



HOUSING AUTHORITY OF THE
CITY AND COUNTY OF SAN FRANCISCO
1815 Egbert Avenue, San Francisco, CA 94124

Memorandum

TO: San Francisco Board of Supervisors

FROM: Tonia Lediju, CEO Housing Authority of the City and County of San Francisco

DATE: June 10, 2024

SUBJECT: Response to Resolution No. 174-24, Faircloth to RAD Plan

Executive Summary

Faircloth-to-RAD in San Francisco represents a valuable financing opportunity for both preservation of the City's portfolio projects and for new construction. The program provides the shallowest funding; nonetheless, it is a stable operating subsidy to participating projects. The United States Department of Housing and Urban Development (HUD)'s rent augmentation provisions, set to expire in September of this year, allows for the Housing Authority of the City and County of San Francisco (Authority) to use Housing Assistance Payment (HAP) reserves, if available, to increase the value of the Rental Assistance Demonstration (RAD) vouchers. This augmentation allows the projects to use the highest available payment standard to leverage debt, which reduces the amount of City subsidy required.

The Authority, in partnership with the Mayor's Office of Housing and Community Development (MOHCD), plans to request approval for rent augmentation equal to its Faircloth Authority by the September deadline. If approved, this provides an opportunity to augment the Faircloth to RAD rents, over time, which is incumbent upon availability of the Authority's HAP reserves. The Authority will select an initial cohort of pilot projects from MOHCD's pipeline to utilize Faircloth, in collaboration with MOHCD, to ensure the City's operating and capital subsidy costs decrease, while preserving or deepening affordability.

Program Overview

In 1998, Congress enacted the Faircloth Amendment which sets limits on the number of public housing units each public housing authority (PHA) can have in its portfolio. The "Faircloth Limit" refers to the maximum number of public housing units for which a PHA may receive public housing capital and operating funds. Nationwide, PHAs have 220,000 units available under the Faircloth limit. Financing the development of public housing units – which are underfunded by HUD for both operational and capital needs -- has been a barrier to activation of remaining Faircloth authority.

In 2021, The United States Department of Housing and Urban Development (HUD) launched the Faircloth to RAD, a new program where PHAs can reposition existing Faircloth authority to create units subsidized by new project-based vouchers set at Rental Assistance Demonstration (RAD) rents. If a PHA

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has fewer public housing units than its Faircloth limit, then funding for those units may be converted from the low-income public housing program to Faircloth-to-RAD vouchers. These vouchers are not funded at the full PHA payment standard level, which in San Francisco is 110% of HUD's Fair Market Rent (FMR). However, the value of these vouchers represents a financing opportunity to serve as a limited subsidy to allow for deeper rent targeting in new construction and acquisitions as well as stabilize cash flow in existing properties. Housing Authorities may use their available Housing Assistance Payment (HAP) reserves to augment the Faircloth-to-RAD initial contract rents up to the payment standard. Doing so, the projects can use the Faircloth-to-RAD vouchers to leverage debt and reduce the City's subsidy required. HUD's rent augmentation policy is currently set to expire in September, 2024. As of December 2023, the Authority has 3,667 units of Faircloth-to-RAD authority that can be deployed across a variety of project.

How Faircloth-to-RAD conversions work

1. Public Housing Authorities identify projects to allocate the Faircloth-to-RAD authority by providing initial underwriting information to developers for financial feasibility. The PHA submits the application for a Notice of Approved RAD Rents (NARR), including the amount of HAP reserves that will be used to augment the RAD rents. The approved NARR from HUD will list the RAD rents approved for the project.
2. Developers build or acquire units under the public housing mixed-finance program (most recently used in San Francisco in Hunters View Phase 1 and in HOPE VI transactions). These projects can include tax credit financing.
3. HUD provides pre-construction approval to convert the property to a long-term "Faircloth-to-RAD" Section 8 contract following completion of construction and rehabilitation or acquisition under the public housing development process. Approvals allow lender and investor to underwrite to the Section 8 contract.
4. Projects are placed in service as public housing temporarily before RAD conversion occurs.

How Baseline Faircloth Rents are Set

RAD rents for Faircloth units are based on estimated Public Housing capital and operating fund levels for new units which are determined by HUD. New construction projects typically receive lower rents than existing buildings in the Public Housing portfolio as HUD assumes they will have lower operating costs because of their newer and more efficient building systems.

