

**NEEDHAM HOUSING AUTHORITY
BOARD OF COMMISSIONERS
SPECIAL BOARD MEETING**

**CONVERSION/REPOSITIONING OPTIONS FOR
NHA FEDERAL PROPERTIES
Wednesday November 3, 2021, 7:15pm – 9:15pm**

ROLL CALL TO CONVENE THE MEETINGS

COMMISSIONERS:

Chair Reg Foster
Vice Chair Eleanor Evans
Treasurer Ed Scheideler
Commissioner Penny Kirk
Commissioner Janice Bennett

NHA STAFF:

Angie Medeiros, Executive Director & Secretary
Gary Kuphal, Facilities & Maintenance Manager

FACILITATORS: From the Cambridge Housing Authority

Margaret Moran, Principal
Nathalie Jansen, Sr. Project Manager
Joe DeLarauze, Project Manager

PARTICIPANTS: Karen Sunnarborg, Town of Needham Housing Specialist

Adequate notice of this meeting has been provided by the Secretary of the Needham Housing Authority (NHA) by preparing a Public Notice dated November 1, 2021, setting forth the date, time and place of this meeting. Said notice was filed with the Clerk of the Town of Needham and provided to persons requesting it.

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AGENDA
SPECIAL BOARD MEETING

- A. Chair's Announcements** (*matters that could not be reasonably anticipated in advance of the meeting.*) There were none.
- B. Draft Federal Public Housing Conversion Assessment Report**
1. Presentation by the Cambridge Housing Authority
 2. Discussion and Q&A by the NHA Commissioners and Staff
 3. Resident Input and Q&A
 4. Guidance to the Cambridge Housing Authority

November 3, 2021 (Part I) Notes:

Presentation Outline

- a. Summary
- b. Conversion Programs – Impact on Operating Income and Program Requirements
- c. Impact on Faircloth Authority
- d. Timing Analysis
- e. Other Considerations / Next Steps

A. Summary

i. Different Conversion Programs – three types of goals

- a. Homeownership
- b. Tenant-Based Subsidies
- c. Project-Based Subsidies – form the focus of CHA's report
 1. RAD Conversion
 2. Section 18 Demolition/Disposition
 3. RAD/Section 18 Blended Conversion
 4. Section 22 Voluntary Conversion

Conversion through any of these programs could bring anywhere from \$162K to \$1.6 Million in additional annual income

ii. Different Forms of Subsidy

- a. Tenant-based – voucher stays the Tenant
- b. Project-based – voucher stays with the property
 1. Project-base vouchers (PBV)
 2. Project-based rental assistance (PBRA)

The CHA believes that the PBV program is the most beneficial to Housing Authorities.

- Allows PHAs to self-administer vouchers
- PHAs receive administrative fees from HUD

iii. RAD vs. Section 8 Full Market Value (FMR) Rents

- a. RAD are established by HUD based on capital and operating subsidies
- b. Section 8 FMR are established by HUD to determine what the fair market rent of a modest apartment in the area would be

- Both of these rent levels are subject to a yearly adjustment via Operating Cost Adjustment Factor (OCAF)

- iv. Potential Strategies for NHA
 - a. RAD/Section 18 Construction Blend – \$2.2 Million potential yearly income
 - b. Small PHA RAD/Section 18 Blend - \$2.8 Million potential yearly income
 - c. Section 22 - \$3.1 Million
 - d. Mixed option - \$2.9 Million

B. Different Conversion Programs and Impacts to Operating Income

- i. Section 8 Conversion Costs
 - a. Insurance premiums increase
 - b. Operating subsidy increases make properties more valuable, and therefore, more expensive to insure
 - c. Need to build in replacement reserves to budgets
- ii. RAD Conversion
 - a. The main benefit of RAD is the \$167 K administrative fee paid directly to the housing authority
 - b. With added costs to converting to Section 8, the net benefits to converting to RAD are slightly negative
 - c. Requirements
 - 1. Need to meet a 20-year financial viability test
 - 2. Must demonstrate the ability to close on construction financing to address physical needs
 - 3. RAD usually requires LIHTC resources to meet the 20-year test
 - 4. Any debt supported by a RAD conversion is minimal

