Public Housing Repositioning: Wednesday Webinar Series

Mixed Finance Development, 1-31-24

Antonella Salmeron: Good afternoon. Thank you for joining us. for today's installment of the Wednesday Webinar series. Today's topic is mixed finance development, what it is and how it can help. My name is Antonella Salmeron, and I am the host for today. Before I pass it over to our presenters, I have a few housekeeping items. Our presenters will share their knowledge with us for the first part of the presentation, and then we will reserve the remaining time for any questions that you might have.

You may ask questions using the Q&A function on Zoom. Unfortunately, chat is not enabled for this session, so please use the Q&A function down below your screen. I will monitor and read the questions and if we are unable to address all of them, we will send an email reply after the webinar. All webinar participants are muted as well. If you like to notify our team of any technical difficulties, you can reach out via email. I will put that email on the chat as well. Today's webinar is being recorded and will be available on HUD Exchange in two weeks following the webinar. That same applies for the presentation that you see on the screen. Immediately following the webinar, you either will be redirected or you will receive an invitation to complete a survey on today's webinar. And we kindly ask that you complete it and provide us any feedback that you might have.

So quick reminder that all materials from previous sessions within this series are available on HUD exchange for providing you with the links here. And these are not all of the webinars we have, even more dating back to 2020, so do feel free to go through those and revisit some of that content. Our speakers for today are Tess Mullen, the team leader for the Office of Urban Revitalization, and Abbey Ogunbola, grants manager for the same team. Without further ado, Tess, please take it away.

Tess Mullen: Hi everyone. Thank you so much for joining us today. I'm looking at the participant list and I see a lot of names I recognize. So, I know that we have a diverse crowd on the line. We have some people who have done several mixed finance deals. We have some who have not done any. So, I'm hoping that this presentation today will speak to everyone. We are going to start with a very high-level basic overview of what mixed finance is. But during the Q&A, I welcome and invite you to ask more specific, detailed questions about the process. So, without further ado, I'll give a roadmap of today's presentation.

So, we are going to talk about what mixed finance is, how PHAs can use it, how PHAs can put together a mixed finance development proposal. And we'll conclude by providing a brief overview of the HUD approval process. So, next slide please. So, I wanted to start by giving some context of why we're all here and why the whole repositioning webinar series is so important and so relevant. As you all know, the public housing portfolio today faces billions of dollars in capital needs and in many instances, a huge annual capital fund allocation simply is not large enough to address all of the capital needs of its properties. As a result, pages need to find other sources of financing to revitalize their existing public housing units and to create new ones.

Next slide. Throughout the Repositioning Webinar series, we've been talking about a number of valuable tools that can help PHAs put their public housing portfolio on a financially sustainable platform, and address long standing capital needs. Some of those tools are repositioning tools that PHAs can use to transition public housing units to the Section 8 platform. These can be great tools. RAD, Section 18, all of these tools can help secure a large infusion of cash and financing to rehabilitate distressed units. We also know through our conversations with PHAs that a lot of PHAs want to retain their public housing units as public housing, and there are numerous tools on the left hand of your slide that can help folks view that.

Today in our presentation, we're focusing on a tool that can kind of span the gap between retaining public housing as public housing and repositioning public housing units to another assistance type. And that tool is mixed finance development. Next slide. So, what is mixed finance? The essence and definition of mixed finance development is -- it is the development of public housing units that are owned in whole or in part by an entity other than a PHA. So, the best way to understand mixed finance is to contrast it with what I would say is, quote-unquote, "traditional public housing development."

When I think of traditional public housing development, the public housing that was developed in the '60s and '70s, I think of a public housing development that is 100 percent public housing and that is solely, directly and exclusively owned by the PHA. The PHA itself, not its instrumentality, not its affiliates, is the sole direct owner of the property. The traditional public housing units are typically financed solely with public housing, capital, and operating funds, and many of these developments are still very successful.

