of data fields collected by HUD). For example, HUD mistakenly excluded data that capture private funds, reducing the amount of total sources in the numerator. HUD calculates "public housing dollars" by adding data that capture replacement factor funds, public housing operating reserve funds, and prior-year public housing capital funds. HUD considers tax credit equity, new first mortgages, and "other funding" data to be non-public housing dollars (see app. II for a list of fields in HUD's calculation). PHAs enter a description and amount for other funding sources in "other funding" data fields (see app. II). For example, a PHA may enter a federal financial source in one of the open-entry "other funding" data fields, requiring a manual adjustment to properly account for the financial source. [20] According to HUD, additional fields were included in mid-2016 to better differentiate certain sources such as from the HOME Investment Partnerships Program (HOME) and seller take-back financing. Prior to this point, these financial sources were placed into "other" fields, and the standard resource desk report had not been updated until mid-2017 to include all of these fields.[21]

Third, HUD does not categorize and report its leveraging by private and public sources. According to HUD officials, informative leverage methodologies could calculate the ratio based on the leveraging of public housing program funds, the leveraging of all federally appropriated funds,

[20]Econometrica noted that HUD's reported data on closed transactions do not provide detailed descriptions of "other sources." Abbreviated descriptions are available from RAD applications, but they are not always clear or consistent, and applications show proposed financing sources and amounts that may not accurately represent the financial structure finalized at closing. U.S. Department of Housing and Urban Development, *Interim Report Evaluation of HUD's Rental Assistance Demonstration*, (Washington, D.C.: September 2016).

[21]The RAD Resource Desk, an Internet portal, is accessible to the public, HUD employees, and PHA staff. It serves as a comprehensive database that includes all published guidance on RAD and also serves as the main portal for PHAs to ask questions, search for information and forms, upload documents, and track their progress toward closing. The database does not contain a variable to indicate that rehabilitation was planned for a converted property but instead includes construction costs planned by the property and a variable indicating whether new construction was planned. We inferred that when construction costs were listed and no new construction was listed, the property planned rehabilitation. We verified the accuracy of this inference with staff from HUD.

or the leveraging of PHA funds (i.e., sources in the transaction that have come from the PHA itself even if not federally appropriated through the public housing program), among other methodologies. The RAD authorizing statute requires HUD to assess and publish findings on the amount of private-sector leveraging. In addition, *Standards for Internal Control in the Federal Government* require agencies to communicate quality information with external parties, such as other government entities, to make informed decisions and evaluate the entity's performance in achieving key objectives.[22]

HUD also does not use final (postcompletion) funding data in another metric of RAD leveraging. Specifically, in June 2017 HUD publicly reported that RAD "has leveraged more than $4 billion in capital investment in order to make critical repairs and improvements."[23] HUD calculates this figure by summing the construction costs—a subcomponent of total costs—with data from the time a conversion closes and not upon completion of construction.[24] HUD officials we spoke with clarified that this metric solely reports construction investments and does not reflect any conclusion regarding private leverage of public funds. But, HUD publically characterized this measure in different ways, including as the amount of "public-private investment in distressed public housing," the amount of "construction achieved under RAD," and the amount of "new private and public funds leveraged by RAD."[25]

HUD's 2016 interim report calculated and published multiple leverage ratios, but chose to highlight a RAD leverage ratio that is consistent with ratios used for other HUD programs. However, the ratio does not specifically follow the prescribed ratio language in the authorizing statute because the report states that the ratio represents the amount of private and public external sources invested for every dollar invested by PHAs

[22]GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington, D.C.: Sept. 10, 2014).

[23]House Appropriations Committee, Subcommittee on Transportation, Housing and Urban Development, and Related Agencies, 115th Cong., 1st sess. (June 8, 2017); testimony by Secretary Ben Carson, Department of Housing and Urban Development.

[24]Construction costs refer to projected costs at the time of the construction financing closing, as submitted by PHAs in the RAD resource desk.

[25]Department of Housing and Urban Development, "Rental Assistance Demonstration Generates $4 Billion in Public-Private Investment in Distressed Public Housing," press release no. 17-033 (Washington, D.C.: May 11, 2017).

but the statutory language only discusses private-sector leveraging.[26] Officials further noted that the statute does not require a particular methodology and HUD relies on PD&R—and its independent contractor—to determine the appropriate methodology for purposes of compliance with the statute. Lastly, the statute does not preclude the use of other leverage metrics for other purposes, such as using the ratio to measure the amount of nonpublic housing funds leveraged in RAD transactions that would not be available to the property absent RAD. As a result, HUD's leverage metrics announced in May 2017 do not accurately reflect the amount of private-sector leveraging achieved through RAD, do include public funding as private sources, and inconsistently measured sources that were federally appropriated or contributed by PHAs, potentially under- or over-reporting the program's performance. Additionally, in October 2017, HUD began implementing procedures to collect data after construction is completed and is not yet able to calculate a leverage metric using final (postcompletion) financial sources rather than the financial sources collected at closing. The lack of a consistent metric for private leveraging could also lead to inconsistent reporting of the leverage ratio, as has occurred in prior years.

Recalculations, Including of Funding Sources, Can Increase Accuracy of the RAD Leverage Ratio

We recalculated RAD leverage ratios in a number of different ways, including to correct errors we identified during our review. For example, HUD's 2016 interim report noted that data on closed transactions do not provide detailed description of "other sources," requiring a crosswalk between applications and closed transactions to develop estimates for the allocation of "other sources" across financial source categories. Abbreviated descriptions are provided in the form of notes that are not always clear and consistent; therefore public housing sources may include federally appropriated sources, as well state, city, or county sources. Through our estimates, we found that the overall leverage ratio could range from 7.44:1 for a ratio recalculating HUD's leverage ratio to 1.23:1 for a ratio estimating private-sector leveraging.

[26]HUD's September 2016 interim report states that for 185 closed RAD public housing transaction in the study, PHAs contributed $250 million and raised an additional $2,227 million in external funds, for an overall adjusted leverage ratio of 8.91:1. This ratio means that for every $1 invested by the PHAs in their RAD projects, private and public external sources invested an additional $8.91. U.S. Department of Housing and Urban Development, *Interim Report Evaluation of HUD's Rental Assistance Demonstration*, (Washington, D.C.: September 2016).

Figure 2: HUD-Reported 2017 Leverage Ratio and GAO-Adjusted Leverage Ratio Estimates for RAD Using Recategorized Financial Sources, as of June 2017

Rental Assistance Demonstration (RAD) leverage ratio source	Description	Leverage ratio
2017 HUD-reported	Leverage ratio of funds generated for every $1 in public housing funds	$19 to $1
GAO-adjusted estimates	Recalculation using HUD's methodology and recategorized financial source data	$7.44 to $1
	Recalculation of nonfederal financial sources to PHA financial sources	$1.43 to $1
	Recalculation of private financial sources to PHA financial sources	$1.23 to $1

Sources: Department of Housing and Urban Development (HUD); GAO analysis. | GAO-18-123

- **Recalculation with HUD methodology and financial source recategorization.** As discussed previously, HUD's methodology does not account for all financial data collected by HUD and includes "other" funding sources erroneously considered as leveraged funds. Thus, we manually adjusted RAD funding source data and found that nearly $1.2 billion were erroneously considered leveraged funds because they are not private funds. For example, HUD included MTW funds; public housing operating reserves; public housing capital funds; replacement housing factor funds; other federal funds; other state, local, or county funds; and take-back financing funds as leveraged financial sources. For more information, see appendix II.

We obtained documentation from HUD to replicate their methodology and recategorized financial sources that corrected errors in the data, and found that the RAD leverage ratio was less than half of HUD's most recently publicly reported leverage ratio (19:1), approximately 7.44:1 (see app. II).[27]

[27]As noted earlier, abbreviated descriptions are not always clear or consistent. PHA sources may be federally appropriated; come from state, local, or county sources; or may be from other income-generating lines of business used to support their affordable housing missions. To properly account for PHA sources, we created the category "Other PHA Sources" which captures sources attributable to a PHA that were considered leveraged by HUD in the "other" fields.

- **Recalculation to exclude LIHTC and other federal sources.** We previously reported that LIHTCs are considered a federal source because tax credit equity represents foregone federal tax revenue and, therefore, are a direct cost to the government.[28] Accordingly, we recalculated the RAD leverage ratio by excluding all federal funding sources and obtained a ratio of approximately 1.43:1 (see app. II).
- **Recalculation of private-sector leveraging.** Lastly, the RAD authorizing statute requires HUD to assess and publish findings on the amount of private-sector leveraging, but HUD's current calculation does not present the amount of private-sector leveraging and does not include all available data (for example, the "Other Private" funds collected by HUD). We estimated the amount of private-sector leveraging by grouping public housing sources, other public sources, and private sources, resulting in a leverage ratio of approximately 1.23:1 (see app. II).

HUD Implemented Procedures to Verify Completion of Planned Construction Activities and Costs in October 2017, but Does Not Collect Final Comprehensive Financial Data

In October 2017, HUD implemented procedures to certify completion after developers finish RAD-approved rehabilitation or construction. Previously, HUD had a limited ability to monitor and evaluate final (postcompletion) physical and financial changes in RAD projects with existing data. According to HUD officials, HUD did not implement completion certification procedures before October 2017 because it had been addressing what it considered to be the highest risks first (such as clarifying requirements for RAD participants, resident safeguards, and other procedural and administrative requirements).

HUD's October 2017 completion certification procedures include instructions for owners to report final construction costs and documentation on completion of repairs or construction within 45 days of the completion date recorded in the RAD Conversion Commitment. More

[28]The LIHTC program will represent an estimated $8.5 billion in foregone revenue in 2017. GAO, *Low-Income Housing Tax Credit: Actions Needed to Strengthen Oversight and Accountability*, GAO-17-784T (Washington, D.C.: Aug. 1, 2017), and *Leveraging Federal Funds for Housing, Community, and Economic Development,* GAO-07-768R (Washington, D.C.: May 25, 2007).

specifically, HUD requires owners to list a final construction cost amount—a subcomponent of total costs—in the RAD resource desk, describe variances from the approved construction cost amount in a comment box, and describe how increases in costs were addressed. Additionally, a third-party must certify that the repairs in the scope of work were completed by providing an attestation to HUD.

However, HUD's procedures do not require documentation from the owners to support the final total cost figures, which include not only construction costs but also building and land acquisition costs, and developer fees, among others as noted earlier in this report. These procedures also do not require a certification from owners on all financing sources and costs recorded in the RAD Conversion Commitment.[29]

Standards for Internal Control in the Federal Government require that management implement control activities through documented policies and procedures to provide reasonable assurance that the objectives of the agency will be achieved, and also communicate quality information with external parties to make informed decisions and evaluate the entity's performance in achieving key objectives.[30]

While HUD now has certification completion procedures in place, this process provides the agency limited financial information from owners. As a result, HUD is unable to report metrics that reflect final (postcompletion) RAD financial outcomes after construction is completed. Furthermore, HUD is limited in its ability to effectively oversee conversion budget and cost variances, and expenditures that require HUD approval. Lastly, the RAD authorizing statute requires that the Secretary of HUD demonstrate the feasibility of the RAD conversion model to recapitalize and operate public housing properties under various situations and by leveraging other sources of funding to recapitalize properties. Without metrics that reflect the final (postcompletion) financial outcomes of RAD after construction is completed, HUD and congressional decisionmakers are unable to make informed decisions concerning the RAD program.

[29]A third-party completion certification is only required if the repairs exceeded $2,000 per unit.

[30]GA0-14-704G.

HUD Has Not Systematically Analyzed Household-Level Data on Residents in RAD Conversions or Monitored Implementation of Some Resident Safeguards

HUD has not systematically tracked or analyzed household data on residents in RAD-converted units that are available from its public housing or Section 8 databases or from PHAs or other postconversion owners—the main sources of resident data for the RAD program. In addition, HUD has not yet developed monitoring procedures for all the resident safeguards in the RAD program. Finally, residents told us of some concerns about information they received on RAD conversions, communications opportunities, and the relocation process.

HUD Has Not Systematically Analyzed Household-Level Data on the Effects of RAD Conversion on Residents

HUD officials told us that the agency does not systematically track or analyze household-level data on residents in RAD-converted units across existing program databases (HUD maintains household data for the public housing and Section 8 rental assistance programs in two databases). In particular, HUD does not track changes in household characteristics before and after conversion, such as changes in rent, as well as relocations or displacement of individual households.

However, according to HUD officials, their databases are not designed to track the impact of RAD conversion on residents and they are unable to electronically link household information submitted before RAD conversion to information submitted after conversion. Once a property is converted, the property and corresponding household information are removed from the public housing database. Owners of converted properties are to use software to manually enter household information into the databases for the Section 8 program when submitting tenant certifications and information for assistance payments.[31] This procedure is the standard for administration of all project-based Section 8 properties. HUD officials stated that they have explored the possibility of transferring household data from one system to another at the time of a property's conversion.

While HUD has not systematically analyzed household information from its public housing and Section 8 databases, we were able to perform a limited analysis. We requested and received data from HUD on the households affected by RAD.[32] Using the data provided that were current as of June 2017, we were able to identify about 26,000 households that lived in units that were converted to a PBV subsidy, but we were unable to identify the total number of households converted to a PBRA subsidy.[33] Based on our analysis of 26,000 PBV households, we found

- about 2,700 (about 11 percent of) households were headed by an elderly individual;
- about 6,800 (about 26 percent of) households were headed by an individual with a disability;
- about 2,700 households (about 10 percent of) households were headed by an elderly person who also had a disability;
- over half (about 14,000 or 54 percent) of the households were headed by an individual identified as black; close to 11,000 households (about 41 percent) were identified as white; and about 1,000 households (about 4 percent) were identified as Asian. Close to 3,100 households (about 12 percent) were headed by an individual identified as Hispanic;
- about half (about 49 percent) of the PBV households were single-person households;

[31]Data on public housing households are maintained in the Inventory Management System/Public and Indian Housing Information Center (IMS/PIC). Once a property is converted through RAD, the property is removed from IMS/PIC and household data are decoupled from the property. After RAD conversion, household information is submitted again into IMS/PIC for PBV conversions, or into a separate system—the Tenant Rental Assistance Certification System—for PBRA conversions.