Based on CHA's analysis, a RAD conversion alone would not suffice to meet NHA's current and future portfolio needs.

iii. Section 18 Demolition/Disposition

- a. Brings 1-for-1 allocation of Tenant Protection Vouchers
- b. Yields a total \$3.1 Million in annual income
- c. NHA would also earn an administrative fee
- d. However, Section 18 is a difficult conversion to achieve
 - 1. To qualify, a property would need to demonstrate

a. Immediate rehabilitation needs

The needs that apply are restricted by HUD.

- Property must demonstrate urgent (within three years) needs
- 57.14% of HUD's Total Development Costs (TDCs) for non-elevator buildings
- Also requires showing the ability to perform construction work

This application can also take a long time to achieve.

b. Health or safety concerns

c. Be locationally obsolete (ex: scattered sites)

Based on CHA's analysis, it is unclear if NHA's properties could meet Sec. 18 obsolescence. Captain Cook appears most likely to meet this test, but this would need to be confirmed by a Property Conditions Report.

iv. RAD/Section 18 Blend

- a. **RAD/Section 18 Construction Blend** - cost-based
 1. Based on the % threshold of Housing Construction Costs (HCC) met by current physical needs
 2. Each threshold met yields a different combination of RAD and Section 8 FMR vouchers (More Section 8 FMR is better)
- b. **RAD/Section 18 Small PHA Blend** – for PHAs with 250 public housing units or less
 1. Under this option, NHA would have to close its public housing program
 2. NHA would *not* receive the \$167K administrative fee
 3. RAD requirements continue to apply: 20-year viability and the ability to close on construction financing
 4. 9% LIHTC may not be used

CHA's analysis estimates that each federally assisted property at the NHA could meet a version of the RAD/Section 18 Blend. This could bring NHA between \$1.7 Million and \$2.8 Million in yearly operating income. Property Condition Reports are needed to confirm these findings.

v. Section 22 Voluntary Conversion

- a. **Section 22 Voluntary Conversion** allows PHAs to convert 100% of units to Section 8 FMR
 1. Requires a cost test
 2. Would require the closing of NHA's public housing program
- b. **Streamlined Voluntary Conversion** (for PHAs with 250 public housing units or less)

1. Waives the cost test
2. Would require the closing of NHA's public housing program

This program could give NHA \$3.1 Million in annual income. This program would be immediately implemented upon application approval. CHA estimates that this would be a very useful tool for NHA to use but would require it close out its public housing program, and result in the loss of all current and future Faircloth Authority.

C. Impact of Faircloth

- i. Faircloth is the amount of public housing units that a PHA is authorized to own and operate
- ii. NHA's Faircloth is 135 units (136 less one four bedroom in Cook converted to a community room)
- iii. Different conversion tools affect Faircloth Authority differently
 - a. Section 18 and RAD/Section 18 Blended programs would generate 1-for-1 Faircloth units for every unit disposed of under Section 18
 - b. Section 22 and the Small PHA RAD/Blend would require NHA to close its public housing program and lose all Faircloth

D. Time Value of Money

- i. Different conversion programs have different requirements, which affect the timing of the implementation of these conversion programs, and therefore the timing of the new income received by the housing authority
 - a. So, where a Section 22 conversion might be applied immediately, it might take 7 or 9 years for the full income benefits of a RAD/Section 18 Blended conversion to be received.

