

# **PUBLIC HOUSING AGENCY OF THE CITY OF SAINT PAUL**

**REPORT TO COMMISSIONERS**

**FROM JON M. GUTZMANN  
EXECUTIVE DIRECTOR**

**REGARDING** Authorization to Begin Resident Consultation  
Regarding a Possible Asset Preservation and  
Homeownership Initiative

**DATE** June 28, 2017

Staff requests Board authorization to begin consulting with public housing residents, other stakeholders and community representatives on alternative strategies to preserve the deeply affordable rental assistance that public housing properties provide, and at the same time promote resident opportunities through a possible new homeownership initiative. A working title for this draft strategic plan is the Asset Preservation and Homeownership Initiative (APHI).

Staff recommends beginning this discussion as soon as possible, to respond to the reductions in federal funding for public housing over recent years and the far greater funding cuts that would happen under the Administration's proposed budget for HUD for Federal Fiscal Year 2018 that begins October 1, 2017. A summary of those actual and proposed funding reductions is attached.

With the Board's authorization, staff would immediately begin reaching out to residents and stakeholders inviting them to meetings to discuss the alternative models listed below, potential conversion plans to one or more of the alternative models, and provide residents and stakeholders with opportunities to ask questions and receive responses in accordance with applicable HUD requirements. The resident and stakeholder consultations would occur in a variety of settings, including but not limited to resident and resident council meetings, Resident Advisory Board (RAB) meetings (initiating the formal process to amend the Agency Plan), community meetings, etc. Staff would record all the comments, provide comprehensive written responses to the comments, and report the findings at the August 23, 2017 Board meeting. A staff

recommendation on how to proceed may also be presented for consideration at the August 23 Board meeting.

Some of the Asset Preservation and Homeownership Initiatives could be pursued simultaneously; others would be mutually exclusive. Some of the alternatives have timelines that dovetail with each other; others have distinct timelines. The draft Agency Plan amendment and resident notices would include the following:

1. RAD: HUD's "Rental Assistance Demonstration" program allows a PHA to convert all or part of its public housing units to a form of Section 8 rental assistance that provides greater assurance of long-term funding stability while preserving deep rental subsidies for residents/participants. As discussed at the Board meetings on April 26 and May 24, 2017, staff submitted a "Letter of Interest" to HUD on April 20, 2017 to secure a place on the RAD waiting list. The May 24 staff report to the Board and supporting documents are attached.

Staff will discuss and seek resident comments on what a portfolio-wide RAD conversion might look like (for all PHA public housing properties totaling 4,274 units), as well as what a RAD conversion might look like for all PHA properties except the 418 scattered sites and duplexes ( $4,274 - 418 = 3,856$  units). Residents and stakeholders will be provided with opportunities to ask questions and receive PHA responses on these draft plans in accordance with applicable HUD requirements.

A preliminary analysis of these two RAD conversion options is attached and would be shared with residents and stakeholders as the draft plan for resident review and comment. At this stage of our analysis, it appears that converting all PHA properties to RAD except scattered sites is financially viable. (Attachment 3)

HUD may notify the PHA and other agencies on the RAD waiting list at any time to proceed to the next step in the process, with only a 60-day timeline to respond, so staff is recommending an ambitious schedule of resident and stakeholder consultations regarding a possible RAD application. By soliciting input early in the process, the PHA can focus on solutions that best address the needs and concerns of residents and the community. The PHA can withdraw a RAD application at any time up to the final signing of contracts (which could be a year or more away), but missing a deadline for proceeding to the next step would bump the PHA's application lower on the waiting list, and possibly result in less favorable funding if the RAD conversion were finally approved.

2. Voluntary Conversion: This HUD program/option provides another way for a PHA to convert public housing homes and apartments to Section 8 rent assistance, again for greater assurance of long-term funding stability while preserving deep rental subsidies for residents/participants. Metro HRA, Scott County HRA, and AEON used Voluntary

Conversion to secure more stable funding for homes and apartments that were formerly subsidized under the public housing program, by converting them to a form of Section 8 rent assistance. HUD has approved such conversions when PHAs have demonstrated that Section 8 assistance would require less HUD subsidy than maintaining the units as public housing over a 20 year period.

