Talking Heads

Patrick Costigan, Strategic Advisor, RAD Collaborative

The Progress of Preservation

By Darryl Hicks

When Shaun Donovan became Secretary of Housing and Urban Development in 2009 he was determined to find new ways to preserve at-risk public and assisted-housing developments. So he turned to Patrick Costigan, a 30-year veteran of affordable housing and community development and a senior vice president at The Community Builders, a Boston-based nonprofit developer and property owner, to help redirect the effort.

From 2011 to 2014, Costigan and his colleagues devised and implemented the Rental Assistance Demonstration (RAD) program, authorized by Congress in 2012, and today a pivotal program used by public housing authorities to revitalize their aging housing stock.

After leaving HUD, Costigan, Sunia Zaterman, head of the Council of Large Public Housing Authorities, Steve Holmquist of the law firm Reno & Cavanaugh, and Kathleen Foster, who also worked on developing RAD with Costigan at HUD, formed the RAD Collaborative as a vehicle to support RAD's effective implementation among housing authorities, their partners and HUD.

Tax Credit Advisor sat down with Costigan to talk about what RAD has achieved thus far and where he sees the program headed.

Tax Credit Advisor: ***Is the RAD program better off today compared to this time last year?***

Patrick Costigan: Definitely so. In May 2017, HUD put out an update on RAD's progress when it crossed the $4 billion mark in new capital generated for improvements to the public housing stock. Then early in January of this year—just seven months later—it announced that RAD had crossed the $5 billion mark in new capital generated across 88,000 units of converted public housing redevelopment projects. By any measure—capital raised, pace of development, nearly 95,000 jobs created in local economies, general resident satisfaction with the improvements to their housing—the program has advanced well-beyond where it was a year ago. But the measure that astounds me most is that if housing authorities (HAs) were forced to depend on the conventional public housing program to deliver needed capital for repairs, they would have waited nearly 46 years to aggregate the $5 billion that RAD has produced over the last four years of active implementation. RAD certainly has capitalized better housing for thousands of families today.

Patrick Costigan

TCA: ***In 2017, Congress raised the cap on the number of units that can be converted under RAD from 185,000 to 225,000. I am sure that helped alleviate some of the backlog, but what does the waitlist look like today? What are the prospects for Congress eliminating the cap altogether?***

Costigan: As soon as that increase was approved, HUD fully allocated it. Yet even with that, at the time, HUD still had another 60,000-plus units on the waitlist that it couldn't address.

Today, the RAD waitlist exceeds 85,000 units that are still in limbo waiting for additional authority from Congress. What we've seen is that even with constrained authority and unpredictable increases in RAD's authority from time-to-time, the program has recently been able to move about 100,000 units per year through an application-to-project-closing pipeline. That level of production would very likely increase if there was simply an open door to using the program—which eliminating the cap on public housing conversions would do. Because of this demand, I'm optimistic that the cap will be eliminated sometime soon.

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***TCA:* What other noteworthy trends are you seeing?**

Costigan: There are a few that impress me. First, there was a fair amount of reasonable anxiety among residents and their advocates about what RAD would mean for their continued access to affordable housing. RAD is a bit administratively complex after all. But most residents seem pleased with improvements to their apartments, as well as that RAD's basic promises of one-for-one preservation of hard units without displacement have been kept. Second, RAD seems to work for housing authorities large and small, across geographies that are urban and more rural, and in markets that are higher-to-lower cost – from San Francisco to Hagerstown, MD. Given its original no-additional-funding deal with Congress—leaving housing authorities to work with RAD rents that are about, on average, 70 percent of FMR (Fair Market Rents) across the country—I might not have bet on that kind of reach. Third, RAD's less-known twin authority, which involves the ability to convert certain multifamily developments lacking an ongoing subsidy option—currently the Rent Supplement, Rental Assistance Payment (RAP) and Moderate Rehab programs—has proven a remarkable success in preserving critical affordable inventory. Nearly all of the eligible Rent Supplement and RAP units, or about 25,000 units taken together, have already been successfully converted under RAD, also at no additional cost to the government. Given this track record, I'm very hopeful that Congress will also now extend RAD's authority to about 120,000 units under the multifamily Section 202 PRAC (Project Rental Assistance Contracts) program for seniors.

***TCA:* How has the administration of the RAD program changed under the Trump Administration?**

Costigan: By nearly all reports that I hear, very little in practice, meaning that it continues to be fully-supported administratively within HUD. I recall that in his confirmation hearing, then Secretary-Designate Ben Carson said something to the effect that RAD seemed to be working, and that he believed on building on what works regardless of whose idea it was. So be it! But in theory, the administration's budget proposals last year and even more so this year are head-scratchers. On one hand, the budget language calls for eliminating the RAD cap and timelines, consistent with what the Obama administration sought once RAD proved itself. But the other hand steals that good gesture away by proposing to completely eliminate the Public Housing Capital Fund and severely cutting the Operating Fund. RAD for public housing can't work without maintaining reasonable capital and operating fund levels, since it converts that funding to long-term Section 8 funding contracts. And the paltry $100 million earmarked for RAD projects in this year's budget proposal as compensation for those cuts would barely enable 30,000 additional public housing units to convert under RAD, while leaving the remainder of the public housing stock not yet able to convert funding under RAD with crumbs to operate with. That's a far cry from the 100,000-plus units per year demand that HUD has seen—with caps and waitlists. It's hard to understand that while Secretary Carson supports RAD, the White House and OMB propose to gut it.

