

# City of Sacramento

## Legislation Details (With Text)

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**Title:** (Housing Authority) Update to Housing Authority Asset Repositioning Plan Strategy to Allow for Conversion of the Public Housing Property Portfolio to the Rental Assistance Demonstration (RAD) and Section 18 Demolition and Disposition (Section 18) Programs, and Authorization to Submit Conversion Applications to the United States Department of Housing and Urban Development (HUD)

**Sponsors:**

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Date	Ver.	Action By	Action	Result
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**Title:**

**(Housing Authority) Update to Housing Authority Asset Repositioning Plan Strategy to Allow for Conversion of the Public Housing Property Portfolio to the Rental Assistance Demonstration (RAD) and Section 18 Demolition and Disposition (Section 18) Programs, and Authorization to Submit Conversion Applications to the United States Department of Housing and Urban Development (HUD)**

File ID: 2018-01321

**Location:** Citywide

**Recommendation:**

Pass a Housing Authority Resolution: 1) approving updates to the Housing Authority Asset Repositioning Plan to allow for conversion of the public housing portfolio under the Rental Assistance Demonstration (RAD) and Section 18 Demolition and Disposition (Section 18) Programs, 2) authorizing the Executive Director to submit RAD and Section 18 applications to the United States Department of Housing and Urban Development (HUD), 3) authorizing the Executive Director to execute applicable award agreements if the RAD and Section 18 applications are accepted, and 4) making related findings.

**Contact:** La Shelle Dozier, Executive Director, (916)440-1319, Sacramento Housing and Redevelopment Agency

**Presenter:** La Shelle Dozier, Executive Director, (916) 440-1319; LaTanna Jones, Assistant Director

of Housing, (916) 440-1334; Sacramento Housing and Redevelopment Agency

**Attachments:**

- 1-Description/Analysis
- 2-Housing Authority Resolution
- 3-Exhibit A
- 4-Exhibit B
- 5-RAD Conversion Priority
- 6-Guiding Principles
- 7-Asset Repositioning Strategy

**Description/Analysis**

**Issue Detail:** In Sacramento there are currently 2712 units of public housing (1699 of which are in the City of Sacramento) which are managed by the Sacramento Housing and Redevelopment Agency (SHRA) . These units are vital to providing critical housing for low and very low income residents. However, the units have significant issues that affect their long term sustainability. The housing stock is rapidly aging, the Federal government has not adequately funded public housing programs over the last seventeen years, and the local demand for affordable housing continues to increase. Sacramento's issues are not unique. Many Public Housing Authorities (PHAs) across the nation are struggling to maintain their public housing inventory. To meet these challenges, the Housing Authority of the City of Sacramento (Housing Authority), staffed by SHRA, must take new innovative approaches to preserve and maintain this valuable affordable rental housing portfolio.

SHRA staff contracted with CSG Financial Services to update the PHA Asset Repositioning Plan, approved by the Housing Authority Board in 2007 (Housing Authority Resolution No. HA-2007-010), in an effort to evaluate the best strategy for its public housing portfolio. The update involved analysis and review of the physical condition of all properties via physical needs assessments, financial records, property budgets, and historical property data. In addition, they reviewed HUD programs and requirements which would address deferred maintenance and capital improvement needs backlog.

The analysis determined that the Housing Authority should convert its entire housing portfolio from the current Public Housing Program to either the Rental Assistance Demonstration (RAD) Program or Project Based Section 8 via HUD's Demolition and Disposition Program. Both programs will increase the Housing Authority's ability to stabilize its properties and address long term deferred maintenance needs while preserving long term affordability for the residents.

CSG has prepared a detailed analysis and recommendations regarding the following factors related to the proposed conversions: 1) feasibility analysis, 2) conversion phasing, 3) financial impact, and 4) guiding principles.

## FEASIBILITY ANALYSIS

Based on the review of the current public housing stock, there are two possible conversion approaches. The strategy used depends on the size of the property. One strategy addresses properties with five or more units and the other strategy focuses on properties with four or less units. Details on the two strategies are outlined below.

Strategy 1 - Portfolio Conversion - Rental Assistance Demonstration (RAD) Properties with five or more units are proposed to be converted to the RAD Program. RAD was initiated by HUD in 2012 to help PHAs convert properties to a more sustainable program. Converting properties gives the PHAs the ability to use private debt and equity because PHAs are able to transition to long-term project-based Section 8 rental assistance contracts instead of the burdensome contracts required for public housing. A key feature of RAD is that repositioned properties are economically sustainable without adverse impacts to the residents.