The Faircloth-to-RAD Section 8 contract must be established through a local Housing Authority's Project-Based Voucher (PBV) authority. PBVs are managed directly by the Housing Authority and may have their Faircloth-to-RAD rents augmented using available HAP reserves.

- PBV contracts are limited to the greater of 25 units or 25% of the units in the project (or 40% of units in the project if it is in census tract where the poverty rate is no greater than 20%) unless the units are made exclusively available to people who are elderly, eligible for supportive services, or youth receiving HCV Family Unification Program Assistance. The contract can also be mixed or layered with other local operating subsidies (LOSP).
- Faircloth-to-RAD initial rent levels are not sufficient to cover the full operating cost of a unit. The base Faircloth-to-RAD voucher rent does provide important ongoing subsidy that can reduce

LOSP and Senior Operating Subsidy (SOS) contract amounts on projects, as well as help to stabilize existing unsubsidized but deeply affordable projects.

- Faircloth-to-RAD units do not impact the Authority's overall limit of having no more than 20% of its Housing Choice Vouchers (HCV) program as project-based.

Rent Augmentation using the Authority Housing Assistant Payment (HAP) Reserves

- The Authority can use its HAP reserves to augment the base Faircloth-to-RAD rents up to the payment standard for HCV PBVs. The Payment Standard is 110% of Fair Market Rent (FMR), which is 250% of the estimated base Faircloth rents. Using augmented Faircloth-to-RAD rents is more cost efficient and effective to the Housing Authority than funding standalone PBVs as shown in the chart below. However, it is contingent on the availability of such reserves in any given year.

Faircloth to RAD Augmentation Example		
	PBV HCV	Faircloth to RAD W/ Augmentation
Per Unit Cost for PBV	\$2,294	\$2,294
Estimated Faircloth to RAD Rent	\$0	\$650
Cost to Authority (HAP Reserves)	\$2,294	\$1,644

- There is a September 30, 2024, deadline to submit initial requests for a Notice of Approved RAD Rents (NARR) to HUD for projects seeking to supplement Faircloth-to-RAD rents with HAP reserves. These requests are not binding but are needed to preserve the option for future transactions. HUD will be evaluating the Faircloth rent augmentation program after September 30, 2024, and may re-open this opportunity. Due to the uncertainty of the future of this program, it is prudent to make a reservation for any near-term planned projects, as the Boston and Los Angeles Housing Authorities are doing. Even so, the base Faircloth-to-RAD voucher authority does not expire or have no time sensitive requirements.
- The NARR serves to reserve conversion authority for the selected projects. The unit mix, augmentation amounts, and exact location of the project(s) can be amended between the NARR and the final project.
- The Authority, in partnership with MOHCD, plans to submit NARRs equal to its full Faircloth authority by the September 30, 2024, deadline.

San Francisco's Pilot Cohort of Projects:

The initial projects selected to go through the Faircloth-to-RAD will consist of approximately 750 units of new construction and rehabilitation projects identified from MOHCD's pipeline for seniors, families, and formerly homeless households. These projects are in the early pre-development phase that allows for the integration of Faircloth-to-RAD into their financial plans. Existing affordable housing properties with

deeply affordable units that do not currently have Project Based Vouchers are being evaluated for participation in this initial phase. The successful implementation of the Faircloth-to-RAD program requires partnership with high-capacity developers and (or) operators because this program, including the mixed financed approach required to leverage needed funding, adds significant complexity to the overall development process.

Conclusion and Next Steps

- Faircloth-to-RAD represents a powerful funding source to support existing and pipeline projects and reduce the City's operating cost obligations, even at the lowest funding level.
- September 2024 rent augmentation provisions are set to expire, though HUD may choose to extend the program.
- To preserve the Authority's ability to utilize Faircloth-to-RAD rent augmentation over time. In partnership with MOHCD, applications equal to its full Faircloth Authority of 3,667 units will be submitted by the September 30, 2024, deadline. An initial cohort of projects consisting of new construction and rehabilitation will be selected from MOHCD's pipeline and portfolio.

Respectfully,

A handwritten signature in blue ink, appearing to read 'Tonia'.

Tonia Lediju
Chief Executive Officer
Housing Authority of the City and County of San Francisco