November 27, 2024

CHANGE THAT WORKS

By Greg Byrne

Excluding proposals where the goal is disruption or abandonment, including plans to end all federal funding for public housing and turn it over to local governments[1], is there a serious fix for our nation's oldest housing program that would make it more efficient and perform better? Can we improve the delivery of housing services while at the same time streamline the bureaucracy? The answer is yes, and it has been staring us in the face for more than 50 years.

We have a desperate need for deeply affordable housing in this country. There is just not a need any more for the subsidy program called public housing. As a tool to facilitate the preservation of low-income housing, it has exceeded its useful life. It had a good run in its early years, but it is time to replace it with Section 8.

In 1974, after disillusionment over the state of then-current federal multifamily housing programs, the Congress enacted the Section 8 program. There were two main components: a demand program (Section 8 vouchers) and a supply program (Section 8 new construction/substantial rehab). Today, these two Section 8 programs serve approximately 2.8 million households nationwide, or by far our largest federal housing subsidy program.

Importantly, more than 500,000 units under older legacy programs, including the Section 236 and the Below-Market Interest Rate (BMIR) programs, were eventually allocated Section 8 to stabilize and preserve those properties, universally recognized as a sensible plan of action. What remains a mystery is why no similar intervention occurred with the public housing program, especially given that public housing was in far worse physical and financial condition. Having missed that opportunity, public housing has limped along in isolation from the rest of the multifamily community. This program isolation has not been helpful, including the development of management practices that sharply depart from the norms in private industry. It is also incredibly inefficient in terms of a federal delivery system, with two major deep subsidy programs, each with their own program offices, funding disbursements, handbooks, etc., all doing the same thing, which is to provide decent housing for low-income households. Unfortunately, the solution to this problem is not just to fold HUD's Office of Public Housing into, say, the Office of Multifamily Housing

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[1] For example, see CATO Institute's Ten Spending Cuts for President Trump, November 8, 2024, Ten Spending Cuts for President Trump | Cato at Liberty Blog .

(which administers the Section 8 project-based rental assistance program). The public housing program has such unique program rules and subsidy arrangements that simply merging offices will not accomplish anything because you would still need separate program staff, with separate program knowledge, and separate systems, to administer public housing.

In 2011, Congress enacted the Rental Assistance Demonstration (RAD) program, allowing, initially, 60,000 units of public housing to convert to Section 8.[2] One of the main goals of the demonstration was to assess whether Section 8 contracts would better attract private capital to fix and repair public housing. Unlike other owners of Section 8, however, PHAs that participated in RAD would not be funded under a market-based rent model. Instead, to make the demonstration "revenue neutral," PHAs would have their Section 8 rents set according to what they were receiving under the public housing Operating Fund and Capital Fund programs.[3] (In 2024, these public housing funding levels equated to just 82% of HUD's published Fair Market Rents, or FMRs.[4]) In addition, before a project could be approved to convert, a PHA would need to submit a financing plan demonstrating how all immediate and long-term needs, identified through an independent physical needs assessment, would be funded. (The complexity of these financing plan requirements, real or perceived, has been one of the greatest barriers to increased PHA participation in RAD, particularly among smaller and less sophisticated agencies.)

Despite the constraints placed on RAD, 214,000 units have converted, leveraging over $21 billion in combined first mortgage proceeds and investor equity.[5] Suffice it to say, RAD has proven the obvious, which is that the Section 8 program is a far better vehicle for raising private debt and equity than the old-world public housing model. (It is worth noting that the advantages of attaching Section 8 assistance to struggling Section 236 and BMIR projects were so intuitive that there was no need for a "demonstration.")

But how would we orderly convert the entire public housing inventory over a reasonable period without the processing complexity under RAD? Is there a streamlined model of conversion?

