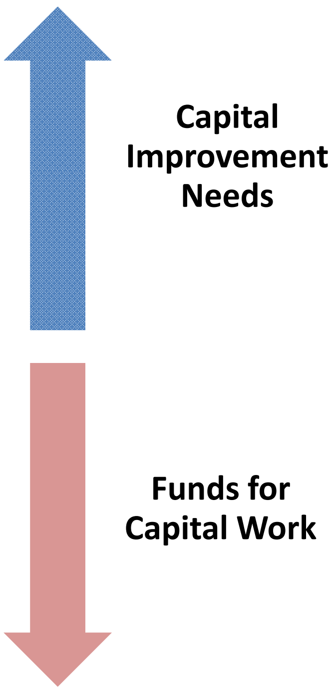
Putting RAD to Work

Cambridge Housing Authority
May 2015

RAD | Substantial Capital Needs



- In 2006, a capital needs study of CHA's properties identified over $228 million in needed improvements to its 2,429 public housing units. Since CHA's annual capital budget was only $7 million, it would take over 32 years to complete all the needed capital improvements.

- Between 2007-2009, CHA held many meetings with residents at each property to discuss capital needs, and identify new ways to potentially fund improvements such as traditional grants, tax credits, bank financing, and income mixing. CHA initiated pre-development activity at several properties.

- In 2009, CHA received $28 million in ARRA funds to complete various renovations including the revitalization of 292 units, or 12% of it portfolio. The pre-development activities, funded through MTW, were key to CHA's success.

- Between 2010-2012, CHA renewed efforts to identify a portfolio wide solution to meet its capital needs, begins preparing a disposition application for 1,065 units and does another two rounds of meetings with residents. Application is submitted in March 2012, but is quickly rejected by HUD.

- In July 2012, HUD issued the initial RAD notice of funding. It does not work in Cambridge, so focus continues to be on disposition. Pre-development activities continue.

RAD 2012 | Not Enough, No MTW

As noted, when HUD first issued the RAD notice in 2012 there was not enough flexibility for it to work in Cambridge. RAD conversions even when combined with 4% LIHTCs would not allow CHA to meet the capital needs of its properties, even ones with low to modest capital needs. Most significantly, MTW could not be combined with RAD.

WOODROW WILSON COURT – 68 unit family site	
Annual RAD Income	$648,558
Annual Expense	$538,324
Net Operating Income (NOI)	**$110,234**
Supportable Mortgage from NOI	$1,428,163
LIHTC 4%	$3,984,307
Total Sources	**$5,412,470**
Construction	$2,974,946
Soft Costs	$2,747,261
Reserves/Contingency	$ 710,000
Total Uses	**$6,432,207**
Surplus/(Shortfall)	**($1,019,737)**

MANNING APTS – 198 unit elderly/disabled site	
Annual RAD Income	$2,072,444
Annual Expense	$1,572,630
Net Operating Income (NOI)	**$499,814**
Supportable Mortgage from NOI	$6,488,800
LIHTC 4%	$23,915,965
Total Sources	**$30,404,765**
Construction	$32,975,000
Soft Costs	$10,851,456
Reserves/Contingency	$5,047,382
Total Uses	**$48,873,838**
Surplus/(Shortfall)	**($18,469,073)**

RAD 2013 | Flexibility Emerges in RAD

The revisions to the RAD program issued in July 2013 provided sufficient flexibility for CHA as a MTW agency to develop a portfolio-wide solution for all its federally-assisted public housing developments, with the exception of one property which meets HUD's definition for obsolescence. For this property, CHA will pursue disposition under Section 18 and use its MTW authority to project-base tenant protection vouchers.

KEY CHANGES TO RAD FROM 2012 TO 2013:

- Allows MTW agencies to use their single fund flexibility to set initial contract rents when submitting applications for two or more projects. This flexibility, combined with the disposition and the project basing of tenant protection vouchers in the one property meeting the Section 18 threshold, allows CHA to meet the $317 million (in 2015 $) construction needs of its entire portfolio.