Full conversion of the City portfolio would allow the Housing Authority to leverage approximately \$129 million dollars to complete deferred maintenance activities. The Housing Authority will have the ability to use noncompetitive four percent low income housing tax credits, capital funds, supportable mortgages, and surplus cash generated from property conversions to leverage funds needed for capital improvements. Financial projections reveal that conversion may generate positive cash returns from some of the properties. The positive revenue could then be used to offset gap financing for other properties. As a result, the feasibility analysis concluded that the RAD conversions could be accomplished primarily within the cash returns and capital funds generated from Housing Authority financing. This assumption is based on upfront deferred maintenance work being confined to the critical needs required in the current physical needs assessments completed by EMG Consultants. CSG also concluded that pursuing nine percent Low-Income Tax Credits may be beneficial for some properties. However, should those not be available, all financial scenarios work with noncompetitive four percent tax credits. A list of the properties proposed for conversion to RAD is included as Exhibit A.

Strategy Two - Scattered Sites - Section 18 Disposition Properties with four or less units are categorized as Scattered Site properties and are recommended to be converted to Project Based Section 8 properties under the Section 18 Demolition and Disposition Program (Section 18 Disposition). The program has no requirement to complete upfront deferred maintenance work. In cases where the Housing Authority determines rehabilitation work is necessary, that work can be performed with the enhanced revenues generated as a result of the conversion. A benefit of the Scattered Site conversions under Section 18 Disposition is the addition of Section 8 vouchers that can either be used to relocate tenants as necessary or to convert the properties to Project Based Section 8 properties to guarantee long-term affordability. No additional drain on the Housing Authority's current voucher program is created by these conversions. A list of the properties proposed for conversion to Section 18 status is included as Exhibit B.

## CONVERSION PHASING

HUD requires PHAs to develop a phasing plan for conversion. The properties would be phased in accordance with a schedule that is based on minimizing requirements for gap funding. After initiation of the application process for each conversion, HUD allows PHAs up to two years to complete conversions and initiate deferred maintenance activities, if required. Conversion takes place prior to any construction of deferred maintenance activity. Based on our preliminary projections, the Housing Authority plans to submit applications to HUD to reserve RAD conversion for the entire portfolio by early 2019. Attachment 1 contains the priority of property conversions.

Staff proposes that applications for the conversion of Scattered Site properties (1-4 units) be submitted to HUD before the end of 2018. All conversions under this program will be granted with new Section 8 Vouchers that are provided on a first come, first served basis. Because of the popularity of this program and the ability to obtain additional vouchers, it is important that the Housing Authority submit applications to convert the Scattered Sites as soon as possible. Staff recommends submission of applications for Scattered Sites under the Section 18 program before the end of 2018.

If the Housing Authority pursues the four percent tax credit program for the property rehabilitations needed, the timeline will likely be 10-12 years. However, if the Housing Authority is successful in pursuing nine percent tax credits for some of the properties, the rehabilitation timeline could be reduced by approximately 3-4 years.

## FINANCIAL IMPACT

As previously mentioned, the purpose of conversion is to attract private equity and capital to the public housing portfolio to address much needed deferred maintenance.

The additional equity and supportable mortgage leveraged for the City Housing Authority properties are estimated to total approximately \$129 million which will cover the deferred maintenance identified in the CSG Study. Under RAD and Section 18, the rental subsidy received from HUD would increase by approximately 30 percent. Based on three-year average revenues for 2015, 2016 and 2017, the newly converted properties would increase overall revenue between the City and County properties by over \$1 million dollars.

## GUIDING PRINCIPLES

As part of the initial Asset Repositioning Strategy, Guiding Principles that were adopted as the policy direction for each reposition activity. The general parameters of those principles were to prevent loss of units to extremely low income households, decrease reliance on federal funds, incorporate smart growth principles into development opportunities, reinvest proceeds of sale into Housing Authority replacement units, foster partnerships with entities to position development efforts for success, and to pursue actions that would generate fees and other revenue for the Authority. In 2018 these principles

still hold true. However, due to changes in HUD conversion programs, the Housing Authority is proposing the following modifications to three of the Guiding Principles as outlined below. The complete text of the Guiding Principles is included in Attachment 2.