[32]HUD compiled and provided custom extracts of data from data systems used for the public housing and Section 8 program.

[33]For more information on the limitations in the PBRA household data, see appendix I.

- the median annual income of PBV households both before and after RAD conversion was about $10,000; and
- about 5,300 (about 20 percent) of households were paying a flat rent rather than income-based rent before RAD conversion.[34]

However, the data on PBV households were not comprehensive. For example, while about 10,000 residents (about 57 percent) experienced a rent increase following RAD conversion under PBV, we could not determine if the rent increase was the result of an increase in resident income. We also could not determine changes in location among the PBV households following RAD conversion.

Rather than relying on the public housing and Section 8 databases for tracking household information during conversion, HUD officials indicated that the agency will rely on locally maintained resident logs, which contain household information collected by property owners, as the starting point when HUD determines a compliance review is warranted. The logs will be the primary way the agency collects household information for compliance reviews under the RAD program, according to HUD officials. In November 2016, HUD issued a notice, which requires the PHA or other postconversion owner to maintain a log about every household at a converting project, including information on race and ethnicity, household size, and disability.[35] The notice also requires owners to track residence status throughout the relocation process, including whether the resident has returned, moved elsewhere, was permanently relocated or evicted; relocation dates; and details on any temporary housing and moving assistance provided. Owners are required to make the information available to HUD upon request for audits and other purposes. According to HUD officials, the agency expects the information in the resident logs to be more robust than what they would collect through the public housing

[34]The household counts and percentages included for each of the bulleted characteristics are not necessarily mutually exclusive. For example, a household can be both elderly and a single-person. However, the counts and percentages for elderly, disabled, and combined elderly-disabled households are mutually exclusive. Additionally, because heads of households could identify with more than one racial or ethnic category percentages can add to more than 100.

[35]Department of Housing and Urban Development, *Rental Assistance Demonstration (RAD) Notice Regarding Fair Housing and Civil Rights Requirements and Relocation Requirements Applicable to RAD First Component–Public Housing Conversions*, Notice H 2016-17/PIH 2016-17 HA (Washington, D.C.: Nov. 10, 2016).

and Section 8 databases, which do not track residents while they are relocated.

HUD officials stated that the agency plans to review selected resident logs as part of an ongoing limited compliance review of about 90 RAD conversion projects. HUD officials told us they are developing procedures for performing compliance reviews—such as developing a mechanism to review a sample of logs on a periodic basis—but they have not yet done so because they have been focusing on developing procedures for activities that present a high risk to the program as described in the following section. HUD has not established a time frame for developing these procedures. However, HUD officials indicated that they plan to select resident logs for review based on risk of noncompliance and do not plan to analyze program-wide information currently collected in the public housing and Section 8 databases for program monitoring. HUD officials also noted that that PD&R is planning to track a sample of residents through its evaluation of the program, which we previously mentioned.

While HUD has decided to rely on resident logs because of the difficulty of tracking household information across its program databases, using resident logs to assess the effects of the RAD program on residents has limitations. While the resident logs would contain detailed household information, they were not required prior to November 2016 and may not contain information on households converted before that date (RAD conversions started in 2013). HUD's public housing and Section 8 databases contain information on such households. Second, as previously mentioned, HUD plans to review resident logs only when there is a risk of noncompliance, but they collect household information in their databases on a rolling basis. *Standards for Internal Control in the Federal Government* require agencies to use quality information to achieve their objectives, and obtain and evaluate relevant and reliable data in a timely manner for use in effective monitoring.[36]

Without a comprehensive review of household information—one based on information in HUD data systems as well as resident logs—HUD cannot reasonably assess the effects of ongoing and completed RAD conversions on residents and compliance with resident safeguards, as discussed in the next section.

[36] GAO-14-704G.

HUD Has Been Developing Procedures to Monitor Some RAD Resident Safeguards

HUD has not yet developed monitoring procedures for certain resident safeguards under the RAD program. RAD requirements include those intended to ensure that residents whose units are converted through RAD

- are informed about the conversion process;
- can continue to live in a converted property following RAD conversion;
- are afforded certain protections carried over from the public housing program; and
- are afforded a phase-in of any rent increases under Section 8 program requirements.

Currently, based on HUD notice requirements, PHAs must document compliance with three safeguards (PHA plan amendments, resident notification, and procedural rights) in their RAD application and other conversion paperwork.[37] For example, PHAs must submit comprehensive written responses to resident comments received in connection with the required resident meetings with their RAD application. For one safeguard, PHAs are not required to report to HUD but must retain documentation of compliance to be made available to HUD as part of the monitoring for the program. For others, the HUD notice does not specify reporting and monitoring requirements.

Based on our review of files for selected conversions, which we previously discussed, we found PHAs generally submitted documentation of their efforts to inform residents about RAD conversion, such as providing evidence to HUD of meetings with residents and written responses to resident questions as required. However, the specific documents for these requirements were not available from HUD in all cases. HUD's review of amendments to PHA plans was documented in all but one of the conversions we reviewed. Documentation requirements for resident relocations have changed since RAD was introduced, which made the documentation more difficult to assess.

HUD developed and started implementing procedures in October 2017 that require owners to certify and provide data supporting compliance with

[37]See appendix III for reporting and monitoring requirements for resident safeguards.

the resident right-to-return requirements. For example, owners must certify the number of residents who exercised their right to return to a converted property compared with the number of residents who did not return. HUD is also developing standard operating procedures to review each conversion for compliance with RAD relocation provisions. Specifically, the procedures would describe the review steps required at different stages of the conversion process, a process for identifying risks, and how to address instances of noncompliance with RAD requirements. Additionally, HUD noted that they have 2 compliance reviews under way including 1 involving a set of HUD requirements that affect relocations of more than 1 year and the limited compliance review of 90 projects that we previously described.[38]

HUD officials noted that they are developing additional guidance in other areas. First, HUD officials indicated that as part of an overall update of RAD standard operating procedures, they are developing additional protocols on resident notification and how residents' comments are addressed through conversion planning. Second, the agency had not been consistently collecting required documentation on "house rules," which describe the conditions and procedures for evicting residents and terminating assistance at RAD PBRA properties, so it has developed and implemented additional legal review procedures as part of the implementation of RAD resident eviction and grievance procedural rights requirements. According to HUD officials, they have been focusing primarily on right-to-return and relocation requirements because they represent areas of highest risk.

HUD has not developed separate monitoring procedures for other resident safeguards—the phase-in of tenant rent increases, resident representation through tenant organizations, and choice mobility requirements. However, HUD officials told us that they plan to assess how administrative data can be used to monitor choice mobility as part of the planning for a separate PD&R evaluation of this safeguard. HUD officials also indicated that there are procedures for residents to report complaints to HUD if resident representation and organization requirements are not met. *Standards for Internal Control in the Federal*

[38]The Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 establishes minimum standards for programs or projects receiving federal financial assistance that include the acquisition of real property (real estate), displace persons from their homes, businesses, or farms, or both. PBV and PBRA are considered federal financial assistance for purposes of the act.

Government require agencies to implement control activities through documented policies and procedures to provide reasonable assurance that agency objectives will be achieved. These standards also require agencies to design procedures to achieve goals and objectives, and identify, analyze, and respond to risks related to achieving the defined objectives.[39] Table 1 includes a description and information on implementation of resident safeguards that most directly affect residents' experience with the conversion process and ability to live at the property following conversion. Appendix III describes these and other RAD resident safeguards.

Table 1: Description and Implementation of Selected Rental Assistance Demonstration (RAD) Resident Safeguards

Description of resident safeguard	Extent of development of additional reporting and monitoring procedures outside of HUD notices
Notifying residents of RAD conversion Public Housing Agency (PHA) must inform residents of proposed conversion changes through written notices and meetings and provide written responses to resident questions.	under development but not implemented;
No rescreening of residents for income eligibility Residents cannot be excluded from living at the converted project based on income eligibility or other re-screening.	under development but not implemented;
Resident right to return Any resident who may need to be temporarily relocated to facilitate rehabilitation or construction has a right to return to an assisted unit at the converted project once rehabilitation or construction is completed.	under development but not implemented;
Phase-in of tenant rent increases Rent increases over a certain threshold will be phased in over 3 or 5 years, particularly for those residents who move from a flat (fixed) public housing rent structure to an income-based one following RAD conversion.	not developed;
Inclusion of RAD conversion in PHA plans with consultation from the resident advisory board PHAs must include an amendment describing the conversion of assistance under RAD in their 5-year, annual, or Moving to Work plans with consultation from the PHA's resident advisory board. Any substantial change to the conversion plan, such as changes in the number of assisted units, is required to undergo the significant amendment process or other Department of Housing and Urban Development (HUD) review.	implemented
Continued recognition of and funding for residents organizations Residents have the right to establish and operate a resident organization and are eligible for resident participation funding. This is a protection carried over from the public housing program and is not typically available to Section 8 residents.	under development but not implemented;

[39]GA0-14-704G.

Description of resident safeguard	Extent of development of additional reporting and monitoring procedures outside of HUD notices
Resident eviction and grievance procedural rights Converted project owners (either the PHA-controlled or other entity that takes ownership control following RAD conversion) are required to establish termination (eviction) and grievance procedures that are more in line with public housing requirements, which are more formal than Section 8 requirements.	implemented
Choice mobility options for residents Residents have the option to receive a voucher, or other tenant-based rental assistance, which can be used at a different property after 1 or 2 years of living in the converted property.	not developed;

Legend:

○ = Additional reporting and monitoring procedures not developed;

◐ = Additional reporting and monitoring procedures are under development but not implemented;

● = Additional reporting and monitoring procedures developed and implemented.

Source: GAO analysis of Department of Housing and Urban Development requirements for the RAD program. | GAO-18-123

HUD officials indicated that the safeguards for the phase-in of tenant rent increases, resident representation, procedural rights, and choice mobility presented a lower risk than the right-to-return requirements, so they were a lower priority, and in some cases were addressed through general monitoring of the Section 8 program. For choice mobility options, HUD indicated that its data systems are not designed to track whether residents are able to exercise these options, such as tracking whether residents left a property to exercise choice mobility or for other reasons.

All but two of the resident safeguards do not take effect until after a property has been converted and is part of the Section 8 program. For example, residents are only eligible to use vouchers through choice mobility after they have lived in the converted property for 1 or 2 years depending on the assistance contract involved (PBV or PBRA). Moreover, certain RAD safeguards are not typically available for Section 8 residents. For example, RAD establishes resident representation provisions and procedural rights that are more in line with public housing rather than Section 8 requirements. While HUD has indicated that the Section 8 program has experience administering different types of assistance contracts, RAD nonetheless creates separate requirements for certain provisions from the public housing and Section 8 programs.

As previously mentioned, RAD conversions have been completed at an increasing pace in the last 5 years. However, because HUD has not yet developed separate monitoring procedures for certain requirements—the phase-in of tenant rent increases, resident representation through tenant organizations, and choice mobility requirements, many of which take effect after a conversion—and without using all available household data, the agency will not be able to reasonably ensure that these safeguards were implemented.

Residents Described Mixed Experiences during the RAD Conversion Process

Residents who participated in our focus groups expressed some concerns about information they received on RAD conversions, communications opportunities, and the relocation process.[40] Residents indicated that they were notified about RAD conversion in a variety of ways. Residents in 5 of 14 focus groups found the information presented to them on RAD to be helpful. Residents in 7 of 14 focus groups indicated that the information they received was not helpful. Across these focus groups, a range of concerns was expressed, including that the information provided was not always clear or reflective of the final changes resulting from RAD conversion, and that the PHA and management were not always forthcoming with information about the RAD changes.

Residents in some focus groups also indicated that they were not involved in the RAD conversion. Residents in 5 of 14 groups indicated that they were not given the opportunity to provide input into the RAD changes, while residents in 6 of 14 groups indicated that their concerns were not addressed and their suggestions were not incorporated.

Residents also described problems with relocations. Some of the concerns expressed by resident focus groups on relocation related to the location of the temporary units (3 of 14 focus groups), the timing of relocation or amount of notice given (7 of 14 focus groups), and moving issues (such as items damaged during moves).

Residents were asked to describe ways in which RAD conversion improved or harmed their living conditions. Residents in several focus groups indicated that RAD improved their living conditions, including both the condition (7 of 14 focus groups) and appearance of their units or the

[40]We held a total of 14 focus group interviews with residents of the converted properties at eight locations (two focus groups per location except in Alameda County, California, and Tacoma, Washington, where we held one focus group). Each focus group had 6-15 participants.

property in which they lived (6 of 14 focus groups). Some of the changes residents liked included the installation of new appliances, mold and pest removal, and safety and energy efficiency improvements. However, residents in several of the focus groups identified problems with their living conditions following RAD conversion. The problems residents identified included security concerns (10 of 14 focus groups); renovations that were of poor quality (6 of 14 focus groups); and other problems with the units (10 of 14 focus groups), such as pest problems; decreased amenities (8 of 14 focus groups), such as the removal of common areas or in-unit washing machines; and issues with property management (11 of 14 focus groups). For example, in several instances, residents stated that new managers or owners in place following RAD conversion were not responsive to their needs or concerns.

During our site visits, residents described other experiences with RAD conversion. Residents in all of the groups identified being notified about RAD. Residents in 9 of 14 focus groups indicated that their rent was the same following RAD conversion. Residents in a few focus groups indicated that their rent had increased because of changes in their income or conversion from a flat rent. However, residents in a few focus groups experienced challenges in how their income was certified for the purpose of calculating rents, such as problems with requests for information (2 of 14 focus groups) and other issues with the process (4 of 14 focus groups). For example, residents reported having to provide the same paperwork multiple times. No instances in which residents were permanently involuntarily displaced were reported. One resident organization expressed concerns about fewer eviction protections and resident representation after RAD conversion.