E. Other Considerations

- i. **Impact on State Public Housing Portfolio**
 - a. Any Faircloth generated by a repositioning can be used to subsidize operations at Linden / Chambers
 - b. Increasing operating subsidies at federal properties allow NHA to raise more debt to fund renovations at Linden / Chambers
 - c. Higher operating subsidies may not be utilized, and would be re-deployable to support operations and/or renovations at Linden / Chambers
- ii. **Recommendations (see Part 2 notes)**

Questions & Answers

Q: Please run through the chart on Slide 9 (p. 6 of the Report)

A: The public housing column is what the NHA is currently receiving. The RAD column is what NHA would receive through a RAD conversion. And so on.

Q: How does this chart impact resident rents?

A: If the housing authority selects options that would involve project-based vouchers, resident rents would stay the same at 30% of monthly income

Q: What is the difference between the 60% Section 8 RAD/Blend and 80% Section 8 RAD/Blend

A: They are based on different percentages of units receiving Section 8 FMR vouchers

Q: Where does Faircloth come in?

A: Faircloth is not shown in this chart but would come into effect later. Faircloth units would be created 1-for-1 based for every unit converted to Section 8 under the Section 18 program.

Q: What would happen if residents didn't consent to project-base their vouchers?

A: NHA would not receive a "deep subsidy" for the unit. Other housing authorities have generally used an existing Section 8 voucher and "slotted it in" to that unit, so that that unit could receive the deeper subsidy.

Q: If PHAs back-filled a Section 8 voucher into a unit with a tenant that didn't project-base their voucher, would the unit essentially become a project-based unit?

A: Yes.

Q: What are incentives that have been used to help residents to consent to project-basing their vouchers?

A: Generally, the altruistic goal of maintaining the unit as affordable in the long run is a good motivation for residents, as well as the security of being able to stay in a specific neighborhood.

Q: When a tenant leaves with a Mobile Voucher, and later finds they don't need that voucher anymore, does that voucher then return to the NHA?

A: Yes.

Q: Exactly what does it mean that a tenant can request a Housing Choice Voucher 12 or 24 months after their move-in date?

A: It means that a tenant that moves into a project-based unit at NHA can request a Mobile Voucher after a certain time in their unit.

Q: Related to the Slide 9 / P. 6 table, are the columns consistent with the four conversion options that were recommended by CHA?

A: No, they are not. This first table just outlines the general Section 8 conversion programs made available to PHAs, as well as corresponding benefits. The recommendation table is specific to the CHA's preliminary estimates of the options that are available to the NHA that NHA properties are eligible for.

Q: Section 22 – when the Section 22 program starts, do we have to re-qualify all tenants to meet 50% AMI? It would be worth looking at what income thresholds tenants meet.

A: Residents would be qualified as long as they make up to 80% of AMI. We do not yet have income information about tenants to determine which would fall over these restrictions, but it is on our to-do list to get this information.

Q: If we are at the maximum of our Faircloth utilization, could we tear down one of our bungalows and turn it into a duplex? The added unit would be added through Faircloth?

A: Yes, that is correct.

Q: Are the Fair Market Rents the maximum rents that can be charged to residents?

A: No, those are the maximum rents that the *property* could receive as tenant rent plus subsidy allowable by HUD. The residents would pay 30% of their monthly income.

Q: Can the powerpoint be made available?

A: Yes, of course.

Q: Is there any reason to keep the public housing program? What does that mean?

A: One of the main reasons it is beneficial to keep the public housing program is that it allows the future use of Faircloth Authority. This can allow for more flexibility to do renovations and additions in other properties, namely on the state-assisted side. A number of housing authorities had excess Faircloth, and it might be possible to have them share Faircloth authority with NHA should it have previously closed its public housing program.

Q: If you close the public housing program, what rules apply to that program?

A: Any converted unit would fall under Section 8 program rules. These are quite similar. Some residents have expressed preference for the public housing lease because it provides some more protections than the Section 8 lease does. But there is no reason that NHA could not modify its Section 8 lease to include these protections.