As I said earlier, though, many of these developments do now have significant capital needs and thus need to leverage nonpublic housing funds, and mixed finance is a tool that can help PHAs do that. So, one of the most helpful elements of mixed finance is by allowing public housing units to be owned by a third party. Mixed finance makes it possible for PHAs to utilize the largest source of financing for affordable housing development in the country, and that is the low-income housing tax credit. If a property is solely owned by a PHA, it can't use LIHTC. It can't apply for them. It can't secure them. It can't use that valuable tax credit equity for rehab and redevelopment. However, by allowing public housing units to be owned by a no-PHA entity, mixed finance development makes it possible for PHAs to partner with other entities and secure low-income housing tax credits to revitalize and redevelop their properties.

And to this end, I would say nine out of ten makes finance projects are office approved or owned by tax credit partnerships. So, the most common driver of mixed finance is a desire to utilize live tech to help redevelop public housing or develop new public housing. Next slide. Now, since 2000, we have seen more than 600 mixed finance projects produced by PHAs of all sizes across the nation, and those projects have produced 80,000 housing units, often in mixed income communities. They have also leveraged a lot of other financing. In general, PHAs have used to $2.6 billion in public housing funds to leverage more than $8 billion in non-public housing funds, including, of course, LIHTC, but also private mortgages and soft secondary loans from cities and states.

If you're doing the math, on average, for every $1 public housing authorities have invested in makes financed development over the last 25 years, they've leveraged at least $3 in non-public housing funds. And I must say that the leveraging power has only grown over time. So, in the mixed finance projects we've closed more recently, I often see a leverage ratio of 1 to 14, 1 to 15, 1 to 20. So, people can use mixed finance development to do a number of things. They can use them to rehabilitate public housing units, to redevelop public housing sites, to develop new public housing units, either on PHA land or on non-PHA land.

And to acquire housing to bring into the public housing program. Now, for those of you who have been with us throughout the repositioning series you might be a bit surprised because we're talking a lot about public housing development. And obviously the focus of this series is really talking about repositioning public housing units. Well, the reason why mixed finance is such an important part of the repositioning conversation is, again, that it can allow PHAs us to kind of have the best of both worlds. So, using mixed finance PHAs can develop properties that still have public housing units, but also have a variety of other unit types that can generate higher cash flows during the operations period. So, you've already – oh, next slide please.

We've already talked a lot about the benefits of microfinance development, but the most important benefit for all of us, I know, is that makes finance development can help create high quality housing for low-income families. That is the most important part of our work, no matter what tool you're using. Another benefit I will highlight here is that many PHAs undertaking mixed finance development do so by partnering with third party developers. A lot of PHAs have their own instrumentality do the development, but others do look for that third party development partner and that can be a valuable resource.

It can help a PHA undertake an ambitious mixed income project, and it can also help them to build their own development capacity over the long term. Next slide, please. So now that we talked about what mixed finance development is, which is -- it's the development of public housing units that are not exclusively owned by a PHA, I wanted to dive into the details of how mixed finance actually works. And as I said earlier, one of the most common uses of mixed finance is to redevelop existing public housing sites with, often with mixed income communities. Now, in order for a PHA to do this though, they have to partner with the Special Application Center because a PHA cannot undertake the mixed finance development of a public housing site until it has permission from the Special Application Center to dispose of that site to a new owner entity. So, the first step in the mixed finance development process for an existing public housing site is having that conversation with the SAC. So as soon as the PHA kind of knows what they want to do with the site, they know the unit mix, that's when I would approach the SAC to talk about a disposition approval. If the PHA is also going to demolish the existing units, they would also need demolition approval. Now, in order to obtain these two approvals, it is important to emphasize that the PHA needs to meet the SAC's disposition and or demolition criteria.

In the great majority of mixed finance projects, the PHA can meet the SAC's criteria because they can show that their developments are physically obsolete. A second key point for thinking about how much finance works for Section 18 is thinking about how PHAs use their tenant protection vouchers. So, when a PHA has to relocate tenants due to a dispossession or a demolition, they of course receive tenant protection vouchers and under mixed finance, a PHA can choose what they want to do with those TPVs.

