

Faircloth to RAD

GAO Committee, Board of Supervisors

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San Francisco Housing Authority

San Francisco Mayor's Office of Housing and Community Development

What is Faircloth to RAD?

- Every Public Housing Agency (PHA) has a set amount of Faircloth Authority to restore “public housing” to the number of units as of Oct. 1, 1999.
- If a PHA has more Faircloth Authority than Public Housing units in operation, it can build or acquire public housing units and then convert them to RAD project-based vouchers (PBVs)
- SFHA has 3,667 units of excess Faircloth Authority

How Do We Use It?



- Projects must be developed or acquired as public housing
- Upon completion, the public housing units are converted to 20-year renewable RAD operating subsidy contracts
- RAD Rents are about 35% AMI MOHCD
- Projects must meet HUD architectural, fair housing, environmental and other requirements

What can RAD do for San Francisco?



- Provide stable cash flow that helps to cover operations for deeply affordable units
- Support deeper affordability across our pipeline without additional burdens on City budget
- Stabilize existing affordable units that lack rent subsidies

Note: Base RAD rents are too low to support debt service. However, under "rent augmentation" SFHA can use its reserves (as available) to increase rents to cover operations and support debt.

SF's Faircloth to RAD Plan



Plan components:

1. Prepare placeholder reservations for Faircloth to RAD – Notices of Anticipated RAD Rents (NARRs)
2. Select an initial cohort of new construction project to use Faircloth to RAD in the immediate term
3. Identify additional opportunities to use Faircloth to RAD for acquisition and preservation

NARR Placeholder Applications



- To preserve the option to use rent augmentation on future projects SFHA and MOHCD will submit applications for NARRs
- The rent augmentation option is currently a pilot program and there is a deadline of 9/30/2024 to submit placeholder applications
- Placeholders do not commit any funds and are flexible to change, with no deadline to close
- SFHA/MOHCD will submit NARRs for all 3,667 available Faircloth units.

Rent Augmentation

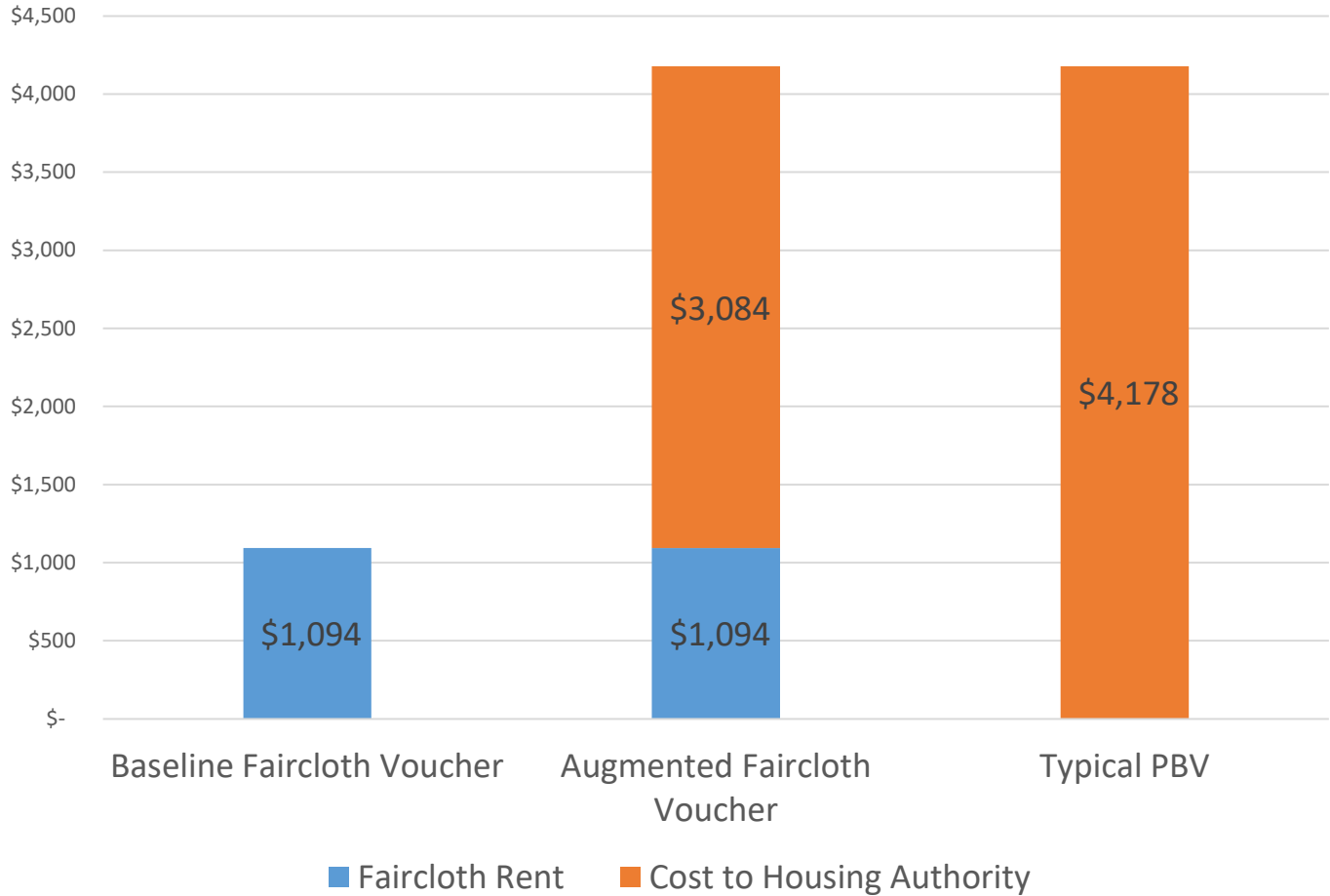


- SFHA can fund in the Section 8 program budget, as available, to increase ("augment") the rents paid on RAD units up to 110% of HUD Fair Market Rent
- Augmented rents can cover operating costs (which decreases City operating subsidy costs) and support debt service (which decreases City capital subsidy costs)