PHAs Identified Benefits and Challenges of RAD Participation

We spoke with 18 PHAs, some of which cited benefits as well as several challenges of RAD participation and some noted HUD responsiveness to their circumstances and concerns. According to many of the PHAs we spoke with, benefits of participating in the RAD program included reducing administrative requirements in Section 8 programs and opening avenues for additional sources of funding. In particular, many of the PHAs noted that RAD allowed them to access tax credit equity and other funding to complete the bulk of their repairs and renovations at once. Over half of the PHAs we spoke with also found HUD to be flexible and responsive to individual PHA circumstances. The majority of PHAs we spoke with indicated that remaining in the public housing program was not tenable because funding for the public housing program was not enough to meet their long-term capital needs.

PHAs we contacted also noted several challenges of participating in RAD: financing constraints, timing challenges, and evolving requirements.

Financing constraints. Some PHAs noted that program rent requirements can limit PHA participation in RAD. Each year, HUD calculates a contract rent—the total rent for a unit, including operating subsidy and resident contribution. PHAs must use the contract rent to calculate Section 8 subsidies for properties converting under RAD. According to HUD and several PHAs, contract rents for RAD-converted Section 8 units are lower than rents in traditional Section 8 assisted units, and are almost always lower than market-rate rents.[41] Several PHAs and HUD officials have described the difficulty of converting units from the public housing program with this rent limitation. For example, when the cost of needed rehabilitation or construction is high, low allowable contract rents might not be sufficient to access appropriate capital for the conversion.

In certain localities, PHAs have found solutions to augment rents and have used RAD flexibilities to allow them to convert and plan for operating expenses. For example, the PHA in Tacoma, Washington, used the Moving to Work program flexibilities to increase contract rents and housing officials in San Francisco used an allowable procedure to transfer RAD assistance from converted buildings to properties throughout its portfolio (each is a blend of traditional project-based vouchers with higher contract rents and RAD assistance). In Montgomery County, Maryland, the PHA similarly included RAD assistance in some mixed-finance properties that contain other high-rent subsidies and market-rate rents.

Timing challenges. Some PHAs said they faced major challenges in coordinating RAD timelines with HUD, lenders, or other parties or with the

[41]In traditional Section 8 assisted units, contract rents are based on an evaluation of fair market rents for the area, which are published on an annual basis by HUD's PD&R. Contract rent in RAD converted units is not tied to fair market rent levels. No additional funds were authorized for public housing RAD conversions, therefore contract rents are established based on public housing funding levels.

requirements of the LIHTC process.[42] HUD officials acknowledged that PHAs with more complex transactions, including those involved in the LIHTC process, struggle to implement their conversion plans within RAD time frames. HUD officials noted that because there is a statutory cap on the number of units that can be converted under RAD, they have established time frames to stay under the cap and ensure that PHAs that are planning to convert are ready to participate in the program. Additionally, according to HUD, it has made technical assistance available to all PHAs that receive a Commitment to enter into a Housing Assistance Payment contract during the RAD process to help ensure their readiness for RAD closing and to meet remaining conversion deadlines.

On the other hand, some PHAs expressed concern to us about delays in the conversion process that put them at risk for missing state LIHTC deadlines. HUD officials described putting conversions on a fast-track on a case-by-case basis to meet LIHTC deadlines. For example, in one case a PHA relocated residents before closing and without HUD approval. HUD required the PHA to fund an escrow account until it was able to determine any payments that might need to be made to residents and any other necessary corrective action. This was done so that HUD could look into the issue while mitigating additional harm to the residents and continuing to move the PHA toward closing and aligned with tax credit application deadlines.

The timing of conversion can also create gaps in the payment of Section 8 funds to PHAs. Section 8 funding should begin in January of the year following conversion. PHAs rely on annual public housing subsidies for the conversion year—public housing program funds are paid to PHAs annually and are not recaptured by HUD following RAD conversion. However, according to some PHAs we interviewed, Section 8 funding did not begin on time. For example, in Baltimore, Maryland, subsidy flow after conversion had not begun as of June of the following year. HUD officials told us inadequate guidance from HUD and confusion from PHAs regarding the necessary steps to request payment in a timely manner have been the major cause of the problems. HUD has tried to remedy

[42]In 2015, we reported on interagency collaboration on rental assistance policy. For example, the Rental Policy Working Group was established in July 2010 and has representatives from HUD and other agencies. It works to better align rental requirements across programs and thereby increase the effectiveness of federal rental policy and improve participant outcomes. See GAO, *Affordable Rental Housing: Assistance Is Provided by Federal, State, and Local Programs, but There Is Incomplete Information on Collective Performance*, GAO-15-645 (Washington, D.C.: Sept. 15, 2015).

delays and updated its notice to provide clearer guidance on the timing of subsidy flow around the time of conversion to Section 8. Moreover, HUD officials indicated that there has been confusion among PHAs on how to request funds, so HUD is currently revising and updating the guidance on steps PHAs must take to request payment under the PBRA program. HUD officials also indicated that it has begun monitoring whether new participants are taking the steps needed well before their first request for funding.

Some PHAs we contacted also mentioned difficulty in coordinating with HUD on fulfilling internal RAD requirements and reviews. According to some, the different offices involved in RAD conversions within HUD were not well aligned and had different interpretations of the rules.[43] For example, some RAD conversions require a civil rights review by HUD's Office of Fair Housing and Equal Opportunity Office, including those transactions that require new construction or resident relocations. Some PHAs indicated that such reviews occurred too late in the conversion process even after other HUD offices had approved the conversion. HUD officials acknowledge that different HUD offices have different objectives in the RAD process. HUD officials indicated that the agency is trying to coordinate more effectively among these offices and streamline the conversion process as much as possible.

Evolving requirements. While the majority of PHAs with which we spoke said that HUD provided clear, sufficient, and timely information, some PHAs noted that it also was challenging to adapt to evolving requirements.[44]

Some PHAs noted that as HUD identified problems in the early years of the program, it would change the guidance in response. For example, HUD officials explained that it had clarified fair housing review requirements in response to PHA concerns that the fair housing review

[43]As discussed previously, HUD's Office of Public and Indian Housing oversees the properties prior to RAD conversion. The Office of Recapitalization administers the RAD conversion process. Following conversion, oversight remains with the Office of Public and Indian Housing for properties that convert to PBV contracts and transfers to the Office of Multifamily Housing Programs for PBRA contracts. Other offices, such as HUD's Office of Fair Housing and Equal Opportunity, can also have a role in RAD conversion.

[44]HUD has provided multiple forms of guidance to PHAs, including its program notices, webinars, training, lengthy FAQs and responses, quick reference guides, and case studies.

occurred too late in the process and could affect successful conversion of projects. The most recent RAD notice (effective January 2017) is the third version since 2013 and revisions have involved substantial changes.[45] For example, this notice provided PHAs with greater flexibilities on the funding sources they can use to raise initial contract rents and the ways they can demonstrate ownership and control of a converted property. In addition, HUD introduced a notice in November 2016 to strengthen resident protections.[46]

Some PHAs told us they found the pace or timing of the evolving requirements difficult to manage and also noted confusion about conversion instructions and guidance due to changing requirements. For example, one PHA indicated that the agency had problems reporting information into a new RAD data field in HUD's Voucher Management System because there was no guidance at the time on how to complete this field. However, HUD has since included additional instructions in the user's manual that became effective in April 2017.

Strength of Protections Intended to Preserve Affordability Is Unknown and HUD Does Not Have Procedures to Address Preservation Risks

RAD Provisions and Use Agreements Have Not Been Tested

The RAD authorizing statute and the program's use agreements (contracts with property owners) contain provisions that are designed to help ensure the public interest in converted properties and long-term availability of affordable units, but the provisions have not been tested in situations such as foreclosure. For instance, the RAD authorizing statute specifies requirements for ownership or control of converted properties. Converted properties must have public or nonprofit ownership or control, with certain exceptions. Specifically, to facilitate the use of tax credit equity for the property, HUD may allow ownership of a property to be

[45] HUD Notice PIH-2012-32 (HA), H-2017-03 Rev-3.

[46] HUD Notice H 2016-17 and PIH 2016-17 (HA).

transferred to an entity controlled by a for-profit entity as long as the public housing agency preserves its interest in the property in a manner approved by HUD. For instance, the PHA can retain land ownership and ground lease the property to the new owner, act as general partner in the project (a role that involves controlling the development of the property, assembling financing, and ensuring compliance with LIHTC requirements), or assume leasing management responsibilities for the properties and the units. Each of the 18 PHAs we spoke with told us they had such arrangements in their conversion plans. The Senate Appropriations Committee also stated in the committee report that it included language in the initial 2011 RAD legislation to help ensure that the public interest in RAD properties is preserved:

> *The Committee has included language to establish procedures that will ensure that public housing remains a public asset in the that [sic] event that the project experiences problems, such as default or foreclosure.*[47]

In each RAD conversion, HUD and the property owner execute a use agreement, which specifies affordability and use restrictions for the property. The use agreement generally exists concurrently with the HAP contract, which is executed to govern the provision of either the PBRA or PBV subsidy for the unit. The use agreement must be recorded in a superior position to new or existing financing or other encumbrances on the converted property.[48] Under a Section 8 HAP contract, residents pay 30 percent of adjusted household income.[49] In the absence of the HAP contract, the use agreement is set up to control the amount paid:

- If the HAP contract is removed due to breach, noncompliance, or insufficiency of appropriations, under the use agreement new households in all units previously covered under the HAP contract

[47]S. Rep. No. 112-83, at 109 (2011).

[48]On a converted property, the use agreement will run until the conclusion of the initial term of the HAP contract, automatically renews upon extension or renewal of the HAP contract, and remains in effect even if the HAP contract abates or terminates, for the term the HAP contract would have run, absent the abatement or termination.

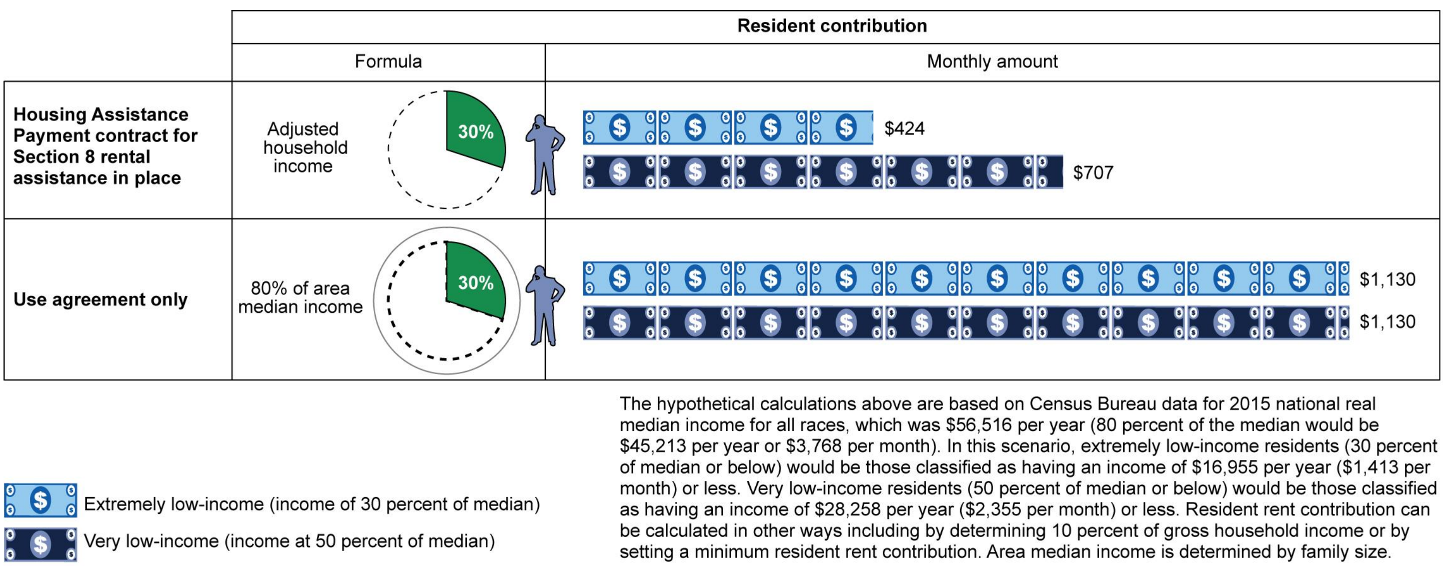
[49]The total tenant payment is defined by regulation as the highest of (1) 30 percent of the family monthly adjusted income; (2) 10 percent of the family monthly income; (3) a calculation based in part on welfare income; or (4) minimum rent set under 24 C.F.R. § 5.630. 24 C.F.R. § 5.628. For purposes of this report, we will refer to this as residents paying 30 percent of adjusted household income to encompass all definition of total tenant payment.

must have incomes at or below 80 percent of the area median income for households of the size occupying an appropriately sized unit for their family size at the time of admission, and rents may not exceed 30 percent of 80 percent of area median income for the remainder of the term of the use agreement.

- For new residents at or below 80 percent of the area median income, under the use agreement the resident rent contribution without a HAP contract generally would be higher than that paid under a HAP contract, which is based on household income instead of the universally determined area median income.

Although the use agreement maintains some level of affordability, the owner receives no subsidy under PBRA or PBV without a HAP contract and resident rent contribution is not tied to individual household income but rather based on a universal area income calculation (see fig. 3).

Figure 3: Hypothetical Example of Monthly Contribution to Rent by Residents under Rental Assistance Demonstration Housing Assistance Payment Contract or RAD Use Agreement



The hypothetical calculations above are based on Census Bureau data for 2015 national real median income for all races, which was $56,516 per year (80 percent of the median would be $45,213 per year or $3,768 per month). In this scenario, extremely low-income residents (30 percent of median or below) would be those classified as having an income of $16,955 per year ($1,413 per month) or less. Very low-income residents (50 percent of median or below) would be those classified as having an income of $28,258 per year ($2,355 per month) or less. Resident rent contribution can be calculated in other ways including by determining 10 percent of gross household income or by setting a minimum resident rent contribution. Area median income is determined by family size.