So, depending on the PHA's local market and their public housing resident’s needs, the PHA could choose to use some of their tenant protection vouchers as project-based vouchers at the new development. Because in mixed finance, PHAs aren't required to rebuild 100 percent of the public housing units as public housing, they have flexibility to rebuild a development that can include a variety of different unit types that can meet their residents' needs. So again, it makes finance a PHA could create a development that had public housing and project-based vouchers. So, let's go to the next slide and look at an example of mixed finance development in practice. Next slide. So, this is an example of a full-scale redevelopment of an existing public housing site.

And again, this is not by all means every mixed finance project. But this is a common mixed finance project. So, in the late 2000 the Housing Authority of the City of Pittsburgh decided to redevelop an existing public housing site with 105 barrack style public housing units. And as I was talking about, the -- one of the first steps in the development process was going to the SAC and getting that section 18 disposition approval to redevelop the site using mixed finance development. So, the Housing Authority of the City of Pittsburgh, had 105 units on 17 acres of land. So, a lot of land. So, they have room to densify the site. And as a result, over four phases developed over several years, Pittsburgh was able to build a 225-unit mixed income community that had 123 public housing units, 53 LIHTC-only units and 49 market rate units.

So, at the end of this, the original site had more public housing units than it originally held, but it also had a mix of other income types. And again, highlighting the financial benefits of mixed finance development, in phase four of the redevelopment of Garfield Heights, which you can see on your screen, the PHA used $9.2 million in public housing capital funds to leverage $10 million in private and other funding to develop 50 units. So, you'll see, again, with mixed finance development, PHAs are able to secure a variety of financing to produce a mixed income community.

Next slide. Now, in the last slide, I talked about a very common use of finance development over previous years. Now I want to talk about the latest trend in mixed finance development, which is probably why a lot of you are all dialed in today. But mixed finance is the Faircloth side of Faircloth-to-RAD. And as many of you may know via Faircloth-to-RAD, a public housing authority can take advantage of their unused Faircloth authority, meaning the number of public housing units that is authorized to build but don't currently have. And they can use that and unused Faircloth authority to build, rehab or acquire new public housing units that have pre-approval to convert to a Section 8 platform via RAD.

For our purposes today, the key thing for you all to know is that in order to do Faircloth-to-RAD, a PHA has to go through the full mixed finance development process, because you can't have a RAD unit unless you have a public housing unit. So, we have to go through the whole mixed finance, public housing and approval process to ensure that the PHA is creating a public housing unit that meets all the requirements of the public housing program, and then can pretty immediately convert to RAD. One key innovation that I think is very valuable about Faircloth-to-RAD is during the underwriting process, which happens once as part of the mixed finance approval process, the PHA can use its anticipated RAD rents.

And because RAD rents are often a little bit higher, not always, but often they are, those slightly higher RAD rents can make it easier for PHAs to secure private financing. Next slide. So, this is an example of a Faircloth-to-RAD project or office approved a couple of years ago. It was done over two phases and -- really two phases. The Gainesville Housing Authority produced 166 units, and it was a mixture of LIHTC-only, public housing/RAD units and market rate units. A key thing to know about this project is throughout the development period, the PHA were developing public housing units, and then once those units achieved DOFA date, the PHA was able to use their pre-approval to fairly immediately convert those units to RAD. I think the PHA concluded the RAD conversion process in about 60 days after the construction completion. So, it's a quick project, it's a streamline process. And this is another great tool and use of mixed finance development. So now we're going to go to the next slide. And I'm going to turn it over to my colleague Abbey Ogunbola, who can talk to you in more detail about the mixed finance development process and some of the key decisions a PHA faces throughout that process.

Abbey Ogunbola: Well, thank you very much, Tess. I'm going to try to build up on what you have already discussed. So, folks, so here we are. You want to do a mixed finance transaction? How do you go about it? This is one easy way to talk it through how you do this. Assuming that you've gotten your disposition and assuming that you want to do this redevelopment on a public housing site, you must have obtained your disposition from SAC. You must have procured a developer or a development team, outside counsel and so on and so forth. If we assume you've done all of that, so you are the pre-development stage.