Augmenting Faircloth Rents



Faircloth Rent Augmentation vs. PBVs for a Two Bedroom Unit

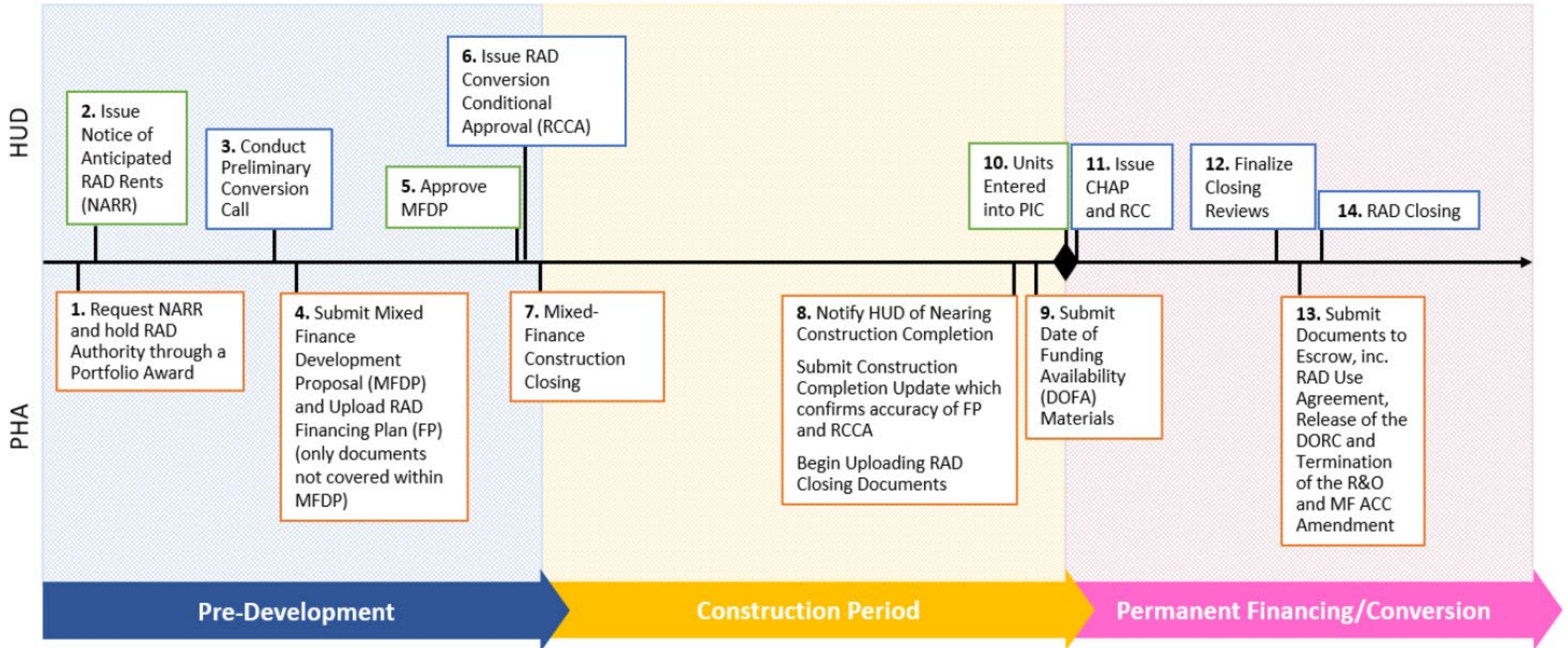


Initial Faircloth to RAD Cohort

- MOHCD and SFHA are in the process of identifying an initial cohort pipeline projects that are in the predevelopment phase
- RAD subsidy can:
 - Be layered onto standard LIHTC financing
 - Be combined with LOSP and other subsidies
 - Leverage private debt under rent augmentation with rents up to 110% of FMR



Faircloth to RAD process is complex and adds additional players to transactions but can occur largely within normal LIHTC affordable housing transaction timeline



Preservation and Acquisition

- Faircloth to RAD can be used for Preservation and Acquisition
- There are challenges to implementation given income qualification rules
- HUD waivers would be needed to use for SROs
- Simultaneous with advancing initial project cohort, we will be exploring with HUD and consultants how to best to expand program for preservation and acquisition



Summary

- Faircloth to RAD is a new HUD program with limited examples underway nationally
- Represents a powerful funding source to support the City's affordable housing, new construction, acquisitions, and preservation
- RAD subsidies can improve cash flow and reduce/offset City operating subsidies such as LOSP
- HUD's Rent Augmentation Pilot offers the opportunity to reduce City capital subsidies given higher rent subsidies and debt leverage

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