ROCKVILLE HOUSING ENTERPRISES

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March 25, 2014

Mayor and Council
City of Rockville
111 Maryland Ave.
Rockville, MD 20850

Re: Rockville Housing Enterprises – Rental Assistance Demonstration Program (RAD)
City of Rockville Approval Request

Dear Mayor and Council:

Rockville Housing Enterprises (RHE) is excited to announce that we have received approval from the U.S. Department of Housing and Urban Development (HUD) to implement the Rental Assistance Demonstration Program (RAD) for the 105 public housing units at David Scull Courts and scattered sites through the city. RAD is a demonstration program established in the Fall of 2012 that allows Public Housing Agencies (PHAs) to convert their Public Housing Units to Project Based Section Eight or Project Based Rental Assistance Vouchers.

The implementation of the RAD program will result in a change of the HUD program through which RHE's 105 public housing units receive HUD subsidies. The 105 units will no longer have a public housing designation but will be designated as project based voucher units.

The RAD program allows RHE to obtain financing to fund major rehabilitation work at its Public Housing units, including David Scull Courts. Under the current public housing program, RHE is not able to leverage financing to make major repairs at David Scull Courts and must rely on annually appropriated capital funds from HUD, which have been severely underfunded.[1]

RHE will seek to leverage private financing in the approximate amount of $3,500,000 to fund rehabilitation work at David Scull Courts and scattered site public housing units. RHE believes these rehabilitation efforts are critical to the long term viability of RHE's affordable housing portfolio.

[1] A 2011 HUD study (*Capital Needs in the Public Housing Program*) estimated a $25.6 billion backlog in public housing capital repairs while capital funds decreased from $3 billion in 2001 to $2 billon in recent years.

The Amended and Restated Cooperation Agreement between the City of Rockville and Rockville Housing Enterprises requires RHE to secure approval from Mayor and Council before taking certain actions. The agreement states the following:

Section II. 6 The Housing Authority shall obtain authorization resolution from the Mayor and Council of Rockville before engaging in any one of the following:

(a) Acquiring or disposing of any real property
(b) Entering into new partnerships in housing project or commercial enterprises
(c) Borrowing or accepting money to undertake housing projects
(d) Establishing not-for-profit corporations.
(e) Entering into mortgages, making mortgage loans and or/mortgage subsidy
(f) Developing and/or investing as a general partner or as a limited partner in housing projects
(g) Issuing any tax exempt bonds payments or purchasing mortgages.

RHE respectfully requests approval from the Mayor and Council to move forward with the implementation of the RAD program. This would require approval according to Section II.6(b), (c), and (e) of the agreement and include:

1. Approval to obtain mortgage financing to fund rehabilitation work at David Scull Courts and scattered site public housing units; and
2. Approval to undertake housing rehabilitation projects at David Scull Courts and scattered site public housing units; and
3. Approval to establish a Limited Liability Company (LLC) through which to secure the RAD rehabilitation financing.

There are many advantages to participating in the RAD program. The major benefits to the program are listed below:

1. **More secure funding stream.** While also subject to annual appropriations, Project-Based Section 8 contracts have not been subject to the same instability in funding as public housing Operating Fund Program or the large swings in the funding levels of the Capital Fund Program.

2. **Long-term preservation.** Unlike traditional public housing, the rents will support an annual contribution to capital replacement reserves so that the project has funds to address the timely replacement of critical systems and other needed repairs.

3. **Operational stability.** Unlike public housing, RAD rents will be adjusted annually by a cost adjustment factor, which should facilitate long-term project planning.

4. **Ability to leverage private debt and equity to meet rehabilitation needs.** Unlike public housing, PHAs can borrow against the subsidy received from HUD and/or leverage low income housing tax credit equity investments to fund capital improvements.

5. **RHE's financial stability.** Similar to other affordable housing developers and managers, under RAD, PHAs can earn development, property management, asset management and/or guarantee fees depending upon the financial structure of a transaction. With increased administrative costs and decreased subsidy from HUD to fund operating and maintenance expenses, any additional income sources RHE can receive will help to strengthen its long term financial stability as an organization.

The conversion to Project Based Vouchers will not change the affordability of the units for residents. Tenants will continue to pay 30% of their adjusted income toward their tenant rent. The RAD conversion will not allow RHE to change the affordability restrictions that currently encumber the 105 public housing units. Additionally, under the RAD program, no family can be displaced as a result of the RAD conversion. The subsidy received from HUD under the RAD Project Based Voucher program will be equivalent to the current subsidies received under the Public Housing Program.

Rockville Housing Enterprises is excited to be on the forefront of the new HUD funding system provided through the RAD program. It is widely anticipated that RAD conversions will be the primary mechanism by which HUD will provide subsidy to low-income housing; thereby phasing out the traditional "public housing" program. Thank you for your time and your favorable consideration.

Kindest Regards,

Jessica Anderson
Executive Director
Rockville Housing Enterprises