This stage, you will contact your local public housing office and discuss the possibility of doing a mixed finance transaction, because at this stage you will have had everything that you would need. Process-wise, sometimes you may require spending money for pre-development. If your developer is not capable to spend the required amount of money to get you through closing or development, at this stage, we can be of assistance. Whereby you can request certain assistance from us, and we can grant that. We have this process whereby PHAs can request up to 75 percent of a pre-development request. So, for an example, if you were looking for a pre-development amount of $100,000, we can help the advance up to $75,000. And the developer will provide the remaining 25. To do that, you just reach out to our office, and we will work with you to advance that money. And for that funds, you can use it to do what you've seen on the screen.

Create. Really -- marketing study, development plan, site plan, environmental and everything that you need to bring to us and your potential lender for a full-fledged approval. Again, at this stage you will have a team in place. So that's what you do at the pre-development stage. You would also be assigned a grant manager like me to work with you so that you are not navigating these by yourself. So, once we get through the pre-development phase to get you ready, we then go to development. Next slide please. So, at the development -- you know, maybe I -- may go back and talk about key decisions for a PHA to really be mindful of before you really decide to do mixed finance transaction. There are several possibilities for PHA role wise, you can be a lender. What do you -- what do we mean by being a lender? Because you're going to be lending your capital funds or operating subsidy to the owner of the development. That's the lender role. You can be a landowner. Given your SAC disposition approval, you can lease the land to the owner entity. You can be a developer if you want. Your affiliate or instrumentality can be a developer or a co-developer of the project. You may also decide to be part of the ownership entity. You know, there are so many possibilities of what a PHA can do when it comes to an entity, but it is not going to be the PHA itself.

It will be the PHA's instrumentality or affiliate. Of course, you can be a property manager if you have the in-house capacity. And then finally you can be an asset manager. So, these are the possible roles a PHA can play. While we're talking about these, it's also very instructive for PHA to understand what it takes to be part of a mixed finance transaction. To the extent that at the end of the compliance period, which is 15 years, a decision will have to be made by the PHA whether they want to exercise their right of first refusal to own the development if the PHA is not the developer or the co-developer. So, what am I trying to say? At the end of the 15 years, the project has to be -- in it at the end of the 15 years, the ownership entity may elect to give the for an option to take over the project because the compliance period is over. As Tess mentioned earlier, the way one of the predominant funding sources of mixed finance transactions is the low-income housing tax credits. And part of the regulations of that -- it's good for 15 years. After 15 years, the ownership entity can be exchanged to somebody else as long as the compliance continues that the project remains affordable. So, these are the decisions have to be comfortable with and make one before you really decide to do mixing acts. Next slide please. Step two is development. So, we've got a team, we've got this position approval from SAC. We've got predevelopment money.

Now what do we need to do? You and your developer will apply for tax credit, and that one has its own process. If you're doing a Faircloth-to-RAD, one of the important thing is you have to request a NARR, and NARR stands for Notice of Anticipated RAD Rents. And that's one of the beauty of the Faircloth-to-RAD transaction. Because with the notice of RAD rents, you will invariably see that your per unit rent will be substantially higher than an ordinary public housing rent. Because the fair close to the transaction essentially combines operating fund with capital funds. So that's another great thing for PHA to consider if they have the authority to do it. The next step is environmental assessment. Any time, as you know, you use federal funds, you have to conduct the environmental assessment. And you -- our field office folks would help you do that. What are you going to do, a Part 50 or Part 58? Next is design and construction contracts. With your team, as the developer, as the lead, all of these things will be done through your team. Again, disposition, approval, and demolition. If you need to demolish, all of this will have been addressed at the pre-development stage and the actual demolition can take place now, if not before. And at this point you can then submit a development proposal to a grant manager, and then we can work with you to work out all of the essential aspects of it, all the way to closing. So that's the development stage.