***TCA:* Besides eliminating the cap, what other changes would you like to see implemented to improve RAD?**

Costigan: Eliminating the cap would surely be the most helpful change. It would take away the uncertainty about additional RAD authority, and allow HAs and their partners to more methodically plan and tap RAD's Section 8 contracts to recapitalize their entire inventories on their own timelines. Now it's an unknowable cycle of start, then stop, then maybe go a little bit more again, which really works against getting more public housing fixed up quickly. Beyond that, we will at some point have to come to grips with the reality that there is a portion of the public housing inventory that has been so chronically underfunded that its capital needs will never be met under the RAD's cost-neutral funding approach. Additional capital funding and/or incremental subsidy for RAD rents will have to be provided. Failing to do that would make no sense, policy- or dollars-wise. We really can't afford to lose hundreds of thousands of affordable units by not providing sufficient funds to preserve or replace them. That condemns them to being demolished and permanently lost from the affordable inventory when nearly every city and state needs more, not less, affordable housing. Plus, it also displaces hundreds of thousands of families out of public housing. Beyond the disruption to their lives, we really can't afford the dollar cost of doing that, for relocation expenses and issuing legally-mandated tenant protection vouchers to displaced families. It is simply better policy and budget management to preserve the at-risk inventory than to jettison it.

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***TCA:* Why was the RAD Collaborative created and what impact has it had on RAD utilization?**

Costigan: Once RAD started to prove itself in practice and led Congress to initially increase its authority from 60,000 units to 125,000 units, a few of us involved with the program from the outset believed that it was important to build a community of practice for RAD among HAs and their partners. We thought it would be the best way to continue to support its effective implementation and potential expansion. This seemed analogous to the role that the-then Enterprise Foundation and Local Initiatives Support Corporation offered to community development corporations when Low Income Housing Tax Credits were put into play after the 1986 tax reforms – which a few of us had been involved in, and saw the importance of doing back then. So, we created the Collaborative to do something similar, but not so much to be a new organization as to be a network of RAD practitioners. Today, that network extends over 1,600 or so participants. We try to share real-time experience in forums, conferences and on our web page. We work to collectively identify and address common practice issues with HUD, so that the same issue is not shot over HUD's bow from a hundred different directions, and work together to resolve it.

***TCA:* What areas of the country do you see the highest concentrations of RAD activity? What percentage of the deals are rehabilitations versus new construction? How long do these projects generally take once construction starts?**

Costigan: The HUD reports that we talked about show that RAD is working well in all regions of the country. Its use tracks pretty consistently with the proportion of public housing in each region. It seems to be used at a higher rate in the South, perhaps owing to the stock there being less obsolete and smaller in scale than some other parts of the country. So it more readily sizes up to standard 75 to 100-unit redevelopment phases that are less dependent on nine percent LIHTCs. Conversely, the Northeast seems to be tapping RAD less than its proportion of public housing stock in the region. That may be due to the larger scale and older, deeper capital needs of the stock there, which depends more on using nine percent credits over multiple redevelopment phases to make large projects work. Given RAD's less-than-optimal rents, it has surprised me that RAD has been able to support so much replacement housing via new construction. The last data I saw showed that nearly one-fifth of RAD conversions are for replacement housing. That's amazing! Overall, about 82 percent of RAD conversions are immediately supporting needed rehab or new construction. The balance of conversions are for properties that only require standard maintenance-level repairs now. But their underlying Section 8 contract will enable them to recapitalize when needed down the road. Construction under RAD seems to take about the same time that a typical affordable housing development phase would – about a year to complete.

***TCA:* Are you seeing greater acceptance of RAD?**

Costigan: Very much so. I think that owes to many things. RAD is working. But to be clear-eyed, there aren't many viable options for HAs to fix up their inventories. So they've channeled a lot of creative energy into making it work. The proof of their good efforts is that most residents, local communities and even some development partners have overcome some of their early skepticism about RAD. I also think there's been some very strong leadership in promoting how RAD can be a solution, not a threat, to the future of public housing. The Council of Large Public Housing Authorities (CLPHA), a founding sponsor of the RAD Collaborative, has supported RAD among its industry colleagues, on the Hill and at HUD from day one. There would be no RAD without CLPHA's leadership. The Recap Office at HUD has done a great job in being responsive and flexible in administering RAD. The affordable housing industry—especially National Housing & Rehabilitation Association—recognized RAD's potential early on and really helped developers effectively partner with HAs and also tap RAD's multifamily component to preserve that housing that could have been easily lost from the affordable inventory. With RAD, HAs have demonstrated that they can now function like all other forms of affordable housing in accessing capital and managing redevelopment and their portfolios. That was the whole point of the demonstration. Now the policy question seems to be how can we take the demonstration out of RAD and make it available to all HAs—or even come up with something better—to help them do their jobs, rather than can RAD really work in practice. TCA

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