Final notes:

- Closing your public housing program does not mean you change your mission; it means that you take advantage of new resources to better fulfil your mission.
- One of the measures up for debate in Congress is the 10-year suspension of Faircloth. NHA took advantage of a similar resolution in the early 2000s, which resulted in the moving of High Rock Estates from the state-funded program to the federal-assisted program.

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Adequate notice of this meeting has been provided by the Secretary of the Needham Housing Authority (NHA) by preparing a Public Notice dated November 4, 2021, setting forth the date, time and place of this meeting. Said notice was filed with the Clerk of the Town of Needham and provided to persons requesting it.

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AGENDA

SPECIAL BOARD MEETING

- A. Chair's Announcements** (*matters that could not be reasonably anticipated in advance of the meeting.*) There were none.
- B. Draft Federal Public Housing Conversion Assessment Report**
1. Continued discussion and Q&A by the NHA Commissioners and Staff
 2. Resident Input and Q&A
 3. Review and further development – Key Goals & Objectives
 4. Guidance to Cambridge Housing Authority

November 8, 2021 (Part II) Notes:

- Picking up where we left off:
 1. Continuing with Q&A
 2. To begin going through the different conversion options recommended by the CHA in their assessment report

I. Questions & Answers – Cont'd

Q: We are not looking in “bad enough” shape to be eligible for the very lucrative Section 18 option, is that correct?

A: Correct. The requirements HUD sets forward that might determine NHA’s eligibility for this conversion program are very specific (needs must be within three years and can only include in-kind replacements or upgrades). CHA will be conducting Property Conditions Reports on NHA’s federally-assisted properties to determine with more accuracy whether any of them might have a better likelihood to meet this test. Captain Cook seems most likely to be eligible at first analysis.

Q: Wouldn’t High Rock Estates be more eligible, being much older than Captain Cook?

A: The overall envelope issues at Captain Cook, the site issues, the accessibility issues among others make this property in much more immediate need of renovation

Q: Why should we care about Faircloth?

A: Faircloth is essentially additional operating income. Local and state authorities, such as DHCD, like to see additional ways of leveraging funds as part of a renovation project.

Q: How essential is Faircloth to doing renovation/redevelopment work at Linden and Chambers?

A: DHCD and other authorities look for projects that can leverage the maximum amount of funding for every dollar of authority-funding dedicated to those projects. Faircloth units could come in-lieu of an authority-awarded operating subsidy (which are difficult to obtain) and would make such redevelopments much more attractive.

Q: Is there any way to just apply for Section 18 at Captain Cook?

A: Yes, Section 18 applications are submitted by property.

Q: Is the operating income available to be transferred at Linden / Chambers? Or can only Faircloth income be used here?

A: Yes. If the new income is more than sufficient to cover operations at federal properties, any surplus could be used as a local subsidy for other projects, such as Linden and Chambers.

Q: How do you rate obsolescence? Linden and Chambers seem obsolete enough.

A: HUD has established certain thresholds of physical needs to meet to qualify for obsolescence: these are based on the type of property, on its location, etc. HUD also restricts the *type* of needs that can be counted as part of this threshold calculation (immediate, within 3-year needs; in-kind replacements only (no improvements, such as elevators or central A.C.)). The obsolescence threshold under Section 18 as well as other Section 8 conversion programs are available to federally assisted properties. No such equivalents currently exist for state-assisted properties.

Q: Does Needham being in a high-cost market automatically make its properties eligible for the 20% RAD Blend / 80% Sec. 18?

A: Only if the property already meets the 90% of Housing Construction Costs needs threshold.

Q: Is the Small PHA blend worth seeking if it closes the public housing program and loses Faircloth?

A: It all depends on the NHA's priorities. Under the Small PHA blend, the application process would be streamlined, but the NHA would still have to meet RAD requirements, it would lose its Faircloth authority, and it would not receive an administrative fee.

Q: Is the point of Section 22 that it brings in new operating income immediately?

