

Dear Clients

Last week Judy and I attended a meeting with HUD officials to discuss the rollout of HUD's new affordable housing programs and its goals for the upcoming year. According to the presenters, HUD is proposing two new housing programs to improve the quality and increase the stock of affordable housing. It is also taking a very close look at whether properties and political subdivisions that receive federal subsidies are complying with their obligation to affirmatively advance fair housing. As all three of these issues may affect your business, I wanted to be sure you are aware of what is happening.

Preservation, Enhancement and Transforming Rental Assistance (PETRA) Program

This program, which has not yet been funded by Congress, is intended to preserve and improve federally assisted housing through an infusion of public and private market capital. Essentially the program will combine existing public housing programs with HUD's twelve (12) other existing rental assistance programs and offer each of them the opportunity to convert to a single funding stream under Section 8.

The new program is expected to have three variations:

- Long term project based contracts (PBCs)
- Project based vouchers (PBVs)
- Tenant based vouchers (TBVs)

Within these variations participating properties will move from public housing rents, which are currently based on operating costs, to market based rents that can leverage private capital and encourage better location of housing. PETRA will also allow additional flexibility in the use of the subsidy to create mixed income buildings and communities, permit movement of contracts and portions of contracts between properties, and allow a shift of project-based contracts (100% assisted) to project based vouchers, which serve partially assisted properties. Tax credit properties, which are not specifically affected by this change, may be given the opportunity to contract with local PHAs to designate certain units or buildings to receive contracts for project based vouchers. Finally the existing system of different rules, regulations and requirements for each federally assisted housing program will be unified so that there is only one set of rules, regulations and requirements for all federally assisted housing.

HUD anticipates that properties that opt to participate in the shift will be able to leverage private funding sources to address needs for immediate repairs, renovation and long-term capital needs. Under certain circumstances HUD will allow properties to charge above-market rents, when comparable market rents

and the applicable fair market rent is insufficient to properly preserve the property by meeting immediate and long-term capital needs.

Choice Neighborhoods

Choice Neighborhoods is HUD's follow-up to the HOPE VI program and has already been funded by Congress.

Under this program HUD will provide increased funding for mixed-income, mixed-use housing within new parameters. Eligible applicants will include public housing authorities, local governments, non-profits and for-profit developers in partnership with a public entity such as a public housing agency.

Housing built under this program must have access to good schools, jobs, retail and transportation and must create communities that are physically and financially viable over the long term. Proposed funding requests are required to take all of these factors into consideration. So, for example, a proposal for a Choice Neighborhoods grant will be required to show that the community has a good performing school or that a good performing charter school will be relocated nearby and that early learning programs are available. Because Choice Neighborhoods is jointly funded by HUD, the US Treasury, the US Department of Health and Human Services and the US Department of Justice, grant funding can be used to bring in schools, build public transit stops, and catalyze other investments in neighborhood improvements.

In contrast to the HOPE VI program, eligible applicants for Choice Neighborhoods include public housing authorities, local governments, non-profits and for-profit developers who work in partnership with public entities. Applicants will be eligible to apply for two types of grants: (1) planning grants for communities that are not yet ready to implement a transformation plan; and (2) implementation grants for communities that have already undergone a comprehensive planning process and are ready to implement it. HUD will be posting a NOFA on its website to accept applications for these grants this summer.

Affirmatively Furthering Fair Housing

As everyone who deals with assisted housing knows, HUD imposes upon all properties and entitles an obligation to affirmatively further fair housing. During the presentation on Choice Neighborhoods the speaker reminded all participants that this obligation is a very high priority for HUD in this administration and emphasized that HUD is actively looking at different communities and properties to ensure that they are taking this obligation seriously.

Properties that receive HUD subsidies and communities that obtain HUD grants, including CDBG funding, must analyze their activities on an annual basis

and determine whether their policies and programs, including outreach, are effective in encouraging the full integration of all eligible persons regardless of race, color, sex, national origin, familial status or physical or mental disability. When we spoke with the speaker afterwards he emphasized that HUD is reviewing the policies and practices of federal financial recipients to determine whether any of their policies or programs create barriers to fair housing.

Over the last couple years HUD has sued several communities for providing false information to HUD, for example, because they receive CDBG grants but have either erected or not made serious efforts to remove barriers to fair housing. This scrutiny – not only of communities but also of all grant recipients – will be increased over the next several years. If you have any questions or concerns as to whether your property is doing enough to meet these obligations, please feel free to contact us so that we can discuss it with you.

We will be monitoring all of these new programs and initiatives and will keep you apprised as more information about them comes up. Please let me know if you have any questions.

Most sincerely,

Scott Clark