- Allows for rent bundling – meaning PHAs can adjust subsidy (i.e. contract rents) across multiple properties as long as the PHA does not exceed the aggregate subsidy for all projects submitted for conversion. This was an important element to coming up with a portfolio-wide solution.

- Allows for a PHA to group properties together, or separately, in any manner provided it is financially feasible. This flexibility also contributed to CHA's ability to come up with a portfolio-wide solution.

- Provides additional income to PHAs as HUD is calculating rents for RAD applications under the 60,000 unit authorization using FY 2012 funding (i.e. 95% proration, rather than current, lower levels).

RAD 2013 | CHA's Application Using MTW

WOODROW WILSON COURT – 68 unit family site	
Annual RAD Income	$648,558
Annual MTW Subsidy	$79,000
Annual Income	$727,558
Annual Expense	$538,324
Net Operating Income (NOI)	**$189,234**
Supportable Mortgage from NOI	$2,447,900
LIHTC 4%	$3,984,307
Total Sources	**$6,432,207**
Construction	$2,974,946
Soft Costs	$2,747,261
Reserves/Contingency	$710,000
Total Uses	**$6,432,207**
Surplus/(Shortfall)	**$0**

For Woodrow Wilson Court, CHA was able to reduce the $602,330 shortfall that existed in the RAD 2012 model by adding $79,000 in annual income (or approximately $97 PUM) through the single fund flexibility afforded under MTW.

RAD 2013 | CHA's Application Using MTW

The CHA was able to reduce the $18,469,073 shortfall that existed in the RAD 2012 model by adding income through:

- Rent bundling from four other CHA properties
- A MTW subsidy equal to $334 PUM.

An additional loan of $5.35M using MTW funds from the acquisition proceeds from other sites was the final piece to meeting Manning needs.

MANNING APTS – 199 unit elderly/disabled site	
Annual RAD Income	$2,072,444
Annual Income – Rent Bundling	$419,562
Annual MTW Subsidy	$794,651
Annual Income (= to 110% FMR)	$3,089,519
Annual Expense	$1,572,630
Net Operating Income (NOI)	**$1,516,889**
Supportable Mortgage from NOI	$19,622,800
LIHTC 4%	$23,915,965
CHA Program Loan	$5,335,073
Total Sources	**$48,873,838**
Construction	$32,975,000
Soft Costs	$10,851,456
Reserves/Contingency	$5,047,382
Total Uses	**$48,873,838**
Surplus/(Shortfall)	**$0**

