



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-1000

## FAQs on the Impact of the Potential Full-Year Continuing Resolution and Recently Enacted Sequestration Action

**Question: What is the impact of the sequestration and potential full-year Continuing Resolution on RAD overall? More specifically, how will public housing conversions that have already been given initial approval, or are in the application pipeline, or applications being worked on but not yet submitted, be affected? Should interested PHAs and owners continue to submit RAD conversion proposals to the Department?**

**Answer:** While both the anticipated full-year Continuing Resolution (CR) and the recently-enacted sequester will impact HUD's FY 2013 budget across the board, HUD has devised a means to enable PHAs participating in RAD to not have the Sequester and the potential full-year Continuing Resolution adversely impact RAD conversions. Additional details in this FAQ describe how active and prospective public housing conversion proposals can convert at the contract rents established in PIH Notice 2012-32 ("the RAD Notice") and RAD Application and how the prospective FY13 budget and sequester should not adversely affect PBV contracts under the 2<sup>nd</sup> component of RAD. The Department continues to accept and actively process applications for RAD. We encourage PHAs and owners to consider the advantages of pursuing conversions in this uncertain budget environment. Please do not hesitate to direct further questions to [RAD@hud.gov](mailto:RAD@hud.gov).

**Question: For public housing conversions under the 1<sup>st</sup> component of RAD, how will RAD rent levels be affected by FY 2013 appropriations and sequestration actions?**

**Answer:** Due to uncertainties and anomalies surrounding the FY 2013 appropriations and sequester action described above, HUD is taking the following actions with respect to the establishment of RAD rent levels for Public Housing Authorities (PHAs) that have applied or that will apply to convert assistance for public housing developments under the RAD Notice:

- HUD will continue to honor the rent levels set forth in the RAD Notice and RAD Application for all approved applications, those applications under review, and new applications. Accordingly, the sequestration and the potential full-year Continuing Resolution need not impact the contract rent levels when they are established in a Housing Assistance Payment (HAP) contract at closing. Currently, RAD rent levels are based on FY 2012 funding for each indicated project, which constituted the baseline for rent levels used in the RAD Notice, RAD Application materials, the RAD Inventory Assessment Tool, and which were employed in reviewing and approving applications to-date.<sup>1</sup> Accordingly, for approved and new applications, these rent levels will be established in HAP contracts for any conversions that occur in calendar year (CY) 2013. For current or prospective conversions that close in CY 2014, the HAP contract will carry these rents, adjusted by the Operating Cost Adjustment Factor (OCAF).
- In the initial year of conversion of assistance, projects will be funded through the public housing accounts as allowed in the RAD Notice. As a result, only for the initial year of conversion, the PHA can use its available public housing or other funds to make up any gap in rental subsidy for CY 2013 as a result of Operating and Capital Fund allocations to a RAD project or projects that are lower than allocated in FY 2012 and effectively established the baseline in the RAD Application materials. In the CY following conversion, the project(s) will be funded from the Project-Based Rental Assistance (PBRA) account or the Tenant Based Rental Assistance

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<sup>1</sup> The rent levels in the RAD application, as well the RAD Notice of which the application is a part, and the RAD Inventory Assessment Tool, are based on the 2012 actual funding for each indicated project, adding the Operating Subsidy Allocation Adjustment back in. All three documents can be obtained from the RAD website at [www.hud.gov/rad](http://www.hud.gov/rad)

Account (TBRA), relative to the form of Section 8 assistance for the project(s), according to the amount indicated in the HAP contract, including any applicable OCAF, and will be subject to all terms and conditions of the HAP contract.