Source: GAO analysis of RAD Housing Assistance Payment contract and Use Agreement provisions, and median income information reported by the U.S. Census Bureau. | GAO-18-123

According to HUD officials, other program requirements support the goal of long-term preservation:

- HAP contracts are executed for 20 years for PBRA or 15–20 years for PBV properties and compliance with all affordability requirements in the HAP and statute and regulation governing the PBRA and PBV programs must be maintained while the contract is in force.

- According to the authorizing statute, PHAs (for PBV contracts) and HUD (for PBRA contracts) shall offer and project owners shall accept a renewal contract at the expiration of the initial HAP contract and at each subsequent renewal. Each renewal contract will be subject to a RAD use agreement, governing the use of the property consistent with HUD requirements.
- According to the RAD notice, the project owner also is to establish and maintain a replacement reserve to aid in funding extraordinary maintenance and repair and replacement of capital items. The reserve account must be built up to and maintained at a level determined by HUD to be sufficient to meet projected requirements.[50] According to HUD officials, during the conversion, HUD staff review each capital needs assessment to try to determine whether a property's capital needs can be addressed over the forthcoming 20-year period.

We reviewed 31 completed conversion files, the set of documentation required by HUD to enable a PHA to convert units from public housing to a Section 8 subsidy, and associated RAD contracts. In each file, key contractual protections appeared consistent with program requirements. Specifically, in all cases executed use agreements (which included requirements to limit residency eligibility to households making less than 80 percent of area median income) were included and not altered from the HUD template. In most files we reviewed, we found foreclosure riders were included and that they stated that use agreements would survive foreclosure, meaning that any new owners would take ownership subject to the agreements. Executed HAP contracts, requiring that residents' contributions be set at 30 percent of adjusted household income, also were present in all files we reviewed.

According to HUD officials, PHAs, and two housing groups we spoke with, provisions in the RAD use agreement to keep units affordable appear to be strong, with use and affordability protections designed to survive foreclosure, but the strength of provisions cannot yet be fully determined because the provisions have not yet been tested in foreclosure proceedings or in courts. According to HUD officials, as of October 2017 no RAD properties had entered foreclosure.

[50]The annual replacement reserve deposit should be equal to that amount which, if deposited annually, will be sufficient to fund all capital needs, as identified in the capital needs assessment, arising during the first 20 years and otherwise not addressed upfront in either the rehabilitation or an initial deposit to the replacement reserve account.

The RAD authorizing statute requires that ownership be transferred to a capable public entity or, if not one, a capable entity as determined by HUD, or if necessary to fulfill LIHTC requirements for the property, to a HUD-approved for-profit entity (provided the PHA retained sufficient interest in the property).[51] HUD also subjects any subsequent transfer of the property to HUD review and requires the successor ownership to meet these same requirements. As stated in the use agreement, a lien holder must give HUD notice prior to declaring a default and provide HUD concurrent notice with any written filing of foreclosure (providing that the foreclosure sale must not be sooner than 60 days after the notice), but the use agreement does not prohibit a lien holder from foreclosing on the lien or accepting a deed in lieu of foreclosure. The RAD use agreement, which is recorded superior to other liens and places use and affordability restrictions on the property, survives foreclosure. With or without a HAP contract in place, the lender or new owner must maintain the units for low-income households according to the terms of the use agreement. Therefore, according to HUD officials, the lender or new owner has an incentive to identify an appropriate owner and secure HUD approval to avoid a default under the HAP contract, which provides a Section 8 subsidy to the owner. That is, if no HAP contract were in place, the owner would collect only the tenant rent contribution (30 percent of 80 percent of area median income), rather than the tenant rent contribution plus the subsidy.

HUD has discretion to enforce or waive certain use and affordability protections.

- According to the authorizing statute, in the case of foreclosure, bankruptcy, or termination and transfer of assistance for material violation or substantial default, the priority for ownership or control must be provided to a capable public entity, or, if no such entity can be found, to a capable entity as determined by the Secretary of HUD.
- Additionally, the statute allows the transfer of property to for-profit entities to facilitate the use of LIHTC financing, with requirements to

[51]According to the RAD notice, preservation of a PHA's sufficient interest in a project using tax credits could include the following cases: the PHA, or an affiliate under its sole control, could be the sole general partner or managing member; the PHA could retain fee ownership and lease the real estate to the tax credit entity pursuant to a long-term ground lease; the PHA could retain control over leasing units; the PHA could retain consent rights over certain acts of the project owner; or the PHA could use other means that HUD found acceptable.

maintain the PHA's interest, which was discussed above. As of September 30, 2017, about 40 percent of RAD conversions involved LIHTC financing.

- According to the RAD notice, in the event of a default of a property's use agreement or HAP contract, HUD may terminate the HAP contract and transfer assistance to another location to retain affordable units.[52] HUD will determine the appropriate location and owner entity for the transferred assistance consistent with statutory goals and requirements for RAD.
- The RAD use agreement will remain in effect even in the case of abatement or termination of the HAP contract for the term the contract would have run, unless HUD agreed differently in writing. In this case, the RAD notice limits HUD discretion to terminate the use agreement to only cases involving a transfer of assistance to another property.

HUD Does Not Have Procedures in Place to Identify and Respond to Preservation Risks

HUD has not yet developed procedures to monitor RAD projects for risks to long-term affordability of units, including default or foreclosure. HUD officials described an ongoing effort to develop oversight procedures it would need to reasonably ensure compliance with RAD agreements and avoid risks to long-term affordability once conversions closed and units moved to Section 8 but, as previously discussed, the agency has not yet completed this effort or fully implemented a monitoring system.

HUD officials told us they also planned to develop protocols to more closely monitor properties at risk of foreclosure, including developing indicators, procedures, roles, and responsibilities within HUD, but they have not finalized the design of procedures or fully implemented them. To develop protocols, HUD created an asset management working group in September 2016. The officials also stressed that no one can take possession of or foreclose on a property without HUD involvement and approval. For example, HUD officials said they expect few foreclosures among RAD-converted properties because lenders tend to communicate with the agency early so that it can become involved to prevent foreclosure. HUD officials pointed to a robust structure to oversee program properties in the PBRA program, but stated PBV property

[52]Department of Housing and Urban Development Notice H-2017-03 Rev-3.

oversight continues to be developed by the Office of Public and Indian Housing.

According to *Standards for Internal Control in the Federal Government*, agencies should design procedures to achieve goals and objectives, such as the preservation of unit affordability, and respond to risks, in this case the risk of default or foreclosure or noncompliance with program requirements. Additionally, management should identify, analyze, and respond to risks related to achieving its goals and objectives. According to HUD officials, the agency had not yet fully developed and implemented oversight procedures for postconversion monitoring because since 2012, the agency has focused on RAD start-up and review and oversight procedures for the conversion process. HUD officials also said that many projects would receive ongoing monitoring from other parties, which also could serve as a safeguard for unit affordability and help ensure the appropriate financial and physical condition of the property after RAD conversion. For example, just under half of all RAD properties use LIHTC financing as part of financing packages, which can also include local and state bonds. According to HUD officials, oversight by tax credit allocating agencies, investors, and lenders, while not alone sufficient, helps secure affordable units in a property for the long-term.[53] However, tax credit allocating agencies, investors, and lenders are not signatories to the HAP contract or use agreement and have no formal role in reasonably ensuring that properties meet requirements exclusive to RAD.

Although other entities may exercise some oversight of properties, by not developing and implementing procedures for ongoing oversight, HUD in its role as program administrator will not be able to reasonably ensure

[53]We have found that such oversight activities in LIHTC-funded projects, when conducted by state tax credit allocating agencies, typically focus on compliance with affordability requirements rather than on the long-term financial and physical health and viability of a property. In contrast, we reported that third-party investors are motivated to conduct a more complete asset management review that focuses on the long-term viability of a property. We have also reported on the role of syndicators in LIHTC-funded projects. Syndicators are project fund managers that act as an intermediary between the project developer and investors, and they conduct ongoing inspection, monitoring, and reporting on LIHTC-funded projects, and may help identify potential problems and intercede as needed, at times using the syndicator's own funding to do so. See GAO, *Recovery Act: Housing Programs Met Spending Milestones, but Asset Management Information Needs Evaluation*, GAO-12-634 (Washington, D.C.: June 18, 2012); *Low-Income Housing Tax Credit: Joint IRS-HUD Administration Could Help Address Weaknesses in Oversight*, GAO-15-330 (Washington, D.C.: July 15, 2015); and *Low-Income Housing Tax Credit: The Role of Syndicators*, GAO-17-285R (Washington, D.C.: Mar. 1, 2017).

that properties adhere to requirements or meet basic program goals. Furthermore, without such monitoring HUD would be limited in its ability to identify and assist with properties at risk of foreclosure.

Conclusions

RAD was created to demonstrate the feasibility of converting public housing units to other rental assistance programs to help preserve affordable rental units and address the significant backlog of capital needs in the public housing program. However, demonstrating the feasibility of RAD conversion is contingent on collecting and assessing quality information about the conversion projects. HUD has an opportunity to improve the demonstration’s metrics. For instance, implementing robust postclosing oversight and collecting information on financial outcomes upon completion of construction would not only improve HUD’s oversight capabilities but also allow it to report quality information. Moreover, limitations in HUD’s methodology for calculating leverage ratios for RAD may obscure the effect of funding sources used to help fund RAD conversions, potentially under- or over-reporting the program’s capital leveraging. By collecting comprehensive information on final (postcompletion) financing sources and costs and developing quality metrics, HUD would be better positioned to more accurately report the results of the demonstration program.

Additionally, a focus on the conversion process itself (and less on its results), and limitations in HUD’s data have contributed to limited monitoring by HUD in other areas. Specifically, by not developing and implementing monitoring procedures to assess the effect of RAD on residents HUD cannot ensure compliance with resident safeguards. Further, HUD collects and maintains household data for the public housing and Section 8 programs, yet it does not systematically use this information to ensure that resident safeguards are in place. Finally, HUD could benefit from additional procedures to assess RAD properties for risks to long-term preservation to be able to respond to property default or foreclosure.

Recommendations for Executive Action

We are making the following five recommendations to HUD:

HUD’s Assistant Secretary for Housing should include provisions in its postclosing monitoring procedures to collect comprehensive high quality data on financial outcomes upon completion of construction, which could include requiring third-party certification of and collecting supporting documentation for all financing sources and costs. (Recommendation 1)

HUD’s Assistant Secretary for Housing should improve the accuracy of RAD leverage metrics—such as better selecting inputs to the leverage ratio calculation and clearly identifying what the leverage ratio measures—and calculate a private-sector leverage ratio. (Recommendation 2)

HUD’s Assistant Secretary for Housing should prioritize the development and implementation of monitoring procedures to ensure that resident safeguards are implemented. (Recommendation 3)

HUD’s Assistant Secretary for Housing should determine how it can use available program-wide data from public housing and Section 8 databases, in addition to resident logs, for analysis of the use and enforcement of RAD resident protections. (Recommendation 4)

HUD’s Assistant Secretary for Housing should prioritize the development and implementation of procedures to assess risks to the preservation of unit affordability. (Recommendation 5)

Agency Comments and Our Evaluation

We provided a draft of this report to HUD for comment. HUD provided written comments on the draft report, which are summarized below and reproduced in appendix IV. HUD also provided technical comments, which we incorporated as appropriate.

In its comment letter, HUD stated that it agreed with our findings that HUD can improve metrics used to assess program impact and build on existing oversight structures. HUD described actions it intends to take to implement our recommendations to the extent possible and consistent with resource limitations.

More specifically, HUD agreed with our first recommendation to ensure it collects comprehensive quality data on financial outcomes in its postclosing monitoring procedures (which could include supporting documentation for all financing sources and costs). HUD agreed it should routinely collect an updated list of funding sources and uses and related documentation when projects had cost overruns or other significant changes. HUD intends to review and revise, as appropriate, required postcompletion certifications. HUD added that in most cases, funding sources and uses do not materially change between closing and construction completion. HUD stated that securing the postclosing information in such cases might be of minimal benefit relative to the additional reporting burden. However, it is not clear how HUD would determine if projects had significant changes in costs or uses because HUD lacks postcompletion information that would show the magnitude of changes. In relation to reporting burden, HUD already has implemented procedures to collect limited financial information following the completion of construction in October 2017. We believe any additional reporting would not be disproportionate to the benefits of improving HUD's oversight capabilities through project completion and enhancing its reporting to more accurately reflect the results of the demonstration program.

For our second recommendation to improve the accuracy of RAD leverage metrics and calculate a private-sector leverage ratio, HUD agreed that RAD leverage metrics can be improved. HUD will ensure that the private-sector leverage ratio required by statute is clearly identified and included in its RAD evaluation. HUD also intends to identify a small number of relevant leverage ratios with distinct methodologies and will routinely publish these ratios with clear identification and explanations. In relation to our finding of misidentified funding sources, HUD plans to re-examine its chart of accounts and review prior transaction records to address errors and properly classify transaction sources.

In response to our third recommendation to prioritize the development and implementation of monitoring procedures for resident safeguards, HUD agreed that it is important to better document and expedite development and implementation of monitoring procedures. HUD also agreed that additional monitoring was needed to ensure the right of residents to request and move with a tenant-based voucher after a period of residency (choice-mobility). HUD noted that its Office of Policy Development and Research is seeking funding for additional research on RAD with a focus on the use and effect of choice-mobility options, which would inform HUD's monitoring efforts. Finally, while HUD said that we did not find the safeguards to be weak or inadequate, we did not perform an audit designed to assess the safeguards and therefore cannot opine on their adequacy. On the basis of our findings, we found that HUD’s implementation of these safeguards could be strengthened.