RAD 2013 | Rent Bundling and MTW

The Interplay of Rent Bundling and MTW Subsidy in CHA's RAD Phase 1 Properties

	Manning	Newtowne Court	Washington Elms	Woodrow Wilson Ct	Putnam Gardens	Lyndon B. Johnson	John F. Kennedy	Jackson Gardens	Lincoln Way	Total
Stablized Cash Flow Proforma										
RAD Rents from Application	$ 1,853,832	$ 3,297,840	$ 2,355,480	$ 682,272	$ 1,471,596	$ 1,707,576	$ 436,656	$ 446,064	$ 525,364	$ 12,776,680
Rent Bundling	$ 419,562	$ -	$ -	$ -	$ -	$ (297,457)	$ (70,300)	$ (23,380)	$ (28,425)	$ -
MTW Block Grant	$ 794,651	$ 639,750	$ 252,000	$ 79,000	$ 705,750	$ -	$ -	$ -	$ -	$ 2,471,151
Gross Potential Rents for RAD Units	$ 3,068,045	$ 3,937,590	$ 2,607,480	$ 761,272	$ 2,177,346	$ 1,410,119	$ 366,356	$ 422,684	$ 496,939	$ 15,247,831
Gross Potential Rents for Commercial	$ 117,543	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 117,543
Vacancy Loss and Bad Debt Loss	$ (98,569)	$ (164,892)	$ (117,774)	$ (34,114)	$ (73,580)	$ (85,379)	$ (21,833)	$ (22,303)	$ (26,268)	$ (644,712)
Other Income	$ 2,500	$ 15,000	$ 6,000	$ 400	$ 900	$ 5,000	$ 2,817	$ -	$ -	$ 32,617
Effective Gross Income	$ 3,089,519	$ 3,787,698	$ 2,495,706	$ 727,558	$ 2,104,666	$ 1,329,740	$ 347,340	$ 400,381	$ 470,671	$ 14,753,279
Total Operating Expenses	$ 1,503,330	$ 2,175,788	$ 1,716,937	$ 514,524	$ 1,279,489	$ 1,262,790	$ 326,940	$ 379,631	$ 447,121	$ 9,606,550
Annual Deposit to Replacement Reserves	$ 69,300	$ 93,800	$ 61,250	$ 23,800	$ 42,700	$ 61,950	$ 15,400	$ 15,750	$ 18,550	$ 402,500
Total Expenses	$ 1,572,630	$ 2,269,588	$ 1,778,187	$ 538,324	$ 1,322,189	$ 1,324,740	$ 342,340	$ 395,381	$ 465,671	$ 10,009,050
Net Operating Income	$ 1,516,889	$ 1,518,110	$ 717,519	$ 189,234	$ 782,477	$ 5,000	$ 5,000	$ 5,000	$ 5,000	$ 4,744,229
First Mortgage Debt Service	$ 1,264,073	$ 1,265,091	$ 597,927	$ 157,690	$ 652,058					$ 3,936,839
Operating Cash Flow	$ 252,816	$ 253,019	$ 119,592	$ 31,543	$ 130,419					$ 787,389
DSCR	1.20	1.20	1.20	1.20	1.20					1.21
Supportable First Mortgage (@ 5.0%, 30 year term)	$ 19,622,800	$ 19,638,600	$ 9,281,900	$ 2,447,900	$ 10,122,200		$ -			$ 61,113,401

RAD 2013 | Different Form of Bundling

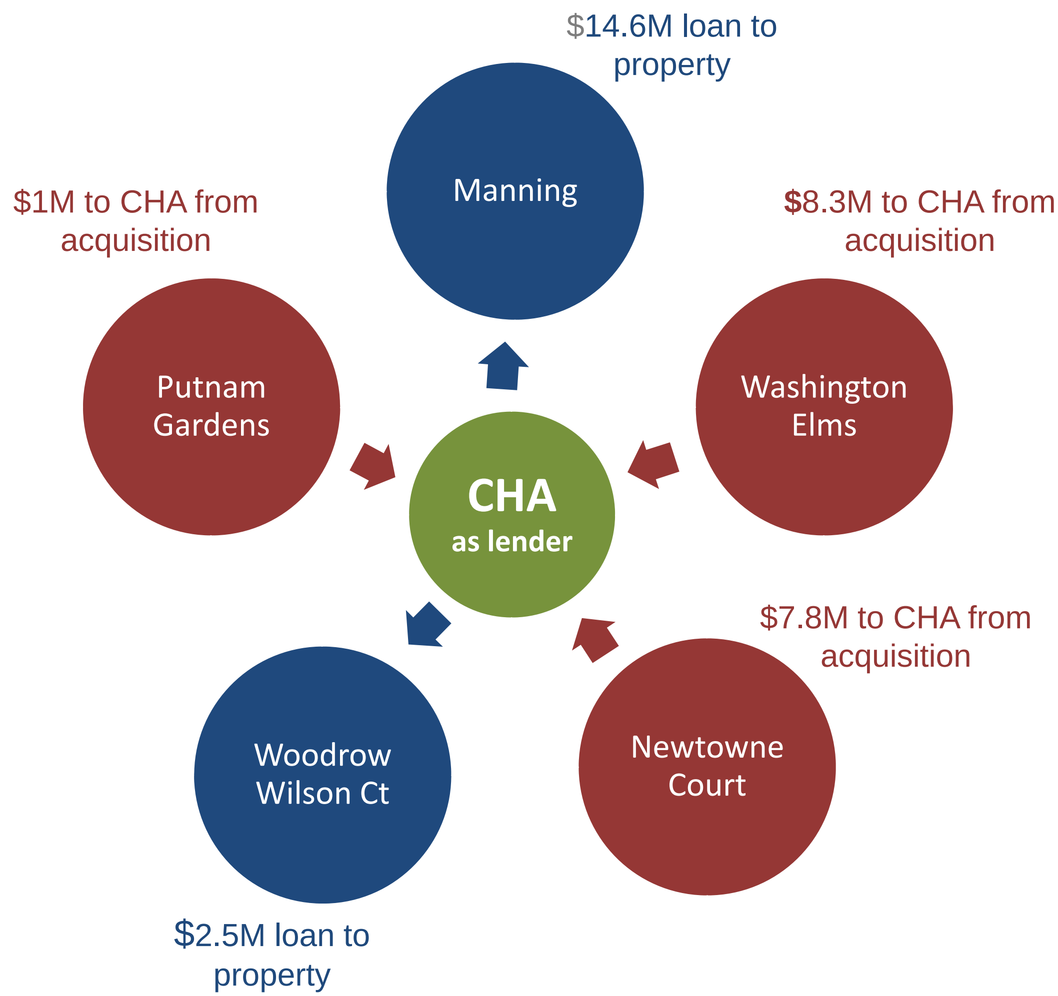
CHA as Lender: The Interplay of Acquisition Income Between CHA's RAD Phase 1 Properties