**Question: How will this rent-setting for public housing conversions of assistance actually work in practice this year?**

**Answer:** By way of illustration, Table 1 provides an example of a public housing conversion of assistance under RAD undertaken in CY 2013. In this case, the PHA is converting a 100-unit project with RAD-established contract rents of \$674 with an estimated closing—and hence, conversion--date of October 16, 2013. The Department estimates that, if the final FY 2013 appropriations bill is funded at levels currently indicated in the Continuing Resolution, and if the sequester action is not changed, the PHA’s Operating Fund would be reduced 20% and the Capital Fund reduced 5% relative to the amounts available in FY 2012 (see Table 2 for an illustration of the potential aggregated impact). In this example, then, potential FY 2013 appropriations coupled with the current sequestration action could potentially reduce the operating subsidy available to the project by a total of \$74 PUM. Therefore, if the project closed on October 16, 2013, the HAP contract would be effective on November 1, 2013, and the PHA would potentially have a gap of \$14,800 for the remainder of CY 2013 (\$74 PUM x 100 units x 2 months remaining in the Calendar Year), which it may need to address. However, in CY 2014, the project would be funded from the PBRA or TBRA account, as appropriate, at the contract rent of \$674, including any applicable OCAF adjustment. Because the Department set RAD rent levels to fully-enacted FY 2012 funding levels, and included such levels in the RAD Application materials, and the Department does not yet have a finally-determined or enacted appropriation level for FY 2013 and is operating under a Continuing Resolution based on FY 2012 funding levels, it will continue to allow RAD rent levels to be set at the indicated FY 2012 Capital and Operating funding levels, with the Operating Subsidy Allocation Adjustment added back in.

**Table 1: Example of Possible FY 2013 Funding on RAD Contract Rents**

Item	RAD Rent Levels in Application Worksheet	Estimated Appropriations Adjustment in 2013	Impact
Operating Fund Subsidy	\$338	20%	(\$67)
Capital Fund Subsidy	\$136	5%	(\$7)
Tenant Rents	\$200		
RAD Contract Rent	\$674		(\$74)

**Table 2: Estimated Aggregated Impact of 2013 Appropriations against Funding Assumptions in RAD Application**

Item	RAD Application	Estimated 2013 Appropriations if Final Appropriations based on Both Continuing Resolution and Sequester	Estimated Reduction
Operating Fund Subsidy	\$4,712,000,000	\$3,763,900,000	20%
Capital Fund Subsidy	\$1,875,000,000	\$1,781,250,000	5%
Total Subsidy	\$6,587,000,000	\$5,543,150,000	16%

March 15, 2013

**Q: After a public housing project is converted is there a risk that the contract will not be funded in future years, or is there a risk that the rents could be reduced?**

**Answer:** Section 8 PBV and PBRA contracts are subject to the availability of annual appropriations. These contracts will be administered using the contract-determined funding levels and terms and conditions effective for all other project-based rental assistance contracts issued by the Department. The Department is unaware of any previously-issued PBRA or PBV contract that was terminated or had a reduction in rents due to the insufficiency of appropriations. If future appropriations were insufficient, the Department (or, in the case of PBVs, the PHA) may find it necessary to fund a contract for a shorter term until additional funds were made available to meet contractual obligations.

**Q: For 2<sup>nd</sup> component conversions, where Tenant Protection Voucher (TPV) funds are being converted to PBV contracts, how will the contracts be affected by the FY 2013 appropriations and sequestration actions?**

**Answer:** For Rent Supplement, Rental Assistance Payment, and Section 8 Moderate Rehabilitation conversions (i.e., second component of RAD), the sequestration will not impact the rent levels established under PBV contracts, as PHAs cannot unilaterally cut PBV contract rents to owners. Rents will be set using standard PBV contract calculations.

**Q: Under the 2<sup>nd</sup> component of RAD, is there a risk that a PHA enters into a PBV contract with an owner, but that HUD will not provide a fully funded increment of Tenant Protection Vouchers to the PHAs?**

**Answer:** PBV contracts under the 2<sup>nd</sup> component are funded from the TPV account. Because new TPV funds are provided to the PHA for each RAD transaction, the budget and sequester will not impede a PHA's ability to enter into a PBV contract. When a RAD transaction is approved, the TPV funding for the PBV contract is added to the PHA's voucher baseline.