Regarding our fourth recommendation that HUD determine how it can use available program-wide data and resident logs for analysis of RAD resident protections, HUD agreed to examine how it could use its existing data systems to further enhance its monitoring efforts. HUD added that the systems have limitations, so that the agency also uses other mechanisms to track and monitor implementation of resident protections. For our fifth recommendation to prioritize the development and implementation of procedures to assess risks to the preservation of unit affordability, HUD agreed that it is important to assess and mitigate risks to unit affordability. HUD stated that it employs robust underwriting standards prior to permitting conversion, and relies on existing procedures to conduct ongoing oversight of Project-Based Rental Assistance (PBRA) properties, which we discussed in the draft. However, as we noted, HUD has not yet developed procedures to more closely monitor RAD properties at risk of foreclosure, though it plans to establish indicators of foreclosure risk and oversight roles and responsibilities within HUD. HUD said that since the summer of 2017, it has been evaluating what additional oversight procedures might be needed for RAD Project-Based Voucher properties. HUD also described plans to augment its existing oversight procedures to preserve affordable units in the event of foreclosure by developing protocols in the following areas: transfer of property ownership to a capable entity, transfer of the rental assistance to another site, and protection of residents in the event a Housing Assistance Payment contract was terminated.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the Secretary of Housing and Urban Development and other interested parties. In addition, the report will be available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-8678 or garciadiazd@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs are listed on the last page of this report. GAO staff who made major contributions to this report are listed in appendix IV.

Sincerely yours,

Daniel Garcia-Diaz

Director, Financial Markets and
Community Investment

Appendix I: Objectives, Scope, and Methodology

This report examines aspects of the Department of Housing and Urban Development's (HUD) Rental Assistance Demonstration (RAD) program. More specifically, this report addresses (1) HUD's assessment of the physical and financial outcomes of RAD conversion to date; (2) how RAD conversions affected residents and what safeguards were in place to protect them, including while temporarily relocated and during conversion; (3) what challenges, if any, public housing agencies (PHA) faced in implementing RAD; and (4) the extent to which RAD provisions are designed to help preserve the long-term affordability of units.

To address all four objectives, we analyzed agency documentation and interviewed officials from HUD. The documentation we reviewed included policies and procedures for RAD; manuals describing HUD data systems; draft policies and procedures for implementing postclosing oversight; and reports on RAD performance. We interviewed HUD headquarters officials from the Office of Recapitalization within the Office of Housing, which oversees the administration of RAD, and the Office of Policy Development and Research (PD&R). We also interviewed PHA officials and developers involved in RAD transactions, as well as selected experts and other stakeholders to obtain their perspectives on RAD. Additionally, we conducted a literature search to identify publications related to RAD.

We visited a nonprobability sample of eight PHAs in Maricopa County, Arizona; Alameda County, California; Montgomery County, Maryland; and in the cities of San Francisco, California; Baltimore, Maryland; New Bern, North Carolina; El Paso, Texas; and Tacoma, Washington, to observe housing units before, during, or after renovation when possible as well as common areas that had planned or undergone renovation. We selected sites to include varying PHA sizes, RAD subsidy types, planned rehabilitation and resident relocation, numbers and sizes of RAD transactions, closing dates, constructions costs, and geographic locations across the United States. At each site, we conducted semistructured interviews with PHA officials and, when available, developers (5 sites).

We also conducted one or two focus-group interviews with groups of 6–15 residents who lived at the converted properties to obtain their perspectives and experiences. In each location, we asked the PHAs to invite residents to participate in the focus groups based on their availability. We also met with the Resident Advisory Board in each location that had one. For 7 of 8 site visits, we selected two RAD properties to conduct resident focus groups (in Alameda County, California we held one focus group). We conducted a content analysis based on resident focus group interviews to describe resident experiences and the RAD program's effects on residents. Utilizing the selection criteria noted above, we conducted semistructured telephonic interviews with an additional nonprobability sample of 10 PHAs in Fresno, California; Fort Collins, Colorado; Dekalb County, Georgia; Chicago, Illinois; Ypsilanti, Michigan; Cuyahoga County, Ohio; Philadelphia; Pennsylvania; Spartanburg, South Carolina; McKinney, Texas; and Yakima, Washington. Because we selected a non-probability sample of PHAs to visit and interview, the information we obtained cannot be generalized more broadly to all PHAs. However, it provides context on RAD particularly on implementation challenges and perspectives on physical and financial impacts, long-term affordability, and resident protections.

We also selected the following 11 individuals and organizations as experts and stakeholders:

1. Council of Large Public Housing Authorities
2. National Association of Housing and Redevelopment Officials
3. Center on Budget and Policy Priorities
4. Public Housing Authorities Directors Association
5. National Housing Law Project
6. Community Legal Services of Philadelphia
7. Maryland Legal Aid
8. Disability Rights Maryland
9. Jaime Alison Lee, Associate Professor of Law and Director, Community Development Clinic, University of Baltimore School of Law
10. Yumiko Aratani, Assistant Professor, Columbia University Mailman School of Public Health
11. University of California, Berkeley, Terner Center for Housing Innovation Researchers

We interviewed experts and stakeholders on resident impacts and implementation challenges associated with RAD. The entities may not represent all views on these topics, but their views provide insights on

RAD. To select these individuals and groups, we met with three major PHA associations and two resident advocacy groups, and asked for referrals for organizations or individuals with expertise in RAD.

We also selected a nonprobability, random sample of 31 RAD conversion files to review. Utilizing HUD RAD Resource Desk data, we randomly selected 31 RAD files for properties that had closed conversion as of June 30, 2017 and that planned to incur construction costs. We used the files to help us determine physical changes to RAD conversions and the impacts of RAD on residents through, for example, relocation. We excluded RAD conversions with no construction costs from the random sample because they would not have physical changes and no resident relocation would occur before or during our review.

To address our first objective on the physical and financial outcomes of RAD conversion to date and how HUD measured these outcomes, we first obtained and analyzed HUD data on RAD conversions since RAD's authorization (from fiscal years 2013 through 2017).[1] We assessed the reliability of these data by reviewing system documentation, interviewing knowledgeable officials about system controls, and conducting electronic testing. We determined that the data were sufficiently reliable for the purposes of describing rehabilitation and new construction in RAD projects and evaluating RAD leveraging metrics. We included in our analysis all RAD conversions that were active or closed. We used these data to determine the number of closed RAD conversions, associated financial sources and uses, subsidy types, and type of construction (rehabilitation, new construction, and no rehabilitation or new construction). In addition, during our interviews with PHAs and developers, we obtained their perspectives on potential contributing factors to financial decisions and type of construction pursued through RAD conversion. As noted earlier, we also reviewed 31 randomly selected files of converted properties with construction costs to describe property physical changes in RAD conversions.

[1]The RAD Resource Desk, an Internet portal, is accessible to the public, HUD employees, and PHA staff. It serves as a comprehensive database that includes all published guidance on RAD and also serves as the main portal for PHAs to ask questions, search for information and forms, upload documents, and track their progress toward closing. The database does not contain a variable to indicate that rehabilitation was planned for a converted property but instead includes construction costs planned by the property and a variable indicating whether new construction was planned. We inferred that when construction costs were listed and no new construction was listed, the property planned rehabilitation. We verified the accuracy of this inference with staff from the HUD.

Furthermore, we reviewed HUD documents, such as HUD and PD&R evaluations, publications, and policies and procedures to gain additional context for how HUD measures RAD outcomes. We also interviewed HUD officials, including PD&R and Office of Recapitalization officials, on RAD data and metrics, as well as other performance monitoring activities. We further analyzed data from the HUD RAD Resource Desk to determine how these data support HUD's metrics and performance monitoring activities. As previously mentioned, we determined that these HUD data were sufficiently reliable for the purposes of this report. Specifically, we assessed and calculated RAD leverage ratio and construction activity. We assessed HUD's performance monitoring activities and reporting against the RAD authorizing statute, *Standards for Internal Control in the Federal Government*.[2]

To recalculate estimates of the RAD leverage metric, we obtained documentation from the Office of Recapitalization to review the methodology used to calculate their most recent leverage ratio. We aligned the methodology they provided with RAD Resource Desk Transaction Log data that was downloaded on August 7, 2017. We replicated HUD's methodology and matched the data utilized with the descriptors from the Transaction Log. To isolate financial sources and manually adjust the "other source" data, we compiled matched descriptors and funding amounts and categorized each observation based on the funding source description, as a federal source, state/county/city source, or PHA source, among others. For additional information and results, see appendix II.

To determine how RAD affected residents in converted units, we analyzed HUD public housing and Section 8 household data before and after conversion (demographic characteristics of residents and changes in rent, income, and location). Specifically, we examined data from 2013—when the first transactions closed—through June 30, 2017. HUD compiled and provided custom extracts of data on households in RAD-converted properties from the Inventory Management System/Public and Indian Housing Information Center (IMS/PIC) (public housing and Section 8 PBV) and Tenant Rental Assistance Certification System (Section 8 PBRA). We assessed the reliability of the data extracts provided by HUD by (1) performing electronic testing of required data elements, (2)

[2]GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington, D.C.: Sept. 10, 2014).

reviewing existing information about the data and the system that produced them, and (3) interviewing agency officials knowledgeable about the data. We determined the data on PBV households were sufficiently reliable for the purposes of our reporting objectives, but that the data on PBRA households was not sufficiently reliable for purposes of describing some characteristics of RAD households. For example, in trying to determine participation in the RAD program by year, we received several thousand PBRA entries that preceded the establishment of the RAD program. Moreover, as we previously mentioned, the postconversion household data for PBRA conversions is in a separate data system, so some variables, such as those related to race, ethnicity, rent, and income, differ from the other household data for that program. Because of these limitations, the data for PBRA households were not reliable for purposes of comparing RAD household characteristics before and after conversion as we had intended. To describe safeguards for residents and help ascertain how HUD implemented protections, we reviewed legal protections and requirements in HUD notices, reviewed selected conversion files, and interviewed HUD officials about monitoring and compliance processes. Finally, as previously described, we held focus groups with residents to better understand any effects on their living conditions and quality of life.

To determine challenges PHAs faced in implementing RAD, we reviewed HUD guidance and related documents for PHAs in the program. We also interviewed eight PHAs during our site visits and spoke with another 10 PHAs by telephone about the benefits and challenges of participating in the RAD program.

To examine provisions designed to help preserve long-term affordability of units, we reviewed the RAD authorizing statute and amendments and HUD notices and interviewed HUD staff to verify our understanding of agency affordability protections. For a sample of 31 randomly selected properties, we examined templates for contractual agreements for RAD closings and analyzed closing documents and contracts to determine if agreements matched program requirements. We interviewed HUD staff and staff of 18 PHAs to obtain viewpoints on the potential strengths or weaknesses of preservation in the case of default or foreclosure.

We conducted this performance audit from February 2016 to February 2018 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: HUD's Reported Leverage Ratios and Our Recalculation Estimates

The Department of Housing and Urban Development's (HUD) Office of Recapitalization collects financial sources and use data from Rental Assistance Demonstration (RAD) participants. Table 2 lists the financial source fields collected by HUD.

Table 2: Financial Source Data Collected by HUD as of September 30, 2017

Source	Dollars
New first mortgage loan funds	1,833,895,044.00
Public housing operating reserve funds	210,103,773.45
Prior year public housing capital funds	214,159,903.19
Replacement housing factor funds	97,106,136.00
Low-income housing tax credit (LIHTC) equity – 4%	2,415,452,530.08
Low-income housing tax credit (LIHTC) equity – 9%	1,109,711,958.52
HOME investment partnerships program (HOME) funds	69,444,234.00
Community development block grant (CDBG) funds	7,863,841.00
Other federal funds	42,929,913.00
Other state/local funds	102,254,308.00
Other private funds	8,235,320.00
Take-back financing funds	1,057,650,689.00
Deferred developer fees	7,281,886.00
Other funds (1-6)	2,195,637,734.16

Source: Department of Housing and Urban Development. | GAO-18-123

Table 3 lists the financial cost fields collected by HUD.

Table 3: Financial Cost (Uses) Data Collected by HUD as of September 30, 2017

Costs (Uses)	Dollars
Construction costs	4,424,818,546.12
Building cost	2,238,137,745.42
Developer fee	658,928,919.28
Construction interest	282,554,066.87
Initial deposit to replacement reserve	254,612,622.27
Operating reserves	214,395,665.14
Other professional fees amount	187,611,985.16
Architecture	170,577,980.59

Costs (Uses)	Dollars
Reserves other amount	129,807,097.45
Relocation costs	125,901,300.26
Loan fee other amount	117,846,360.15
Payoff existing loans	93,686,776.25
Other acquisition costs	87,386,286.00
Bond issuance	63,590,667.54
Borrower's legal counsel	42,657,133.84
Initial operating deficit escrow	36,428,084.33
Financing fee	33,028,858.00
Construction loan fees	26,991,806.00
Tax & insurance escrow	26,576,901.94
Engineering	24,473,328.00
Title inspection	19,376,144.80
Environmental	17,983,061.92
Lender's legal counsel	14,531,019.00
Accounting	9,891,746.82
Feasibility study	8,384,651.00
Survey	8,138,811.00
Recordation fee	7,341,330.00
Appraisal / market study	6,281,617.92
Physical condition assessment	5,437,087.05
Organizational costs	5,244,023.45
FHA mortgage insurance premium	4,995,295.91
FHA inspection fee	2,734,095.00
FHA application fee	2,187,410.00
Payables	1,814,907.92
Closing escrow agent fee	347,278.00

Legend:

FHA=Federal Housing Administration.

Source: Department of Housing and Urban Development. | GAO-18-123

Note: HUD also has Acquisition Cost, Other Professional Fees Description, Prepay Penalty, Loan Fee Other Description, and Reserves Other Description fields which had zero values and did not list in the table above.

Table 4 provides additional financial source detail pertaining to HUD's leverage ratio calculation.

Table 4: RAD Financing Source Fields That HUD Uses as Inputs for Its Leverage Ratio Calculation

Total sources	• Replacement housing factor funds • Public housing operating reserve funds • Prior year public housing capital funds • New first mortgage loan funds • 9% LIHTC equity • 4% LIHTC equity • Other funding 1 • Other funding 2 • Other funding 3 • Other funding 4 • Other funding 5 • Other funding 6
Public housing dollars	• Replacement housing factor funds • Public housing operating reserve funds • Prior year public housing capital funds
Non-public housing sources	• New first mortgage loan funds • 9% LIHTC equity • 4% LIHTC equity • Other funding 1 • Other funding 2 • Other funding 3 • Other funding 4 • Other funding 5 • Other funding 6

Legend: LIHTC=low-income housing tax credit.

