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Analysis: Is RAD A Boondoggle In The Making?

HUD last month heralded with much fanfare the transfer of 100,000 public housing units to the private sector that will be financially supported by the Section 8 housing voucher program over the long-term.

That leaves about 1 million units yet to be converted under what is called the Rental Assistance Demonstration program, a device that quickly replaced an Obama administration initiative to create a national rental housing single-payer platform using the Section 8 program, now know as the Housing Choice Voucher program. The name change was made to remove the onus of the military's use of Section 8 as a discharge category for the mentally unfit.

When the single-payer platform was quietly shelved after its creator, Barbara Sard, was unceremoniously told by lawmakers that the concept would fail in Congress, then HUD Secretary Shaun Donovan substituted it with a modified version -- RAD.

Donovan thought it would be easier to sell RAD as an attempt to save public housing by injecting private capital. A HUD study in 2010 found that public housing needed at least $25.5 billion for repairs just to make them livable, an amount that has now escalated to $49 billion. The current rate of deterioration is such that 10,000 units a year are lost.

The idea behind RAD is to attract private developers, enticed by tax breaks and subsidies, to refurbish and manage the buildings. The underlying property and oversight responsibility remains with HUD-subsidized-public housing authorities.

Developer-landlords would receive a return on their investments through project-based Section 8 voucher payments, known as Housing Assistance Payments. Unlike public housing, private investors insist on profits, a return for their investment.

Therein lies the RAD rub: It is twofold. Who is going to pay for the ever-increasing costs in a tight fiscal environment, and who will oversee the conduct of the managers-landlords?

First: Take the cost of a public housing unit. Let's say the monthly cost is now $500 with HUD subsidizing the overhead through its Capital Fund and Operating Fund programs without the need for profits.

Under a project-based Section 8 housing voucher framework, the rent is based on HUD's annual assessment of the fair market rent for a given market. If the FMR is $1,000, that is what the voucher will reflect – a doubling of the rent.

But that won't be seen for the first couple of years. Current tenants will pay the same 30% based on their present level, with landlords realizing profits through tax breaks. Even so, rents will increase over time to fair market rate levels, which means the government would now be responsible for $800 because the tenant will still pay no more than 30% of the original rent. New tenants would be subject to the increased rents and obligations.

Second: While PHAs choose the private landlords-managers with HUD's approval, there is no mechanism yet -- and, according to HUD sources, there is nothing planned -- for supervision of the landlords to make certain they are using the rents to properly maintain the properties before any profit is realized.

That omission was laid out in a Government Accountability Office report this past March. The report details inadequate oversight of tenant protections, serious questions about the long-term preservation of RAD properties, and inflated reports of private funding leveraged through RAD.

While there was a question whether HUD Secretary Ben Carson would embrace RAD considering his conservative approach to government program, he readily endorsed it at the encouragement of veteran HUD staffers who sold the plan on the basis of its privatization initiative.

But sources say the staff -- mostly Obama administration holdovers familiar with the RAD mechanisms -- failed to pass on the true estimated cost of the program, which would far exceed available resources.

Section 8, the bulk of HUD's spending mandate once considered open-ended, is now seen as finite in the face of the burgeoning national debt and the Trump administration's intent on holding the line on spending.

While current conversions have only made a dent in PHA budgets, dwindling annual appropriations -- $2.7 billion for the Capital Fund and $4.8 billion for the Operating Fund for FY 2019 -- make it unlikely PHAs will be able to finance sufficient contract vouchers to meet the added costs of privatization.

Faced with the possibility of dwindling contract payments and confronted with bills to pay while watching profits evaporate, landlords will be unlikely to stick around after recouping their initial investments.

Yet, HUD is rushing pell-mell to privatize. In the wake of the 100,000 unit milestone celebration in Austin, TX, the RAD Collaborative and housing lobby Council of Large Public Housing Authorities call on Congress to make RAD a permanent program,

"As we celebrate the 100,000th RAD unit, it is clear that we have proof of concept," the two organizations say. "To give PHAs greater certainty, HUD's program should be made permanent with unlimited opportunity for conversions to agencies meeting the requirements."

When cities realized they could dump their crumbling public housing into the private sector, they lined up to take the far-reaching gamble on their affordable housing stock. The resulting pressure prompted lawmakers to quickly up the RAD cap on conversions to 455,000 units.

But questions linger as to Congress' willingness to meet the new financial obligations and whether there will be a suitable oversight mechanism to closely monitor the program's administration.

Info: See the GAO report at www.cdpublications.com/docs/9543

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