At the closing, almost the role of HUD will be complete. Construction will then begin. And after construction is done. If this is a Faircloth-to-RAD, they can consider converting to RAD. Next slide please. So, this is construction. So clearly pre-development, development. We got the funding. That's the essential part of development phase. You got the funding, the funds to do the construction. Construction funding, permanent funding. And then we go through all the requirements, and then we provide an approval letter, and we authorize you to start construction. And that's this phase. So, you communicate with all your stakeholders, your residents, your lenders, and occasionally HUD. So, this is the construction period. Next slide please. Now construction is done. Part of your team will be a property manager. Identify at the pre-development and development stage. Property manager conforms with the approved listing requirements. If this is a Faircloth-to-RAD transaction, it is at this stage that if public housing residents are going to occupy the units first, they will occupy the unit and then the conversion will take place. But ordinarily, if it's just a regular financial transaction, the occupancy begins. The role of the for here is just to provide operating subsidy to the project, and all of these will have been identified and included in the development phase. This is not going to be a mystery to anybody. The exact amount and how it's going to flow will be decided way back at the development stage. Some may decide to have asset management responsibilities, or they may just transfer or just provide these assets or these.

This rule to the property manager that the development approves, or the owner entity approved. If anything happens, either during construction and afterwards, that requires some type of a refinancing, or a lawsuit or lien being placed on the property. Please, you have to let us know. All of these will be documented in your closing documents, but if anything happens to the project, please let us know so we can help you mitigate whatever needs to be mitigated. Next slide, please. Yes. As I was trying to discuss the development process, I tried to mention our role. So here it is, five steps. We walk with you in preparing a development proposal and a calculator. And that's really the essential document because it tells us about everything about the project. What is it? Faircloth-to-RAD. Mixed finance only. Operating subsidy only. Who is the developer? Who are the developing team members? What is the role of the. For how many units? Is this on site? Off-site? All of these will walk you through- to be able to prepare this development proposal. You can get assistance from the field office too, in providing certain approvals and some guidance. The important point is when you turn in a development proposal and the calculator, the proposal is basically the narrative that basically discusses what the project will be. Accompany the proposal is a development calculator, which is the numbers. It talks about the financing, how everything is going to be done. So, they are like a twin package. You can't submit one without the other.

And you submit this and hopefully in the development proposal there will be questions about the role of the various divisions of HUD environmental review. Whether there is any local or cooperative agreement. All of these will be in the development proposal. Next stage is the grand manager. Someone like me who look at these proposals in tandem with you. And if everything is okay, we understand the deal. We think it's viable. It's consistent with regulation. We then go to a panel of our peers. And the panel will review these, which is -- I'm talking about step three now. And then the proposal will be approved. And then we begin the evidentiary process of actually evidencing the items we've discussed at pre-development development and construction.

All of those documents we will put together. If I didn't mention, you have internal or outside counsels here helping the owner entity. The PHA may decide to have its own counsel, but you need experience mixed in house counsel for whatever role the PHA might may decide to play in the transaction. So, step four, we like the deal. We understand the deal. There are no issues or issues have been resolved and we issue an approval letter. Essentially telling you to go to a construction, close the transaction and close construction. At the end of construction, you give us what we call a final binder. It's at this point is when we release the remaining funds for the PHA or to the owner entity. Next slide, please.

Tess Mullen: Thank you so much. Thank you so much, Abbey. So, I do want to highlight some of the key requirements of mixed finance projects. There are many more than what you see on this slide, but these are some key requirements to keep in mind as you're putting your deal together to make sure it will meet our mixed finance criteria. So first, as I said earlier in as Abby said, you can invest public housing capital funds and the MTW funds to pay for the development of public housing units. But there are some limits on how much HUD money you can invest in a mixed finance project. Some of those limits are the total development cost and housing construction cost limits that are published each year by the HUD Office of Capital

Improvements. And then another financial guideline is called the pro-rata test. And basically, what that means is that public housing funds can only pay for the mixed finance development public housing units. So, if a mixed finance development has 25 public housing units and 75 nonpublic housing units than public housing funds can only make up 25 percent of the development budget. Another key thing to review when you're putting together your financing for which finance development is has cost control and safe harbor standards, because these have guidelines for how high the developer fee can be, how high the construction fees can be, and the property management fees as well as other costs.