CHA is using the $17.1M in acquisition proceeds it is receiving from three properties (i.e. net cash it is getting from the deals) to fund $17.1M loans back to two properties. This allows the CHA to reallocate funds so that all properties receive sufficient levels of rehabilitation.

Acquisition Proceeds to CHA		
Washington Elms	$	8,300,000
Newtowne Court	$	7,800,000
Putnam Gardens	$	1,000,000
	$	17,100,000

Loans from CHA		
Manning Apartments	$	(14,600,000)
Woodrow Wilson Ct	$	(2,500,000)
	$	(17,100,000)

Net Gain to CHA	$	-



RAD | Maximize Resources

Maximize Resources:

- Look for opportunity within your portfolio --- is there a way to combine a property in good condition with one with more need, does a site have excess land or other development potential, etc.
- Maximize NOI through rent bundling, lower operating costs, or other operating income so the property can support the level of debt you need. Especially consider energy savings --- CHA's Phase 1 properties alone are projected to have energy savings totaling over $700,000 which adds to NOI.
- "Liberate your assets" - use acquisition credits to the maximum extent you can – acquisition credits in Cambridge increased LIHTC equity by over 50% on its Phase 1 projects.
- Look for soft loans – most states either directly or through their housing finance agencies have such loans.
- Strongly consider PBV as your RAD vehicle. As the PBV administrator, you will earn an administrative fee which in turn can help support the properties.

The Power of Acquisition Credits in Cambridge

Tax Credit Analysis - Washington Elms (175 units)			
Eligible Basis Rehab Cost		Total	Per Unit
Eligible Rehab Cost		$ 34,999,649	$ 199,998
QCT/DDA - Adjustment	130%	$ 45,499,544	$ 259,997
Applicable Faction	81%	$ 36,854,630	$ 210,598
Credit Percentage		3.21%	
Annual Rehab Credit		$ 1,183,034	$ 6,760
Eligible Basis Acquisition Cost			
Eligible Acquisition Cost		$ 33,103,280	$ 189,162
No QCT/DDA Adjustment	100%	$ 33,103,280	$ 189,162
Applicable Fraction	81%	$ 26,813,657	$ 153,221
Credit Percentage		3.21%	
Annual Acquisition Credit		$ 860,718	$ 4,918
Annual Rehab Credit	58%	$ 1,183,034	$ 6,760
Annual Acquisition Credit	42%	$ 860,718	$ 4,918
Total Annual Credit		$ 2,043,752	$ 11,679
Total 10 Year Credit			
Annual Rehab Credit	58%	$ 11,830,336	$ 67,602
Annual Acquisition Credit	42%	$ 8,607,184	$ 49,184
Total Annual Credit		$ 20,437,520	$ 116,786

RAD | Phasing Considerations

CHA is phasing its RAD conversions as follows:

Phase 1 - 1150 Units	
Phase 1 A - December 2014	
Putnam Gardens (LIHTC)	122
LBJ Apartments	177
Jackson Gardens	45
Lincoln Way	53
JFK Apartments	44
Subtotal	441
Phase 1 B - March 2015	
Newtowne Court (LIHTC)	268
Washington Elms (LIHTC)	175
Woodrow Wilson (LIHTC)	68
Subtotal	511
Phase 1 C - September 2015	
Manning Apartments (LIHTC)	198
Subtotal	198
Total Phase 1	1150

Phase 2 - 979 Units (tentative)	
Phase 2 A - June 2016	
Scattered Families Sites	123
Truman Apartments (LIHTC)	59
Russell Apartments (LIHTC)	51
Subtotal	233
Phase 2 B - October 2016	
Roosevelt Towers (LIHTC)	124
Corcoran Park (LIHTC)	152
Burns Apartments (LIHTC)	198
Subtotal	474
Phase 2 C - February 2017	
Jefferson Park (LIHTC)	175
Small Elderly Devts	97
Subtotal	272
Total Phase 2	979

Phasing Considerations

- Use and availability of tax credits – will likely need to spread over multiple years to accommodate tax credit rounds
- Complexity of financing structure – tax credits and multiple funding sources and programs require significant time and due diligence.
- Resident relocation – need to make sure sufficient resources are available for relocation and wait list
- Extent of renovations – if extensive and occurring at occupied sites then extended construction and disruptions could be factors
- Capacity to complete due diligence and monitor construction work – need to make sure funds are spent wisely and the public and your resident's interest are protected

RAD | Implementation Considerations

Resident Policies	Revised Lease	CHA had residents in all pending RAD developments signed a new lease in October of 2014 that will apply when their building converts to RAD.
	Waitlist Policy	CHA will continue to use site based waiting lists and screen potential applicants for admission. Once a project is placed in service for Tax Credits, new admissions off of the waitlist must also qualify for the tax credit program, which limits income to 60% of AMI (RAD and public housing allows up to 80% of AMI). There will be a limited supply of units set aside as non-tax credit units.
	RAD Mobility Vouchers	RAD requirements allow residents, after one year of occupancy in a RAD Development, to request a RAD Tenant-Based Voucher. These families have a priority position on the Section 8 waitlist.
	Rent Redetermination Dates	When a building is placed in service for tax credits, residents will need to recertify for tax credits on an annual basis in addition to the Section 8 PBV. CHA is planning to align the tax credit recertification with the PBV recertification anniversary date to streamline staff and resident effort. This will be phased in over several years.

Fiscal Procedures	New Fiscal Year and Tracking	RAD properties will be on a new fiscal year beginning Jan. 1st as opposed to CHA's current fiscal year which ends Mar 31st. The budget process will remain the same with some new line items to address debt service and replacement reserves. More formal processes for development accounting, streamlining workflow, and maintaining separate books for each LLC are being developed.
	Procurement/Accounting	Once properties become limited liability corporations under RAD/LIHTC, procurement efforts shift to a model that includes paying sales tax and separating costs more stringently by development.
	Central Office Costs	CHA is in the process of evaluating central office costs in relation to receiving a more traditional management fee as a percentage of gross revenues compared with HUD defined per unit fees.
	Shift in Revenue Sources	CHA receives a management fee for operating developments pursuant to a Management Agreement with each ownership entity. In addition, one year after conversion, CHA will receive a new revenue source via Administrative Fees earned for each RAD voucher it administers.

RAD | Implementation Considerations

Software and Data Tracking	Workflow and Reporting for Move-ins, Transfers, and Inspections	CHA has been working extensively with the creators of the its software to streamline our data management. Since CHA plans to use certain public housing policies in conjunction with Section 8 regulations, the software company has mapped out a way for the two programs to interact. This involves custom programming, training, and automation.
	Tax Credit Reporting	CHA already has a few tax credit properties that are handled outside of our main software system. Since CHA plans to have almost all properties using tax credits under RAD, we are exploring ways to integrate tax credit reporting with Elite.
	Custom Programming	Because CHA's RAD effort exists at the crossroads of Low Income Public Housing, Section 8, and Low Income Tax Credit rules, we are beginning to explore new custom reports that may be necessary to track data once the properties are stabilized and in operation.

