

## **RAD and Section 18 Blend Process**

### **Question:**

How does a PHA sequence its RAD and Section 18 applications in order to use this provision? How will HUD process the application materials to ensure that the release of the Declaration of Trust, RAD conversion, and execution of the non-RAD PBV AHAP or HAP contract occur jointly?

### **Answer:**

Initial processing instructions are as follows:

Step 1: The PHA submits a **RAD application** at [www.radresource.net](http://www.radresource.net) for the entire “Converting project” that will encompass the transaction.

Step 2: The PHA satisfies **PHA Plan** requirements for both RAD and Section 18 (See question 24).

Step 3: The PHA identifies that it intends to utilize a RAD/Section 18 Blend in the **Concept Call** held with HUD prior to submitting the Financing Plan. If the PHA is using the Small PHA Blend, the PHA submits its repositioning plan prior to submission of the Financing Plan in order to confirm eligibility.

Step 4: The PHA determines its **plan for how it will attach PBV assistance** to the Section 18 units (i.e., through the Existing Housing PBV requirements or through AHAP). The plan must comply with all applicable PBV requirements (see program regulations at 24 CFR Part 983 and applicable guidance including, but not limited to: the HOTMA Federal Register Implementation Notice at 82 Fed. Reg. 5458 (January 18, 2017) and PIH Notice 2017-21) and be feasible based on the timing of the RAD closing. PHAs are encouraged to begin required steps to project-base Section 18 units as early as possible. See questions 8, 9, and 21.

Step 5: The PHA submits a **Financing Plan** and other supporting information for the Section 18 units that complies with the following.

The PHA’s Financing Plan will cover the entire transaction/converting project covered under the Blend. The Financing Plan includes documentation that HUD can use for both RAD and Section 18 processing as well as supplementary documentation needed to complete the Section 18 approval. The PHA is not required to submit a separate Section 18 application through IMS/PIC. Instead, HUD’s Special Applications Center (SAC) reviews the additional material noted below and uploads it into IMS/PIC in the form of a DDA Section 18 application.

In addition to standard Financing Plan requirements, the PHA submits a Financing Plan that includes:

- a. A detailed transaction summary in the Conversion Overview, which must describe the use of this provision and confirm that the units that will be removed through Section 18 will be sold or otherwise transferred (i.e., ground lease) to a third-party entity that is recognized as a separate independent entity under State law (which may include a non-profit affiliate controlled by the PHA).

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- b. A cash flow pro forma that reflects the income and expenses of the total project, i.e., for the RAD and non-RAD units.
  - a. Capital Funds sources that, on a pro-rata basis, do not exceed the development budget, e.g., in a transaction seeking a 60/40 RAD/Section 18 construction blend, any Capital Fund contributions cannot exceed 60% of the development budget in a transaction with 60% of the units in RAD and 40% of the units as Section 18. This does not apply in the case of a PHA that will no longer have ACC units as a result of the RAD/Section 18 Blend or that will have less than 50 units remaining and have initiated procedures to dispose of their final ACC units.<sup>[1]</sup>
  - b. A Capital Needs Assessment covering the whole property. The hard construction costs in the Uses will be used to determine whether the project qualifies for the Construction Blend.
  - c. A Sources and Uses covering the whole property.
  - d. Any applicable front-end civil rights reviews completed for the entire property.
  - e. An Environmental Review for the whole project.
  - f. A RAD Initial Year Funding Tool that is correctly sized to include only the RAD units.
  - g. Utility allowance schedule reflecting the projected utility allowances following the completion of rehab or construction, which will be used to prepare the CHAP amendment.

Supplemental Section 18 materials. The PHA also submits certain materials needed for a complete Section 18 application that are not already required by RAD. Specifically, the PHA submits the following material to the RAD Resource Desk no later than its submission of the Financing Plan :

- a. List of units (by address, unit type, and PIC number) that designate which units will be removed through Section 18 and which units will be removed by RAD. Spreadsheet format preferred.
- b. Evidence that the PHA described the Section 18 disposition in its PHA Annual Plan and the Field Office approved that PHA Annual Plan. For Qualified PHAs, a certification that they have discussed the Section 18 disposition at a public hearing. See question 24.
- c. A local government support letter. The PHA must consult local government on its proposal to apply for Section 18 for some units under a RAD/Section 18 Blend and secure a letter of support from the chief executive officer (i.e., mayor) of the local government.
- d. Evidence of consultation with any resident organization for the residents living in the Converting Projects and the Resident Advisory Board (RAB)<sup>[2]</sup>; and any written comments received from impacted residents, resident organizations, or the RAB, along with the PHA's responses to those comments.
- e. A Board resolution that approves the PHA's proposal to apply for Section 18 for some units under a RAD/Section 18 Blend. The resolution must be signed and dated after all resident and local government consultation has been completed.