Finally, as Abby said, there are a lot of regulatory approvals that are. Required as part of the mixed finance approval process. One of those, of course, is environmental approval. And you need that for every single mixed finance development, regardless of whether you're using public housing capital funds in the development capital stack. Any time you have a public housing unit being created or acquired; you need environmental approval. We also require architectural drawings to be approved by HUD for all mixed finance development projects, including Faircloth-to-RAD.

And our primary concern in reviewing the drawings is ensuring that the development meets U-pass accessibility standards and that they meet livability criteria. We believe that public housing families and families who occupy other affordable units deserve to have high quality housing. They deserve to have livable units, and that's what we look for in our review. Another key thing to highlight is that all mixed finance public housing developments, including Faircloth-to-RAD, must obtain a front-end site and neighborhood standards review. And this review is conducted by HUD's Office of Fair Housing and Equal Opportunity. And there are a number of criteria for what FHEO looks at when they're evaluating a site compliance with site and neighborhood standard regulations.

Tess Mullen: But this is a key review that I would encourage you and your PHAs to seek as soon in the development process as possible. As soon as you know your site and your unit mix, go ahead and approach FHEO for a site in Neighborhood Standards review. This is definitely something you don't want to be seeking right before financial closing. Next slide. And that really highlights a theme that I want to emphasize and end on, seek approvals early. So when our office head headquarters gets the mixed finance development proposal, ideally you all would have already been talking with the SAC and the local field office to get these other approvals because our final mixed finance approval that enables you all to go to financial closing and start construction is dependent upon you having already obtained a scientific standards approval Part 50 or 58 of environmental approval, architectural approval, everything you see here. Now, if you want to submit a mixed finance proposal and you haven't obtained all these yet, that is absolutely, totally and completely fine. We are here to help you. We are very excited to work with you, and we're happy to help you navigate that process. I just want to highlight these approvals in particular because the is the earlier in the process you seek them, the smoother your mixed finance review and closing process will be.

And I know we often get a lot of questions about site and neighborhood standards reviews. I find this to be a fascinating topic. And so, we're actually partnering with the Office of Fair Housing Improvements to do a training specifically on site and neighborhood standards in March. So, if you are interested in that training, be sure to email our@hud.gov and we'll make sure you get the information to attend. Next slide. Finally, I want to thank you for listening to us today, joining us today. We are, as I'm sure you can tell, passionate about making finance development and how PHAs can use that. And we are really eager to work with you.

So please email us any time at our@hud.gov. That stands for Office of Urban Revitalization, our@hud.gov. We are happy to talk to you at any point in the development process, whether you're starting the process of coming up with a redevelopment plan, you simply have a site that you know you need to work on, or you secured tax credits and are working on putting together a development proposal. We always want to hear your ideas and your goals, and partner with you to think about how you can achieve them. So, thank you again for joining us. And now we can take questions.

Antonella Salmeron: Thank you so much, Tess. Thank you, Abby, for that great presentation. I see that we have some questions here in the Q&A, so I'll just jump right on to going through those. And just again, reminder for everyone, if you have any questions, please do add them to the Q&A section. So, the first one we received is asking about -- can these funding, mixed development funding, be used to build container homes with a rent to own financing for low-income families?

Tess Mullen: So, I'm going to enter this and then I'll see if Abbey has additional insights to share. But in regards to using container homes, I think a key concern there would be does the container home meet HUD's architectural standards for mixed finance development? as for rent-to-own financing. I have never in ten years seen a mixed finance deal that have rent-to-own financing. I don't think it's certainly not impossible. We could figure out how to do that, probably, but it's not a typical use of the mixed finance development tool. That might be more of a home ownership project rather than the mixed finance project. Abbey, anything to add there?

Abbey Ogunbola: Well, I think you covered it well, Tess.

Tess Mullen: All right.

Antonella Salmeron: All right. Thank you. Will the funds have to be repaid is another question we got.

Tess Mullen: So, Irene, I'm going to assume that you are talking about public housing capital funds that a public housing authority is lending to a mixed financial project, and that is at the discretion of the housing authority. What we typically see is for issuing soft second mortgages to a project that are repaid out of cash flow. So, if you have a mixed finance project that has public housing units as well as other affordable or market rate units, the project may throw off some cash flow that could be used to repay the public housing authority for the capital funds it originally invested in the project. However, had did not have any requirement that those capital funds be repaid.