Property Management	Site Staff Roles and Training	CHA is evaluating if/how staff roles may change under RAD given tax credit reporting requirements, new software training, and other revised responsibilities.
	Asset Management	CHA site staff have always been involved in the creation and review of site budgets, but through RAD, we hope to involve staff more directly in tracking cash flow and understanding obligations to investors and lenders (e.g. debt service coverage ratios, required replacement reserves, etc.).
	New Inspection Requirements	Under RAD, CHA moves from the public housing inspection process (REAC) to a Section 8 inspection process (HQS), which requires new forms, training, and implementation. CHA staff will now need to contract with a third party for HQS inspections for any move-in or unit-turnaround inspections.
	Vacant Unit Payments	Site staff will now need to track and request subsidy payments for vacant units (as opposed to receiving a set operating subsidy each year that is handled centrally).
	Tracking HAP Subsidy	We are working on a process to have site staff review and approve monthly HAP subsidy changes for their units (as opposed to receiving a set operating subsidy from the CHA).

RAD | Succeeding in Cambridge

RAD, combined with CHA's Moving-to-Work status and 4% low income housing tax acquisition/rehab credits, allows CHA to reinvest in its portfolio and address long-deferred capital improvement work totaling $382. Addressing these significant capital needs and stabilizing the operating income are what makes RAD so important to CHA, its residents and the Cambridge community.

Together, CHA and HUD under RAD are :

- Preserving 2,129 units of affordable housing in a high priced, high demand market.
- Ensuring the continued affordability of these units for future generations.
- Establishing reserves of over $23 million to further protect and secure the properties.
- Creating 1,308 direct and indirect jobs through the construction resulting from the RAD projects.
- Providing an additional $143 million in economic output to the local economy.

Cambridge Portfolio-Wide RAD Summary

	Total	Per Unit
Tax-Exempt Bond Financing	$321,000,000	$150,775
Supportable Mortgage from NOI	$134,900,000	$63,363
Subordinate Debt	$46,350,000	$21,770
LIHTC 4%	$200,400,000	$94,129
Total Sources*	**$381,650,000**	**$179,262**
Construction	$217,900,000	$102,349
Soft Costs	$113,900,000	$53,499
Contingency	$26,200,000	$12,306
Reserves	$23,650,000	$11,108
Total Uses*	**$381,650,000**	**$179,262**

*Excludes acquisition since it is both a source and use.

RAD | Final Thoughts

SOME TAKE AWAYS

- Engage your residents and the wider community early and often. Involve residents in the planning and implementation to integrate their concerns and issues into the plans and work where possible.
- Whenever possible, fund pre-development activities so you have a solid, clear road map for your portfolio/agency's future.
- Look at your portfolio as a whole and identify opportunities to leverage or liberate the assets within your mission. Be bold and creative.
- Streamline wherever possible – look for administrative efficiencies in your operation and development activities.
- Plan for the future – make sure the rehab work that you complete addresses any design deficiencies and marketability issues and uses durable finishes.

LBJ Apartments, Cambridge, MA

A 177 unit elderly/disabled development, LBJ Apartments was substantially renovated in 2012 using a $10 million energy savings ARRA grant and LIHTC The property's core building systems were replaced resulting in over $250,000 in annual savings, a 50% reduction in costs. In addition, CHA converted nearly half the studio apartments in the building to one bedroom units by incorporating balcony space into the units. Combined with upgraded kitchens and bathrooms and attractive community spaces, LBJ's long-term marketing problems with the building have been eliminated. LBJ was converted to RAD in December 2014.

RAD | Cambridge Housing Authority

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Jackson Gardens, Cambridge, MA

A 45 unit family development, Jackson Gardens was completely renovated in 2011 as part of a $10 million public housing transformation ARRA grant. The property was converted to RAD in December 2011, and was one of the properties which saw its initial RAD rents set lower as part of CHA's rent bundling proposal.

CHA
Cambridge Housing Authority