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<sup>[1]</sup>The PHA must estimate and plan for outstanding liabilities and costs and must follow Notice PIH 2016-23 or successor notice regarding the administrative activities required to terminate the ACC if it has no plans to develop additional public housing.

<sup>[2]</sup> Section 18 requires PHAs to consult with the resident organization(s) of the Converting Project (if any) and the RAB. However, the PHA may be able to satisfy these requirements as part of the RAD resident consultation process if the PHA specifically extends the consultation invitations to meetings, etc. to the required resident organizations and RAB.

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PHAs are not required to submit the following items described in 24 CFR 970.7(b) since they will have been addressed through the RAD requirements:

- (i) evidence of environmental review – the environmental review for the entire project will be completed through the RAD processing requirements;
- (ii) (timetable for the disposition – the disposition will occur simultaneously with the RAD closing;
- (iii) a statement justifying the disposition – the disposition is justified based on the project qualifying for the RAD/Section 18 Blend;
- (iv) a description of the method of disposition (i.e., ground lease, sale);
- (v) estimates of the gross and net proceeds – the property’s sale will be occur under RAD requirements and any proceeds from sale will be subject to requirements imposed through RAD; and
- (vi) evidence the PHA offered the property to sale to the eligible resident organizations (See also 24 CFR 970.9(b)(3)(ii)— (the PHA would be eligible to an exception to the offer of sale because it has a firm plan, as proposed in the Financing Plan, to replace the public housing units with low-income housing units (PBV units)).

PHAs can satisfy the Section 18 requirements for consulting with the impacted residents as part of the RAD consultation requirements. PHAs can also satisfy the Section 18 relocation plan requirements as part of the RAD Relocation Plan requirements, since the relocation benefits to all families must be the same. Please note that the PHA may not provide different relocation rights and benefits to residents of the project on the basis of whether they reside in a RAD unit or a Section 18 unit.

Step 6: Upon receipt of the Financing Plan requesting the use of the RAD/Section 18 Blend, HUD revises the CHAP, amends the RAD PIC removal application, and creates the Section 18 removal application. HUD uses the materials already submitted by the PHA to the RAD Resource Desk to populate the Section 18 application. The SAC alerts the PHA if there are any missing items necessary for the Section 18 application. HUD will not approve the Financing Plan until the PHA has satisfied all Section 18 submission requirements.

The Office of Recapitalization subsequently issues the RAD Conversion Commitment (RCC), which will reference the transaction’s use of the RAD/Section 18 blend and include a special condition that the non-RAD PBV HAP contract or AHAP will be executed concurrent with the conversion. The SAC then also issues the Section 18 approval letter, which will identify the maximum number of units eligible for Tenant Protection Voucher (TPV) funding based on PIH’s Annual HCV Funding notice, which currently allows the PHA to request TPVs for units that were occupied by assisted families in the 24 months prior to Section 18 approval.

Step 7: The PHA applies to its Field Office for TPVs following receipt of the Section 18 approval letter and 30-60 days before the voucher funding is needed.<sup>[3]</sup> See the [TPV FAQs](#). The PHA receives the TPVs.

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<sup>[3]</sup> PHAs will generally use the TPV award to attach PBV assistance to the Section 18 units and thus should apply for the TPVs 30-60 days before it is ready to put them under a HAP contract. The timing will depend on whether the PHA is attaching the PBV assistance concurrently with the RAD closing or is attaching PBV assistance to the units

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Step 8: The PHA must submit a draft of the PBV HAP contract (HUD 52530-B: PBV HAP Contract – Existing Housing) or AHAP (HUD 52531-A and HUD 52531-B) with the closing package. All of the land is released from the DOT as part of the RAD transaction/closing, and a RAD Use Agreement (plus RAD/Section 18 Blend Rider) is placed on the entire Covered Project. The PHA disposes of the property to the entity undertaking redevelopment who will then execute the RAD HAP contract and the non-RAD PBV HAP contract or AHAP and proceed with any planned rehabilitation or demolition and new construction. Following the RAD closing (and disposition), the SAC removes all units in the transaction (Section 18 and RAD) from PIC, which will result in all units changing to “Removed from Inventory” status in IMS/PIC.

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through an AHAP. The PHA may also choose to use the TPV award to provide families with tenant-based (mobility) assistance and then use its existing HCV resources to later attach PBV assistance to the Section 18 units, provided the PHA is offering the RAD families the same relocation options.