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[2] The RAD program cap was subsequently increased three times and now stands at 455,000 units.
[3] One of the major quirks of the public housing program is that, unlike other subsidized housing, there is no assigned contract rent for any given unit. Rather, PHAs get separate formula funding under the Operating Fund and the Capital Fund, without any regard to the market value of the unit. The "RAD Rents" are just a representation of what each project is collectively awarded under these two subsidy formulas and PHAs only use these RAD Rents in the context of converting under RAD.
[4] Calculated by taking the weighted average of all Rent-to-FMR percentages for all public housing projects from HUD 2024 RAD Rent File.
[5] See RAD Resource Desk at www.radresource.net .

The easiest approach would be to offer all public housing projects, similar to RAD, a Section 8 contract with rents equal to current public housing funding.[6] Unlike under the RAD program, however, there would be no submission of a financing plan for HUD to review and approve before allowing a project to convert. A PHA would go to bed at night under the public housing program and, in the morning, it would be subsidized under the Section 8 program. Financially, the PHA would be no worse off. As with RAD, there would be no rescreening of existing tenants (an absolute right to return) and all public housing funds, including reserves, would carry over.[7] Thus, within a modest amount of time, and with modest effort, two major programs could be consolidated.[8]

What would be the objections to such an approach? There would be three in particular:

- First, because of the substantial backlog of public housing repairs, along with the functional obsolescence associated with much of the oldest public housing (around 200,000 units were built before 1960), a considerable number of public housing properties are, by various definitions, distressed. In terms of oversight, what would HUD do with this troubled inventory? One of the reasons for the submission of detailed financing plans under RAD was that the Office of Public and Indian Housing made a promise to the Office of Multifamily Housing that "we won't send to you a bad asset." Thus, each project was required to recapitalize prior to conversion (or otherwise prove that the project was in good condition and did not require recapitalization). That was a nice gesture, but not necessary. Once converted, all distressed properties should be required to prepare, within a few years, a work-out or redevelopment plan. We do not need those plans up-front.
- Second, for some housing advocates, the defining feature of the public housing program is not the subsidy structures but ownership or control by a public body, even though, since the mid-1980s, direct PHA ownership was no longer required. The concern is that conversion would further erode public controls. The RAD

[66] As with RAD, PHAs could be allowed to "bundle" rents across projects, i.e., they could decide to increase the funding on one project and decrease the funding on another, provided that those actions were revenue neutral.

[7] It would also be helpful to streamline the applicable Environmental Review requirements, given that projects would be moving from one federal subsidy program to another.

[8] In 2018, to encourage more PHAs to convert to Section 8, HUD expanded the categories of eligibility under Section 18 of the Housing Act of 1937, governing the demolition and disposition of public housing, including the introduction of various RAD and Section 18 "blends." For most Section 18 actions, PHAs are awarded Section 8 Tenant Protection Vouchers (TPVs), which PHAs can elect to "project-base." These TPVs typically command higher contract rents than under RAD, which helps PHAs raise higher levels of private capital. To prevent PHA planning efforts from being stopped in their tracks, it would be beneficial to continue with all existing public housing conversion programs over a specified transition period, after which they would be phased out.

program did a decent job addressing concerns over public ownership or control and much of what was done there can be replicated here.

- Finally, as noted earlier, current public housing funding levels, when translated into a contract rent, are on average well below market and well below what HUD provides other operators of subsidized housing. Indeed, PHAs need these market-based rents both to maintain properties in good order but also to finance the needed capital repairs.[9] But should we wait for improved appropriations before converting the rest of public housing? My preference would be to get public housing under the same tent as the rest of multifamily housing and to do that sooner rather than later to accelerate the benefits/efficiencies of program consolidation and end the damaging program isolation. If not now, then there at least ought to be a formal recognition of intent to convert public housing to Section 8 and an agreed-upon period.

In all, it will be important for the incoming Administration to articulate a clear vision for public housing. Very simply, does it want to preserve the 900,000 units that remain in the program and, if so, how? Preservation of the units, however, does not necessarily mean preservation of the program.

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[9] PHAs will likely also need relief from state volume caps under the low-income housing tax credit program. Since the beginning of RAD in 2011, PHAs have averaged about $51,000/unit in tax credit equity, a figure that includes all transaction types (tax credit and non-tax credit transactions). There is a question of whether current volume caps can support conversion of public housing at the scale contemplated here.