As another step in the PHA's exploration of asset preservation strategies with residents and stakeholders, the PHA would prepare a Voluntary Conversion cost analysis of its scattered site portfolio. If the calculations pan out, this option could provide a new opportunity to secure the long term viability of these properties. On the other hand, if the calculations do not work out, the PHA may be forced to look at selling all or a portion of these homes given their high cost to operate.

(At the time of preparing this Board Report, staff has not completed the Voluntary Conversion cost analysis of the scattered site portfolio. Once it is completed, we will know if this option is viable or not as it is strictly a function of "the numbers penciling out." If the financial analysis is positive, staff would draft a plan for Board consideration, outlining the details of how Voluntary Conversion of the scattered site portfolio could be a viable scattered site asset preservation option. Then with Board authorization, staff would start another round of resident notifications and input on the Voluntary Conversion Plan as required by HUD regulations. Residents and stakeholders will be provided with opportunities to ask questions and receive responses in accordance with applicable HUD requirements.)

3. HUD property "disposition application": If the Voluntary Conversion analysis of the PHA's scattered site portfolio is negative, then the PHA will need to explore selling some scattered site public housing single-family and duplex homes under HUD's disposition program, given that these properties are the most expensive to operate. Residents and stakeholders will be provided with opportunities to ask questions and receive PHA responses in accordance with applicable HUD requirements. The discussions would include various combinations of the following:
  - a. As possibly the highest "disposition" priority, the PHA would explore selling some of the scattered site portfolio to current residents of those homes. PHA Housing Managers estimate that perhaps 10% to 20% of current scattered site residents want to and would be in a financial position to purchase their current unit.
  - b. Related to 3(a) are the possible sales of some scattered sites to other public housing residents (current residents of the family developments and hi-rises) who may wish to purchase a scattered site home. This is not a HUD requirement but exploring this possibility could create positive outcomes and expanded choice for current public housing residents.
  - c. As possibly the next highest "disposition" priority, the PHA would explore selling the 50 or so "most challenged" scattered site properties to the public (including for-profit and non-profit organizations), "as is" and regardless of location. That list would include the properties with the highest costs to operate, properties with

disproportionate deferred capital needs, properties that are difficult to rent because of high automobile traffic, poor design, or other reasons.

- d. The PHA would also explore possible sales of some of the scattered site portfolio to non-profit community organizations that enable low-income families to become homeowners. Those organizations include, among others, Twin Cities Habitat for Humanity, Rondo Community Land Trust, NeighborWorks, and Neighborhood Community Development Corporations (NCDCs). They may be able to sell the homes to their own clients or possibly serve as intermediaries in selling the homes to public housing residents.
  - e. The PHA would also explore possible sales of some scattered site homes to non-profit community organizations that provide affordable rental housing for low-income families, like Project for Pride in Living (PPL), CommonBond Communities, Twin Cities Housing Development Corporation (TCHDC), Model Cities, Beacon Interfaith Housing Collaborative, etc.
  - f. The PHA would also explore selling some scattered sites to homebuyers in the private market.
  - g. As stated above, a disposition application could include some combination of the above options.
  - h. The PHA may choose to retain some of the scattered site homes that are located in “areas of opportunity” even if these properties do not “pencil out” in the Voluntary Conversion financial analysis. Continuing to own and manage those homes would advance other important PHA goals including but not limited to Affirmatively Furthering Fair Housing, promoting resident economic self sufficiency and more. This option could be enhanced financially with the sale of other scattered site properties, by using some of those sale proceeds for operating and maintaining the remnant scattered site portfolio.
  - i. Finally, the PHA is prepared to discuss with residents and the broader community what the worst-case “asset preservation” option might look like if federal funding is cut as deeply as proposed in the Administration’s 2018 HUD budget. For example, the PHA would benefit from stakeholder input regarding other options to preserve this inventory if it indeed receives a 70% reduction in capital funding. This conversation could explore what appetite may exist for other governmental, non-profit, foundation, or lender/financial community resources (i.e., guarantees of annual funding sufficient to offset the loss of federal funding, LIHTC, etc.) to preserve this community asset.
4. New Homeownership Opportunities for Residents; further considerations:
- a. If some PHA scattered site homes might be offered for sale to existing public housing residents, the PHA would provide homebuyer counseling assistance (directly or through partner organizations). The PHA would draw upon its HOME program wherein 302 public housing residents and HCV participants successfully