Source: Department of Housing and Urban Development. | GAO-18-123

Table 5 and Table 6 show the total financial source amounts collected by HUD. Specifically, Table 5 shows total financial source amounts prior to recategorization, while Table 6 shows total financial source amounts after manual adjustments. Manual adjustments included isolating funding source observations in "other funding" fields 1-6 and incorporating them into existing fields, as appropriate.

Table 5: HUD Financial Sources (uncategorized)

Financial Source	Dollars
New first mortgage	1,705,380,940.00
Public housing operating reserves	153,797,879.71
Public housing capital fund	138,190,807.81
Replacement housing factor	81,495,730.00

Financial Source	Dollars
Low-income housing tax credit equity - 4%	2,300,777,174.08
Low-income housing tax credit equity - 9%	979,567,243.52
HOME investment partnerships program (HOME)	43,526,282.00
Community development block grant (CDBG)	4,968,617.00
Other federal funds	42,929,913.00
Other state/local funds	99,241,345.00
Other private funds	8,235,320.00
Take-back financing	985,796,391.00
Other	2,044,012,054.66
Total sources	**8,587,919,697.78**

Source: Department of Housing and Urban Development | GAO-18-123

Note: HUD also has a field for Deferred Developer Fees which had zero values and we did not list in the table above.

Table 6: HUD Financial Sources (recategorized by GAO)

Financial Sources	Dollars
New first mortgage	1,705,380,940.00
Public housing operating reserves	183,761,192.87
Public housing capital funds	183,728,292.06
Replacement housing factor	83,270,730.00
Low-income housing tax credits - 4%	2,300,777,174.08
Low-income housing tax credits - 9%	979,567,243.52
HOME investment partnership program (HOME)	43,526,282.00
Community development block grant (CDBG)	4,968,617.00
Other federal funds	276,359,797.65
Other state/local/county funds	398,510,024.00
Other private funds	8,235,320.00
Take-back financing	1,274,009,771.00
Other	816,727,051.09
Other public housing agency (PHA) sources	329,097,262.51
Total Sources	**8,587,919,697.78**

Source: Department of Housing and Urban Development and GAO analysis. | GAO-18-123

Note: To properly account for PHA sources, we created the category "Other PHA Sources" that captures sources attributable to a PHA that were considered leveraged by HUD in the "other" source fields.

Table 7 replicates HUD's methodology for calculating the RAD leverage metrics after manual adjustments in HUD data. See Table 4, above, to compare changes in each category.

Table 7: GAO-Adjusted Leverage Ratio for RAD as of June 2017, with Recategorized Financial Sources

Leverage ratio ($) = 7.44:1

	Category	Amount in dollars
Total sources	Public housing operating reserve	183,761,192.87
	Prior year public housing capital funds	183,728,292.06
	Replacement housing factor	83,270,730.00
	New first mortgage loan	1,705,380,940.00
	LIHTC equity – 4%	2,300,777,174.08
	LIHTC equity – 9%	979,567,243.52
	Other	816,727,051.09
	Other PHA sources	329,097,262.51
	Total sources	**6,582,309,886.13**
Public housing sources	Public housing operating reserve	183,761,192.87
	Prior year public housing capital funds	183,728,292.06
	Replacement housing factor	83,270,730.00
	Other PHA sources	329,097,262.51
	Total public housing sources	**779,857,477.44**

Legend: LIHTC=low-income housing tax credit. PHA=public housing agency.

Source: Department of Housing and Urban Development, GAO analysis. | GAO-18-123

Table 8 recalculates the leverage ratio by deducting federal sources as leveraged sources.

Leverage ratio ($) = 1.43:1

Table 8: GAO-Adjusted leverage Ratio for RAD as of June 2017, That Excludes Federal Funding Sources, and Including Tax Credits

	Category	Amount in dollars
Public housing sources	Public housing operating reserve	183,761,192.87
	Prior year public housing capital funds	183,728,292.06
	Replacement housing factor	83,270,730.00
	Other PHA sources	329,097,262.51
	Take-back financing	1,274,009,771.00
	Total public housing sources	**2,053,867,248.44**
Federal sources	LIHTC equity – 4%	2,300,777,174.08
	LIHTC equity – 9%	979,567,243.52
	HOME	43,526,282.00
	CDBG	4,968,617.00
	Other federal funds	276,359,797.65

	Category	Amount in dollars
	Total federal funding sources	**3,605,199,114.25**
Non-federal sources	New first mortgage loan	1,705,380,940.00
	Other private funds	8,235,320.00
	Other	816,727,051.09
	Other state/local/county funds	398,510,024.00
	Total non-federal funding sources	**2,928,853,335.09**
Total sources		**8,587,919,697.78**

Legend: PHA=public housing agency. LIHTC=low-income housing tax credit. HOME=HOME Investment Partnerships Program. CDBG=Community Development Block Grant.

Source: Department of Housing and Urban Development, GAO analysis. | GAO-18-123

Table 9 recalculates the leverage ratio by deducting public sources as leveraged sources (compare to Table 8 above).

Table 9: GAO-Calculated Private-Sector Leveraging Ratio for RAD, as of June 2017

Leverage ratio ($) = 1.23:1

	Category	Amount in dollars
Public housing sources	Public housing operating reserve	183,761,192.87
	Prior year public housing capital funds	183,728,292.06
	Replacement housing factor	83,270,730.00
	Take-back financing	1,274,009,771.00
	Other PHA sources	329,097,262.51
	Total public housing sources	**2,053,867,248.44**
Non-private sources	LIHTC equity – 4%	2,300,777,174.08
	LIHTC equity – 9%	979,567,243.52
	HOME	43,526,282.00
	CDBG	4,968,617.00
	Other federal funds	276,359,797.65
	Other state/local/county funds	398,510,024.00
	Total federal funding sources	**4,003,709,138.25**
Private sources	New first mortgage loan	1,705,380,940.00
	Other private funds	8,235,320.00
	Other	816,727,051.09
	Total private funding sources	**2,530,343,311.09**
Total sources		**8,587,919,697.78**

Legend: PHA=public housing agency. LIHTC=low-income housing tax credit. HOME=HOME Investment Partnerships Program. CDBG=Community Development Block Grant.

Source: Department of Housing and Urban Development, GAO analysis. | GAO-18-123

Appendix III: RAD Resident Safeguard and Monitoring Requirements

The Rental Assistance Demonstration (RAD) program has numerous requirements intended to ensure residents whose units are converted through RAD receive certain protections. The following is a description of these safeguards and their reporting and monitoring requirements.

Table 10: RAD Resident Safeguards and Monitoring Requirements

RAD Resident Safeguard	Description of Safeguard	Reporting and Monitoring Requirements
Conversion will be considered a significant amendment to a PHA plan. Applies during conversion	PHAs must include an amendment describing the conversion of assistance under RAD in their 5-year, annual, or MTW plans with consultation from the PHA's resident advisory board.	**RAD January 2017 Notice** Following adoption of the required amendment describing the conversion of assistance under RAD, PHAs submit the amendment to HUD's Office of Public and Indian Housing for review and approval. Following review by HUD of the amendment, PHAs submit a letter from HUD approving the five-year, annual, or MTW plans or significant amendment as part of their financing plan submission.
Notification of proposed conversion, meetings during the conversion process, written response to residents comments on conversion, and notification of conversion approval and impact Applies preconversion and during conversion	PHAs must notify residents and resident organizations of conversion plans. This includes: • Issuing a RAD Information Notice at the very beginning of the RAD conversion process (prior to meeting with residents) to inform residents of projects proposed for conversion of their rights in connection with a proposed conversion. • Issuing a General Information Notice to any individual who may be displaced as a result of RAD conversion. PHAs must also provide a written notice of relocation when applicable (30-days' notice for relocations of 12 months or less or 90-days' notice for relocations of more than 12 months), and should meet with each household to assess their needs and preferences prior to issuing this notice. • Conducting meetings with residents of projects proposed for conversion to discuss conversion plans and provide opportunity for comment. These include • at least two meetings prior to applying to RAD;	**RAD January 2017 Notice** PHAs submit comprehensive written responses to resident comments received in connection with the required resident meetings with the RAD application. PHAs must provide date(s) of the resident meeting (or meetings, where applicable) held following the issuance of the Commitment to enter into a HAP contract and a record of the responses (written or oral, or in subsequent actions) to resident comments on the proposed conversion that were received in connection with such meetings. **RAD November 2016 Fair Housing, Civil Rights, and Relocation Notice** Requires PHAs to keep on file their communications to residents about their rights and information about the conversion planning and potential relocations, among other things. **Other HUD efforts** HUD is working on updating its standard operating procedures for transaction managers in order to better determine how thoroughly residents' comments are reviewed and integrated into the financing plan.

RAD Resident Safeguard	Description of Safeguard	Reporting and Monitoring Requirements
	• one meeting following selection to participate in RAD; and • additional resident meetings upon material changes in utility allowance calculations and significant changes to the conversion plans from what was presented at previous meetings. • Near the close of the RAD conversion, the PHA must notify each affected household that conversion of the project has been approved and inform households of the specific rehabilitation or construction plans and any other impacts.	
No rescreening at conversion Applies postconversion	Residents cannot be excluded from living at the converted project based on any rescreening, income eligibility, or income targeting. For example, a unit with a household that was over-income at time of conversion would continue to be treated as an assisted unit.	**RAD January 2017 Notice** No ongoing reporting or monitoring efforts specified. **Other HUD efforts** See related efforts in right to return below
Right to return after temporary relocation to facilitate rehabilitation or construction Applies postconversion	Any resident who may need to be temporarily relocated to facilitate rehabilitation or construction has a right to return to an assisted unit at the covered project once rehabilitation or construction is completed.	**RAD November 2016 Fair Housing, Civil Rights, and Relocation Notice** No ongoing reporting requirement. PHAs or other postclosing owners maintain a resident log of relocation activities to demonstrate compliance, including whether residents have returned to a property following relocation. PHAs must provide to HUD the resident logs upon request. **Other HUD efforts** HUD developed and started implementing procedures in October 2017 that require owners to certify compliance with the resident right-to-return requirements. For example, owners must certify the number of residents who exercised their right to return to a converted property compared with the number of residents who did not return. HUD is also developing standard operating procedures to review each conversion for compliance with RAD relocation provisions. Specifically, the procedures would describe the review steps required at different stages of the conversion process, a process for identifying risks, and addressing instances of noncompliance with RAD requirements. HUD also has been developing a new fair housing and relocation checklist that will outline the information and documentation PHAs and other owners must provide in order to facilitate HUD's front-end fair housing and civil rights and relocation reviews (currently undergoing Paperwork Reduction Act review). Current limited compliance review of around 90

RAD Resident Safeguard	Description of Safeguard	Reporting and Monitoring Requirements
		sample resident logs and a review involving a set of HUD requirements that affect relocations of more than 1 year.
Phase-in of tenant rent increases Applies postconversion	Particularly for those tenants who move from a flat (fixed) rent structure to an income-based one following RAD conversion, if a tenant's monthly rent increases by more than the greater of 10 percent or $25 purely as a result of conversion, the rent increase will be phased in over 3 or 5 years.	**RAD January 2017 Notice** No ongoing reporting or monitoring efforts specified.
Continued participation in the ROSS-SC and FSS programs Applies postconversion	Under certain conditions following RAD conversion, residents can continue to be served by two HUD assistance programs designed to encourage economic self-sufficiency. They can continue to be served by FSS as long as the PHA is eligible to participate and applies for funding. Residents can continue to be served by ROSS-SC until the PHA's grant for that program is completed. After this time, residents cannot be served by this program as it is required to serve only public housing residents.	**HUD May 2016 Notice** FSS: PHA must submit an FSS exit or progress report once a project has been converted but before an end of participation in public housing record is submitted. HUD tracks family information for FSS participants with PBV, but not PBRA. ROSS-SC: None specific to RAD **Other HUD efforts** None specific to RAD Monitoring for FSS and ROSS-SC programs conducted by the Office of Public and Indian Housing and Office of Multifamily Housing Programs as part of their monitoring of the public housing and Section 8 programs respectively.
Continued earned income disregard (EID) Applies postconversion	The continued earned income disregard allows tenants to obtain employment without having their rent increase right away. Tenants who are employed and receive EID at the time of conversion will continue to receive EID after conversion. Once a resident's EID expires, any rent adjustment will not be phased in but applied in total.	**RAD January 2017 Notice** No ongoing reporting or monitoring efforts specified.
Continued recognition of and funding for legitimate residents organizations Applies postconversion	Residents of covered projects with assistance converted to PBV or PBRA assistance will have the right to establish and operate a resident organization and be eligible for resident participation funding. This is a protection carried over from the public housing program and is not typically available to Section 8 residents.	**RAD January 2017 Notice** No ongoing reporting or monitoring efforts specified. **Other HUD efforts** HUD officials indicated that there are procedures for residents to report complaints to HUD if resident representation and organization requirements are not met. .
Resident eviction and grievance procedural rights Applies postconversion	Converted project owners (either the PHA-controlled or other entity that takes ownership control following RAD conversion) are required to administer termination (eviction) and grievance procedures that are more in line with public housing requirements, which are more formal than Section 8 requirements.	**RAD January 2017 Notice** *PBV:* Must be incorporated into both the Section 8 administrative plan and the project owner's lease, which includes the required tenancy addendum, as appropriate. Current PBV program rules require that hearing procedures must be outlined in the PHA's Section 8 administrative plan.