Description of Modification	Justification
20 year vs. 30 year upgrade standards	HUD's RAD Program has modified Physical Needs Certifications and standards to 20 year assessments. All reporting and criteria for the program guidelines have been updated to this timeframe.
Preserve and enhance housing stock via rehabilitation and new construction vs. demolition	In accordance with Section 18 standards, no City Housing Authority property is currently eligible for demolition. Rehabilitation and completion of deferred maintenance are the allowable paths of conversion under current program guidance
Conversion to Section 8 Platform vs. remaining part of the standard public housing program	The Rental Assistance Demonstration and Section 18 Disposition Program are designed for Authorities to convert to the more stable Project Based Section 8 platform.

**Policy Considerations:** This report is consistent with the recently updated Public Housing Authority Plan to transition and convert public housing properties under the Rental Assistance Demonstration and Section 18 Demolition and Disposition Programs. The efforts are also consistent with the Housing Authority's mission to promote self-sustaining housing opportunities for extremely low-income residents in the City of Sacramento.

In concert with the PHA Plan and the mission of the Housing Authority, Staff is maximizing its efforts to provide information and updates to the residents regarding the intended conversion program. The Resident Advisory Board has been consulted throughout the process, and affected residents have been notified and invited to informational meetings. During the week of October 15, 2018, additional correspondence was sent to residents regarding the RAD and Scattered Site conversion programs respectively. Staff is also working to assemble resident representatives, stakeholders, and community advocates to be involved in a RAD consortium on an ongoing basis to bolster advocacy, accountability, and to ensure the consistent dissemination of information regarding all conversion efforts. This body will also be used to help market workforce development opportunities to Section 3 residents and businesses within Sacramento.

Relocation may be required with conversion of the units to the RAD and/or Section 18 Programs. If required, relocation assistance will be provided in accordance with the Uniform Relocation Assistance Act. Residents will not be required to move or pay additional rent due to this action.

**Economic Impacts:** Not applicable.

**Environmental Considerations:**

**California Environmental Quality Act (CEQA):** The proposed application for RAD Conversion is an administrative activity and does not make any commitments to, or give approvals for, specific projects or activities which have the potential to result in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment. Therefore, the proposed actions do not constitute a project subject to environmental review under the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines Section 15378(b). Environmental Review for specific projects under the RAD Program will be completed prior to any discretionary action(s) being carried out with regard to such projects.

**National Environmental Policy Act (NEPA):** The proposed application for RAD Conversion is an administrative activity and does not make any commitments to, or give approvals for, specific projects or activities and is exempt under the National Environmental Policy Act (NEPA) pursuant to 24 CFR 58.34(a)(3). Environmental Review for specific projects under the RAD Program will be completed prior to any choice limiting action(s) being carried out with regard to such projects.

**Sustainability Considerations:** Not applicable.

**Commission Action:** At its meeting of October 17, 2018 the Sacramento Housing and Redevelopment Commission reviewed the staff recommendation for this item. The votes were as follows:

Ayes: Alcalay, Griffin, Johnson, Macedo, Morgan, Nunley, Starks

Noes: None

Absent: Creswell, Staajabu, Wedding

Abstain: None

**Rationale for Recommendation:** This report recommends that the Housing Authority submit applications to HUD to convert the Public Housing portfolio to the Project Based Section 8 platform under the RAD and Section 18 programs. This will convert the portfolio to a long-term sustainable financial model and allow for physical improvements to be made at the properties with no rental increase for the residents.

**Financial Considerations:** This report recommends that Housing Authority submit applications to HUD to convert the Public Housing portfolio to the Project Based Section 8 platform. A detailed analysis and update to the Housing Authority Asset Repositioning Plan is included at Attachment 3. Conversion, if granted, would terminate the Authority's reliance on Public Housing Subsidy and Capital Funds to operate and maintain public housing properties. Alternatively, the Housing Authority would receive Section 8 vouchers in the same or slightly higher amount plus leveraged funds from private investors to facilitate property operations. Upon approval to convert public housing properties, the Housing Authority will need to consider the use of existing capital funds to finance predevelopment, development and other activities that promotes long term investment in the existing portfolio. The preliminary financial projects are included in the Asset Repositioning Strategy. Financing plans will be developed for each property prior to conversion and will be brought back to the Board for consideration and approval.

**LBE - M/WBE and Section 3 requirements:** Section 3 will not be applicable to the submission of the RAD or Section 18 applications. However, the Authority will pursue a robust plan of promoting Section 3 training and employment opportunities in the implementation of the RAD conversion program. The Authority will work with local vendors and contractors in accordance with the SHRA Section 3 plan to maximize employment benefits for low income residents. .