purchased homes over a 24 year period (1989 to 2014). (See attached HOME close-out Board Report).

- b. The PHA would also explore homeownership mortgage products that might exist or could be developed to help public housing residents purchase a scattered site home from the PHA.
  - c. If residents of scattered site homes cannot or do not wish to purchase the home the family currently lives in, they would be guaranteed the opportunity to relocate to other public housing homes (including those scattered site homes the PHA retains, or family developments or hi-rises) or to receive Section 8 HCV assistance to move elsewhere if their unit is sold. The PHA would follow all HUD Relocation guidelines, including developing a detailed Relocation Plan.
  - d. The PHA would seek HUD Tenant Protection Vouchers for all scattered site homes that might be sold with the goal of “no net loss” of PHA deep-subsidy affordable housing opportunities after the possible sale of some scattered site properties.
  - e. Other interesting “mobility” ideas” could be explored with PHA stakeholders. For example, the PHA could consider dedicating Tenant Protection Vouchers resulting from the sale of some scattered site homes, or an equivalent number of regular vouchers, for use in “areas of opportunity” in the City of St. Paul or throughout the metropolitan region as part of a broader partnership with the MPHA, Metro HRA, and other entities currently looking into these ideas. Something like this would have the dual benefit of reducing the PHA’s footprint in areas of high poverty (sale of scattered site homes there) while increasing choice for residents in areas of opportunity, both within the City of St. Paul and the metropolitan region.
5. Any other alternative solutions. Staff will continue to consult with national and local housing industry experts and colleagues, seeking other strategies that may provide resident opportunities while preserving the public housing stock. These alternative solutions include but are not limited to:
- a. HUD’s “Moving to Work” (MTW) demonstration program. MTW allows more flexibility in both the public housing and Housing Choice Voucher programs, potentially reducing the complexity while opening up new resident opportunities. MTW allows a select group of PHA’s to redesign both their public housing and Housing Choice Voucher programs in ways that streamlined procedures (benefiting residents and staff) and provided greater incentives for “work-able” residents to increase their incomes, while opening up new resident opportunities. MTW, however, does not provide additional funding to the PHA and currently there are no additional “slots” available.
  - b. “Low Income Housing Tax Credits” (LIHTC). The PHA will continue to explore whether LIHTC, loans, mortgages, or other financing tools may be available to help offset declining federal subsidies and recapitalize and preserve the existing

public housing stock (or produce new affordable housing alone or in partnership with non-profit or for-profit entities). There are two LIHTC options: 9% credits and 4% credits. 9% LIHTC credits may not be available to the PHA due to the highly competitive nature of this program, according to other agencies' initial responses to staff's inquiries. The 4% program provides a lower level of leverage but is generally available to all applicants.

Again, with the Board's authorization to proceed, staff will immediately begin reaching out to public housing resident organizations and other stakeholders scheduling a series of meetings on this draft Asset Preservation and Homeownership Initiative.

JMG/FAH

Attachments:

1. Public Housing Funding History and Proposed Reductions
2. May 24, 2017 Board Report on Rental Assistance Demonstration (RAD)
  - a. Executive Summary of Interim RAD Report
  - b. Glossary of acronyms and other terms
3. RAD Conversion Financial Analysis
4. HOME Program Summary