RAD Resident Safeguard	Description of Safeguard	Reporting and Monitoring Requirements
		PBRA: Resident procedural rights must be included as part of the house rules for the associated project and the house rules must be furnished to HUD as part of the financing plan submission. Evidence of such incorporation may be requested by HUD for purposes of monitoring the program. **Other HUD efforts** HUD had not been consistently collecting required documentation on "house rules," so it has developed additional legal review procedures as part of the implementation of RAD resident eviction and grievance procedural rights requirements.
Choice-mobility option allowing a resident to move out of a RAD converted property with a tenant-based voucher Applies postconversion	Tenants are eligible to receive a voucher or other tenant-based rental assistance, which can be used at a different property. Under PBV conversion, residents are eligible for a voucher or other tenant-based rental assistance after 1 year of occupancy at the converted property. Under PBRA conversions, residents are eligible to receive a voucher after 2 years of residency at the converted property (or from the date of execution of the HAP contract—whichever is later).	**RAD January 2017 Notice** No ongoing reporting or monitoring efforts specified. **Other HUD efforts** HUD officials told us that they plan to assess how administrative data can be used to monitor choice mobility as part of the planning for a separate Office of Policy Development and Research evaluation of this safeguard.

Legend: RAD=Rental Assistance Demonstration; PHA=public housing agency; MTW=Moving to Work; HUD=Housing and Urban Development; ROSS-SC=Resident Opportunity and Self-Sufficiency Service Coordinators; FSS=Family Self-Sufficiency; EID=earned income disregard; PBV=project-based voucher; PBRA=project-based rental assistance; HAP=Section 8 Housing Assistance Payment.

Source: Department of Housing and Urban Development, GAO analysis.| GAO-18-123

Appendix IV: Comments from the Department of Housing and Urban Development

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

OFFICE OF HOUSING

JAN 25 2018

Daniel Garcia-Diaz
Director, Financial Markets and Community Investment
Government Accountability Office
441 G Street NW
Washington, DC 20548

Dear Director Garcia-Diaz:

Thank you for the opportunity to respond to the Draft Report GAO-18-123 entitled "Rental Assistance Demonstration: HUD Needs to Take Action to Improve Metrics and Ongoing Oversight" received on December 27, 2017. This letter responds to the Recommendations for Executive Action with respect to the Rental Assistance Demonstration (RAD).

HUD appreciates the thoughtfulness and thoroughness of GAO's review of RAD. We are pleased that in its analysis GAO found that the financing for RAD conversions yielded significant funds for construction ($4.4 billion or nearly $60,000 per unit converted to RAD as of the date of GAO's analysis); that contract documents on closed properties include key provisions to ensure affordable rents and foreclosure protections; that PHAs found RAD to be flexible and responsive; and that HUD has put procedures in place to evaluate and monitor the impact of conversion. We are further pleased that GAO did not identify deficiencies or impediments in RAD's design that would jeopardize the ability of the program to facilitate access to capital or provide protections for residents. HUD agrees with GAO's findings that there are actions HUD can take to improve on metrics used to assess program impact and to build on existing oversight structures.

RAD has proven highly successful at generating the capital properties need to be rehabilitated or redeveloped. To date, PHAs and their partners have secured over $5 billion towards construction investment in over 87,000 units across 822 public housing properties that have converted under RAD. In many cases, these improvements have dramatically improved the quality of housing for low-income households. The improvements help to ensure that this housing, some of which was at risk of loss from the affordable housing inventory, remains affordable for the long-term. Through HUD's Housing Assistance Payment (HAP) contracts, which must be renewed at each expiration, and the RAD Use Agreements recorded on the land and also perpetually renewed, RAD creates both policy and contractual measures to preserve the long-term affordability of this housing. Meanwhile, in RAD, HUD has established the most robust set of resident rights of any HUD program. Among these rights are the following, which is not an exhaustive listing:

- Required resident notices prior to application;
- Required resident consultation and meetings prior to conversion;
- Required description of the RAD conversion in the PHA plan (amendments to which require a public process);
- A right to return to the property following any temporary relocation;

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- Relocation protections in accordance with the Uniform Relocation Act (URA) and, in some cases, in excess of the URA requirements;
- Prohibition of re-screening residents upon “move-in” to the Section 8 property;
- Application of Section 3 low-income hiring requirements, even though in many cases the law would not have otherwise required it;
- A “phase-in” of resident rents if residents were paying less than 30% of adjusted income prior to conversion;
- Grievance and termination procedures consistent with public housing requirements;
- Resident organizing rights;
- Resident organization funding; and
- A right to request a tenant-based voucher after a period of residency at the converted property (“choice-mobility”).

No other HUD program aimed at improving and/or redeveloping affordable housing adopts such a comprehensive suite of rights to ensure that residents benefit from the conversion.

In support of the important questions analyzed in GAO’s report, HUD’s Office of Policy Development and Research (PD&R) has funded an independent evaluation of RAD, by Econometrica, Inc., which will, at least in part, address many of GAO’s findings. This evaluation was initiated to respond to the statutory requirement that HUD report on the impact of RAD on the preservation and improvement of public housing, the amount of private sector leveraging as a result of such conversion, and the effect of such conversion on tenants. HUD PD&R has published two reports as part of this evaluation. These existing reports provide information on RAD financing sources, including leverage ratios discussed extensively in this GAO report. HUD PD&R intends to publish one additional report as part of the current evaluation effort, which will provide updated leverage ratios, information on changes in the physical condition of RAD properties, and information on the effect of RAD on residents. To document the effect of RAD on residents, Econometrica is conducting a statistically representative survey of residents and analyzing HUD administrative data from the IMS/PIC and TRACS systems. We look forward to this and other initiatives to expand our understanding of RAD’s impact.

HUD’s response to the GAO recommendations are provided below:

Recommendation #1:

HUD should include provisions in its post-closing monitoring procedures to collect comprehensive quality data on financial outcomes upon completion of construction, which could include requiring third-party certification of and collecting supporting documentation for all financing sources and costs.

HUD Response:

HUD agrees that it is critical to rely on comprehensive quality data to effectively analyze development sources and uses. HUD currently relies on the executed contracts that reflect all of the obligated sources that funders provide to the transaction and all the uses that HUD and the sources of capital financing have approved at closing. In most cases, the sources and uses do not materially change between the time of closing and construction completion. Through contingency line items, development budgets are structured to accommodate the modest adjustments that do occur. As such, for many transactions, there may be minimal benefit, relative to the additional reporting burden, to secure a revised sources and uses statement following the completion of construction. HUD agrees, however, that when there are cost over-runs or other significant changes to the sources or uses, HUD should routinely collect an updated listing of sources and uses and related documentation. HUD will review, and revise as appropriate, the post completion certifications required to ensure HUD collects quality data regarding RAD conversions.

Recommendation #2:

HUD should improve the accuracy of RAD leverage metrics — such as better selecting inputs to the leverage ratio calculation and clearly identifying what the leverage ratio measures — and calculate a private-sector leverage ratio.

HUD Response:

HUD agrees that the RAD leverage metrics can be improved to better identify what is being measured, to offer more consistent measurements over time, to more clearly identify which measures are addressing the statutory reporting requirement, and to better communicate the impact of RAD. There are a variety of important metrics that HUD uses to measure the financial and physical effects of RAD, including tracking total investment towards the rehabilitation or construction of converted properties, reviewing third party assessments of the capital needs of each property undergoing conversion, ensuring that any identified current capital needs are addressed, calculating the anticipated ongoing capital investments properties will need, and requiring the owner to set aside funds into a reserve in order to address those future needs. Leverage ratios, which is a focus of this report, represent another important measure of the financial impacts of RAD. As described above, HUD has contracted with a professional evaluator to assess the specific research areas required for evaluation by RAD's authorizing statute, including assessing private leverage. Recognizing that there are a variety of acceptable methodologies in generating a leverage ratio, the evaluation has, to-date, reported multiple leverage ratios to address a range of possible analyses and categorized each source of financing so that readers can evaluate other approaches. Apart from the RAD evaluation, HUD published a separate leverage ratio comparing public housing sources to all other sources contributed to RAD transactions. We believe this is one of several legitimate and relevant measures of the program's impact, even if it does not itself satisfy the statutory evaluation requirement. However, we acknowledge that publishing leverage ratios over time that use differing methodologies could be potentially misleading. As a result, HUD will identify a small number of relevant leverage ratios with distinct methodologies and will routinely publish these ratios together with clear identification and explanation so that audiences are fully informed and can select the ratio most relevant to their purposes. HUD will also ensure that the private-sector leverage ratio required by statute is clearly identified and is included in the RAD evaluation. If only one ratio is used in any materials, the nature of the ratio will be clearly identified. Further, we appreciate GAO's discovery that certain transaction sources were improperly classified. HUD plans to re-examine the source and uses chart of accounts so that data can be more clearly reported going forward. Finally, HUD will review prior transaction records to re-classify certain development sources according to the revised chart of accounts.

Recommendation #3:

HUD should prioritize the development and implementation of monitoring procedures to ensure that resident safeguards are implemented.

HUD Response:

As described above, RAD has adopted the most robust set of resident rights and protections of any HUD program. We are pleased to see that GAO has not found the resident safeguards to be weak or inadequate and instead focused on HUD's monitoring protocols. To use HUD's resources most effectively, and consistent with protocol under other HUD programs, including the public housing program, HUD employs a risk-based approach to monitoring resident rights in RAD. This approach involves a combination of 1) universal transaction reviews (monitoring, for example, resident notification, PHA Plan adoption, and the presence of resident eviction and grievance procedural rights in the tenant lease), 2) owner certification and reporting (monitoring, for example, the right of return and, consequently, the prohibition on rescreening), 3) review of transactions that exhibit particular features (monitoring, for example, relocation procedures and the right of return), and 4) education of residents and local organizations so that they understand their rights and can alert HUD if their rights are being violated (monitoring, for example, recognition of resident organizations and funding).

While HUD has both a comprehensive and risk-based approach to overseeing resident protections, HUD agrees that we can better document the monitoring procedures we use and can accelerate the implementation of additional monitoring procedures currently under development. Further, we agree that, in addition to the general PBV monitoring protocol the Office of Public and Indian Housing has implemented, more is needed to monitor the right of residents to request and move with a tenant-based voucher after a period of residency (i.e., choice-mobility). To this end, HUD PD&R is seeking funding for additional research on RAD, with particular attention to the choice-mobility option, which will provide greater insight into utilization and impact of choice-mobility, and will provide insight on how to design ongoing monitoring efforts.

Recommendation #4:

HUD should determine how it can use available program-wide data from public housing and section 8 databases, in addition to resident logs, for analysis of the use and enforcement of RAD resident protections.

HUD Response:

HUD agrees with GAO that HUD should use existing data systems whenever possible to monitor resident protections. Indeed, the RAD evaluation will attempt to use system data to glean significant information on resident demographics and impacts. Through these efforts, the evaluators may identify mechanisms for HUD to routinely use system data to monitor RAD outcomes. However, we know there are significant limitations with existing systems that will prevent HUD from tracking household-level rights without a significant new IT investment in modernization. For example, existing systems are incapable of providing information on residents while they are being relocated.

As a result, today HUD uses other mechanisms to track and monitor RAD resident safeguards. For example, to monitor compliance with the right of return, HUD reviews any proposed relocation activity in which residents may not return prior to conversion. In addition, at the completion of construction HUD collects property-specific data on the number of families that returned. When a compliance review is warranted based on analysis of the submitted data, HUD will review the required resident log that PHAs and owners must maintain, among other resources. HUD will examine whether we can use existing data systems to further buttress this and other monitoring protocols.

Recommendation #5:

HUD should prioritize the development and implementation of procedures to assess risks to the preservation of unit affordability.

HUD Response:

HUD agrees that it is essential to assess and mitigate risks to the preservation of unit affordability, particularly given the backlog of capital needs in the public housing program and the ongoing deterioration of public housing units. With respect to participating units, the RAD program itself effectively mitigates the greatest current risk to the preservation of unit affordability – the capital backlog and the risk of insufficient funds to address capital needs as they come due. To assess and mitigate this risk, it is critically important to maintain high standards to ensure long-term preservation of unit affordability. HUD employs robust underwriting standards prior to permitting conversion, which is the first line of defense to ensure long-term preservation, and we are gratified that GAO did not identify deficiencies in our underwriting standards. On an ongoing basis, HUD administers a risk assessment protocol, based on collection of financial statements and periodic inspections and management and occupancy reviews, to evaluate the affordable housing preservation risk to project based rental assistance properties, including RAD PBRA properties. For project-based vouchers, local agencies are the front-line oversight bodies. HUD is evaluating what additional oversight may be necessary and has piloted a monitoring process (initiated in the summer of 2017) for HUD monitoring of RAD PBV properties. Based on the strength of HUD's underwriting, reinforced by existing and possible additional risk assessment protocols, HUD expects default, bankruptcy, or foreclosure to be exceedingly rare events. In the event of some adverse action, we are confident that the HAP contract and RAD Use Agreement are effective instruments to ensure unit affordability and provide HUD the tools to intervene appropriately. HUD is currently developing internal procedures for HUD action in the event of default, bankruptcy, or foreclosure, to oversee the transfer of the property to a capable entity. HUD also plans to develop internal procedures regarding transfer of the rental assistance to another site, and effective ways to protect residents in the event the HAP contract at a site needs to be terminated. These internal protocols will provide HUD with an effective tool-kit to preserve affordable units in the unlikely event of a bankruptcy or foreclosure.

HUD thanks GAO for its review of RAD and for its recommendations aimed at making RAD a stronger program. We look forward to adopting measures to improve on metrics used to assess and report program impact and to build on existing oversight structures.

Sincerely,

Dana T. Wade

Dana T. Wade
General Deputy Assistant Secretary for Housing

Appendix V: GAO Contact and Staff Acknowledgments

GAO Contact

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

Staff Acknowledgments

In addition to the individual named above, Paul Schmidt (Assistant Director), Julie Trinder-Clements (Analyst in Charge), Meghana Acharya, Enyinnaya David Aja, Alyssia Borsella, Juan J. Garcia, Ron La Due Lake, Amanda Miller, Marc Molino, Barbara Roesmann, Jessica Sandler, MaryLynn Sergent, Rachel Stoiko, and William Woods made major contributions to this report.