A: Correct, once a Section 22 application is approved, the new operating income would be applied immediately. The timing analysis is meant to explain that the Section 22 program allows an immediate influx of new operating income (\$1.6 Million *new* yearly

income), while some of the other options recommended might take a bit longer to yield the full amount of the new operating income.

Q: Can we get the Time Value of Money table based on a Net Present Value calculation of some sort?

A: We can look into this.

Q: Could we see how giving up Faircloth (in a Section 22 scenario, for instance) would affect us over time given the immediacy of Section 22 income?

A: The Impact of Faircloth slide shows the comparative value of having Faircloth income added to your new Operating Income.

Q: How would the Mixed Recommendation work over time?

A: The timeline would be the following: Submit a bundled 20/80 (20% RAD; 80% Section 18) application for Captain Cook and Seabeds; receive approval for this application; complete construction work on Captain Cook and Seabeds; receive 60 Faircloth units from the conversion; deploy these 60 Faircloth units at Linden / Chambers; once these Faircloth units are deployed, apply for Section 22 for remaining public housing units (at High Rock Estates); close down the public housing program.

Q: Does the FCI come into play when applying for other local / state subsidies?

A: It can but receiving these can also depend on showing the ability to leverage other local subsidies. These subsidies are generally very competitive to begin with.

Q: What does the "loss of Faircloth" mean?

A: If you use Section 22, any Faircloth Authority that has not been used would go away.

Q: What do 60 units of Faircloth represent?

A: These are 60 operating subsidies. They are *not necessarily* new units.

Q: What does closing out the program at the end of the Mixed recommendation option mean? Do you lose the 60 units of Faircloth?

A: No, you would maintain the Faircloth units. The Faircloth units, shortly after their deployment, would be transferred to the RAD program. So when you close out your public housing program with the Section 22 conversion at High Rock Estates, you would have already used your Faircloth.

Resident Questions & Answers / Comments (C) :

C: There are severe mold and ventilation issues that make it necessary for residents and maintenance to routinely clean out vents.

Q/C: What is the nature of innovation that can be seen at the properties? Can we address the life safety and livability of the buildings?

C: It was a moisture problem that led to the ice damming and the leaky build-up, and we have not properly addressed that.

C: The High Rock Estates units are not bungalows.

II. Conversion Options & Next steps

- Resident Engagement
 1. CHA thinks it would be very helpful to have an in-person resident engagement meeting after Thanksgiving – Community room at Rosemary Lake, the Senior Center? Could residents be given rides to the location?
 2. CHA will discuss
- Recommendations and Decision-making considerations:
 1. Contract Income
 - Section 22 and the Mixed options yield the greatest new operating income
 2. Over-Income Households
 - In a Section 22 scenario, if a resident is over income, they would not be eligible for a mobile voucher
 3. Project-Based or Tenant-Based
 - Any conversion involving Section 22 yields Tenant Based Vouchers; residents would need to consent to project base their vouchers
 4. Retention of Faircloth

- Both the RAD/Sec. 18 Construction Blend and the Mixed Blend retain Faircloth
- 5. Timing of Conversion
 - Section 22 conversion income comes in immediately
 - Other programs require construction
- 6. Requirement for Disposition
 - Most recommendations (except for the Section 22 alone option) require construction, require a threshold to be met, and must meet RAD viability requirements
- 7. DDTF and ARF
 - These are additional funding sources that the NHA could receive in all options except for Section 22
- 8. State Public Housing
 - Sec. 22 has the highest income that could be used as a local subsidy; but no Faircloth
 - Conversely, the RAD/Sec. 18 Construction Blend has the lowest income usable as a subsidy; but the most Faircloth.

Final thoughts:

- Option three (the Section 22) and Option four (the mixed option) seem to be the most interesting, and Option four seems more so for the opportunities it gives to do much needed work at Linden and Chambers.
- Reg put together a list of key goals and objectives for the federally subsidized properties.