Appendix VI: Accessible Data

Data Tables

Data Table for Figure 1: Number of Transactions Closed and Converted Rental Assistance Demonstration Units by Fiscal Year

	FY2013	FY2014	FY2015	FY2016	FY2017	Total
Converted RAD Units	32	6,167	13,368	22,885	32,257	74,709
RAD Conversions Closed	1	67	120	201	300	689

Data Table for Figure 2: HUD-Reported 2017 Leverage Ratio and GAO-Adjusted Leverage Ratio Estimates for RAD Using Recategorized Financial Sources, as of June 2017

	Description	Leverage Ratio
2017 HUD-reported	Leverage ratio of unds generated for every $1 in public housing funds	$19 to $1
GAO-adjusted RAD leverage ratio estimates	Recalculation utilizing HUD's methodology and re-categorized financial source data	7.44 :1
	Recalculation of non-federal financial sources to PHA financial sources	1.43 :1
	Recalculation of private financial sources to PHA financial sources	1.23 :1

Data Table for Figure 3: Hypothetical Example of Monthly Contribution to Rent by Residents under Rental Assistance Demonstration Housing Assistance Payment Contract or RAD Use Agreement

RAD PBV or PBRA HAP in place (resident contribution is 30 percent of *adjusted household income*)		**Use Agreement only (resident contribution is 30 percent of 80 percent of *area median income*)**	
Extremely low-income (income of 30 percent of median)	Very low-income (income at 50 percent of median)	Extremely low-income (income of 30 percent of median)	Very low-income (income at 50 percent of median)
$424	$707	$1,130	$1,130

Note: The hypothetical calculations above are based on Census Bureau data for 2015 national real median income for all races, which was $56,516 per year (80 percent of the median would be $45,213 per year or $3,768 per month). In this scenario, extremely low-income residents (30 percent of median or below) would be those classified as having an income of $16,955 per year ($1,413 per month) or less. Very low-income residents (50 percent of median or below) would be those classified as having an income of $28,258 per year ($2,355 per month) or less.

Agency Comment Letter

Text of Appendix IV: Comments from the Department of Housing and Urban Development

Page 1

Daniel Garcia-Diaz

Director, Financial Markets and Community Investment Government Accountability Office

441 G Street NW Washington, DC 20548

Dear Director Garcia-Diaz:

Thank you for the opportunity to respond to the Draft Report GAO-18-123 entitled "Rental Assistance Demonstration: HUD Needs to Take Action to Improve Metrics and Ongoing Oversight" received on December 27, 2017. This letter responds to the Recommendations for Executive Action with respect to the Rental Assistance Demonstration (RAD).

HUD appreciates the thoughtfulness and thoroughness of GAO's review of RAD. We are pleased that in its analysis GAO found that the financing for RAD conversions yielded significant funds for construction ($4.4 billion or nearly $60,000 per unit converted to RAD as of the date of GAO's analysis); that contract documents on closed properties include key provisions to ensure affordable rents and foreclosure protections; that PHAs found RAD to be flexible and responsive; and that HUD has put procedures in place to evaluate and monitor the impact of conversion. We are further pleased that GAO did not identify deficiencies or impediments in RAD's design that would jeopardize the ability of the program to facilitate access to capital or provide protections for residents. HUD agrees with GAO's findings that there are actions HUD can take to improve on metrics used to assess program impact and to build on existing oversight structures.

RAD has proven highly successful at generating the capital properties need to be rehabilitated or redeveloped. To date, PHAs and their partners have secured over $5 billion towards construction investment in over 87,000 units across 822 public housing properties that have converted under RAD. In many cases, these improvements have dramatically improved the quality of housing for low-income households. The improvements help to ensure that this housing, some of which was at risk of loss from the affordable housing inventory, remains affordable for the long-term.

Through HUD's Housing Assistance Payment (HAP) contracts, which must be renewed at each expiration, and the RAD Use Agreements recorded on the land and also perpetually renewed, RAD creates both policy and contractual measures to preserve the long-term affordability of this housing. Meanwhile, in RAD, HUD has established the most robust set of resident rights of any HUD program. Among these rights are the following, which is not an exhaustive listing:

- Required resident notices prior to application;
- Required resident consultation and meetings prior to conversion;
- Required description of the RAD conversion in the PHA plan (amendments to which require a public process);
- A right to return to the property following any temporary relocation;

Page 2

- Relocation protections in accordance with the Uniform Relocation Act (URA) and, in some cases, in excess of the URA requirements;
- Prohibition of re-screening residents upon "move-in" to the Section 8 property;
- Application of Section 3 low-income hiring requirements, even though in many cases the law would not have otherwise required it;
- A "phase-in" of resident rents if residents were paying less than 30% of adjusted income prior to conversion;
- Grievance and termination procedures consistent with public housing requirements;

- Resident organizing rights;
- Resident organization funding; and
- A right to request a tenant-based voucher after a period of residency at the converted property ("choice-mobility").

No other HUD program aimed at improving and/or redeveloping affordable housing adopts such a comprehensive suite of rights to ensure that residents benefit from the conversion.

In support of the important questions analyzed in GAO's report, HUD's Office of Policy Development and Research (PD&R) has funded an independent evaluation of RAD, by Econometrica, Inc., which will, at least in part, address many of GAO's findings. This evaluation was initiated to respond to the statutory requirement that HUD report on the impact of RAD on the preservation and improvement of public housing, the amount of private sector leveraging as a result of such conversion, and the effect of such conversion on tenants. HUD PD&R has published two reports as part of this evaluation. These existing reports provide information on RAD financing sources, including leverage ratios discussed extensively in this GAO report. HUD PD&R intends to publish one additional report as part of the current evaluation effort, which will provide updated leverage ratios, information on changes in the physical condition of RAD properties, and information on the effect of RAD on residents. To document the effect of RAD on residents, Econometrica is conducting a statistically representative survey of residents and analyzing HUD administrative data from the IMS/PIC and TRACS systems. We look forward to this and other initiatives to expand our understanding of RAD's impact.

HUD's response to the GAO recommendations are provided below:

Recommendation #1:

HUD should include provisions in its post-closing monitoring procedures to collect comprehensive quality data on financial outcomes upon completion of construction, which could include requiring third-party certification of and collecting supporting documentation for all financing sources and costs.

HUD Response:

HUD agrees that it is critical to rely on comprehensive quality data to effectively analyze development sources and uses. HUD currently relies on the executed contracts that reflect all of the obligated sources that funders provide to the transaction and all the uses that HUD and the sources of capital financing have approved at closing. In most cases, the sources and uses do not materially

Page 3

change between the time of closing and construction completion. Through contingency line items, development budgets are structured to accommodate the modest adjustments that do occur. As such, for many transactions, there may be minimal benefit, relative to the additional reporting burden, to secure a revised sources and uses statement following the completion of construction. HUD agrees, however, that when there are cost over-runs or other significant changes to the sources or uses, HUD should routinely collect an updated listing of sources and uses and related documentation.

HUD will review, and revise as appropriate, the post completion certifications required to ensure HUD collects quality data regarding RAD conversions.

Recommendation #2:

HUD should improve the accuracy of RAD leverage metrics - such as better selecting inputs to the leverage ratio calculation and clearly identifying what the leverage ratio measures - and calculate a private-sector leverage ratio.

HUD Response:

HUD agrees that the RAD leverage metrics can be improved to better identify what is being measured, to offer more consistent measurements over time, to more clearly identify which measures are addressing the statutory reporting requirement, and to better communicate the impact of RAD. There are a variety of important metrics that HUD uses to measure the financial and physical effects of RAD, including tracking total investment towards the rehabilitation or construction of converted properties, reviewing third party assessments of the capital needs of each property undergoing conversion, ensuring that any identified current capital needs are addressed, calculating the anticipated ongoing capital investments properties will need, and requiring the owner to set aside funds into a reserve in order to address those future needs. Leverage ratios, which is a focus of this report, represent another important measure of the financial impacts of RAD. As described above, HUD has contracted with a professional evaluator to assess the specific research areas required for evaluation by RAD's authorizing statute, including assessing private leverage.

Recognizing that there are a variety of acceptable methodologies in generating a leverage ratio, the evaluation has, to-date, reported multiple leverage ratios to address a range of possible analyses and categorized each source of financing so that readers can evaluate other approaches. Apart from the RAD evaluation, HUD published a separate leverage ratio comparing public housing sources to all other sources contributed to RAD transactions. We believe this is one of several legitimate and relevant measures of the program's impact, even if it does not itself satisfy the statutory evaluation requirement. However, we acknowledge that publishing leverage ratios over time that use differing methodologies could be potentially misleading. As a result, HUD will identify a small number of relevant leverage ratios with distinct methodologies and will routinely publish these ratios together with clear identification and explanation so that audiences are fully informed and can select the ratio most relevant to their purposes. HUD will also ensure that the private-sector leverage ratio required by statute is clearly identified and is included in the RAD evaluation. If only one ratio is used in any materials, the nature of the ratio will be clearly identified. Further, we appreciate GAO's discovery that certain transaction sources were improperly classified. HUD plans to re-examine the source and uses chart of accounts so that data can be more clearly reported going forward. Finally, HUD will review prior transaction records to re-classify certain development sources according to the revised chart of accounts.

Page 4

Recommendation #3:

HUD should prioritize the development and implementation of monitoring procedures to ensure that resident safeguards are implemented.

HUD Response:

As described above, RAD has adopted the most robust set of resident rights and protections of any HUD program. We are pleased to see that GAO has not found the resident safeguards to be weak or inadequate and instead focused on HUD's monitoring protocols. To use HUD's resources most effectively, and consistent with protocol under other HUD programs, including the public housing program, HUD employs a risk-based approach to monitoring resident rights in RAD. This approach involves a combination of 1) universal transaction reviews (monitoring, for example, resident notification, PHA Plan adoption, and the presence of resident eviction and grievance procedural rights in the tenant lease), 2) owner certification and reporting (monitoring, for example, the right of return and, consequently, the prohibition on rescreening), 3) review of transactions that exhibit particular features (monitoring, for example, relocation procedures and the right of return), and 4) education of residents and local organizations so that they understand their rights and can alert HUD if their rights are being violated (monitoring, for example, recognition of resident organizations and funding).

While HUD has both a comprehensive and risk-based approach to overseeing resident protections, HUD agrees that we can better document the monitoring procedures we use and can accelerate the implementation of additional monitoring procedures currently under development. Further, we agree that, in addition to the general PBV monitoring protocol the Office of Public and Indian Housing has implemented, more is needed to monitor the right of residents to request and move with a tenant-based voucher after a period of residency (i.e., choice-mobility). To this end, HUD PD&R is seeking funding for additional research on RAD, with particular attention to the choice- mobility option, which will provide greater insight into utilization and impact of choice-mobility, and will provide insight on how to design ongoing monitoring efforts.

Recommendation #4:

HUD should determine how it can use available program-wide data from public housing and section 8 databases, in addition to resident logs, for analysis of the use and enforcement of RAD resident protections.

HUD Response:

HUD agrees with GAO that HUD should use existing data systems whenever possible to monitor resident protections. Indeed, the RAD evaluation will attempt to use system data to glean significant infqrmation on resident demographics and impacts. Through these efforts, the evaluators may identify mechanisms for HUD to routinely use system data to monitor RAD outcomes. However, we know there are significant limitations with existing systems that will prevent HUD from tracking household-level rights without a significant new IT investment in modernization. For example, existing systems are incapable of providing information on residents while they are being relocated.

Page 5

As a result, today HUD uses other mechanisms to track and monitor RAD resident safeguards. For example, to monitor compliance with the right of return, HUD reviews any proposed relocation activity in which residents may not return prior to conversion. In addition, at the completion of construction HUD collects property-specific data on the number of families that returned. When a compliance review is warranted based on analysis of the submitted data, HUD will review the required resident log that PHAs and owners must maintain, among other resources. HUD will examine whether we can use existing data systems to further buttress this and other monitoring protocols.

Recommendation #5:

HUD should prioritize the development and implementation of procedures to assess risks to the preservation of unit affordability.

HUD Response:

HUD agrees that it is essential to assess and mitigate risks to the preservation of unit affordability, particularly given the backlog of capital needs in the public housing program and the ongoing deterioration of public housing units. With respect to participating units, the RAD program itself effectively mitigates the greatest current risk to the preservation of unit affordability- the capital backlog and the risk of insufficient funds to address capital needs as they come due. To assess and mitigate this risk, it is critically important to maintain high standards to ensure long-term preservation of unit affordability. HUD employs robust underwriting standards prior to permitting conversion, which is the first line of defense to ensure long-term preservation, and we are gratified that GAO did not identify deficiencies in our underwriting standards. On an ongoing basis, HUD administers a risk assessment protocol, based on collection of financial statements and periodic inspections and management and occupancy reviews, to evaluate the affordable housing preservation risk to project based rental assistance properties, including RAD PBRA properties. For project-based vouchers, local agencies are the front-line oversight bodies. HUD is evaluating what additional oversight may be necessary and has piloted a monitoring process (initiated in the summer of 2017) for HUD monitoring of RAD PBV properties. Based on the strength of HUD's underwriting, reinforced by existing and possible additional risk assessment protocols, HUD expects default, bankruptcy, or foreclosure to be exceedingly rare events. In the event of some adverse action, we are confident that the HAP contract and RAD Use Agreement are effective instruments to ensure unit affordability and provide HUD the tools to intervene appropriately. HUD is currently developing internal procedures for HUD action in the event of default, bankruptcy, or foreclosure, to oversee the transfer of the property to a capable entity. HUD also plans to develop internal procedures regarding transfer of the rental assistance to another site, and effective ways to protect residents in the event the HAP contract at a site needs to be terminated. These internal protocols will provide HUD with an effective tool-kit to preserve affordable units in the unlikely event of a bankruptcy or foreclosure.

Page 6

HUD thanks GAO for its review of RAD and for its recommendations aimed at making RAD a stronger program. We look forward to adopting measures to improve on metrics used to assess and report program impact and to build on existing oversight structures.

Sincerely,

Dana T. Wade

General Deputy Assistant Secretary for Housing

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