Antonella Salmeron: Great. Thank you. And Irene, if you have any follow ups, do feel free to -- pre-development. I think she just added something, to her question down below.

Tess Mullen: Redevelopment funds do not have to be repaid. But one thing to know is that whatever you invest in pre-development funding would figure into the total development cost.

So, if you're investing $1 million in pre-development and your TDC for a certain project, $10 million that's feeding into your TDC limit.

Antonella Salmeron: Great. Thank you. So, I'm going to move to a question about the waitlist here, but for [inaudible] if you could, add some more context or a follow up about your question about do we get certificated? That would be great before we get to your question, but for now, I'm just going to stick to – this one, we receive around 1:39. The waitlist requirements under RAD are different. So, how will this be reconciled in Faircloth-to-RAD conversion?

Tess Mullen: Abbey, do you want to take this one?

Abbey Ogunbola: No, I was just going to -- Antonella, ask the question again, please.

Antonella Salmeron: Yes. Aren't the waitlist requirements under RAD different? So how will this be reconciled in Faircloth-to-RAD conversion?

Abbey Ogunbola: Okay, if I understand the question correctly. I'll try to answer it this way. In the Faircloth-to-RAD conversion, the residents are obviously for the public housing units are public housing residents. And they have to have been recruited, all assigned from the existing waitlist. It will be the same thing if this were to be a straight misfinanced transaction. Because in a typical financial transaction, a portion of the units will be public housing. And those public housing units will be filled from existing public housing waitlist. So essentially, if I understand the question correctly, there is no difference because we're talking about public housing residents, and they must be filled from existing public housing waitlist. If that makes sense.

Antonella Salmeron: Thank you, Abbey. I saw Kathy -- maybe you came off mute.

Kathy: No, I don't have anything to add right now. If there's a follow up question or if Abbey's response didn't fully answer, if they could ask the question again, that would be helpful.

Tess Mullen: I'll also say, as for Faircloth-to-RAD, when -- you know, the project has to get mixed financial approval. So, we are closing the project as a mixed finance public housing project. So, at closing the public housing requirements are the requirements that apply. In our review, we do go ahead and look at compliance with a number of criteria. And you know, that's the minimum replacement reserve. That's the ownership requirements. But I think in terms of wait list and other requirements, you would be meeting the public housing requirements. And then after conversion, if you needed to take a different tact, you would do so once they were RAD units.

Antonella Salmeron: We do have a follow up from that asking, since I believe, Abby had alluded to -- you know, we're assuming that the property is occupied by public housing residents. The attendees are asking, what if the property is currently occupied by non-public housing residents? And they do agree with the answer, but they were confused by the slide which mentioned that for property manager will create a site wait list. So, I think we might have had a confusion there, but anything else that the team would like to ask before we move on to the next one?

Abbey Ogunbola: Well, I'm just going to say, you know, if the question is what -- you know, I think I heard you say, why does somebody else have to live in the building? You know, when what we're talking about is a brand-new construction or a rehabilitation financed under the mixed finance approach. So, there is nobody living in the building. It's when the building is fully constructed or rehabilitated that folks who are eligible will move into the building. And if it's a mix of public housing and nonpublic housing, the folks that were moving to the building that are public housing has to be public housing residents. Other folks, they have to be – qualify per whatever the requirements of those qualifications are, if that makes sense.

Antonella Salmeron: Thank you, great. Moving on to our next question. What data is the site and neighborhood standard assessment based on?

Tess Mullen: So, yes. So, A, this is a question that would best be answered during our training with FHEO. I will give you a short answer now, but I really, really encourage everyone on this webinar to attend the March training with FHEO on site and neighborhood standards. As for this, so when FHEO is reviewing a site, they look at census track data for the proposed development site to look at things like the percentage of residents living in poverty and the percentage of residents who belong to a minority group, and how that compares to the wider MSA. There are a lot of criteria for site and neighborhood standards.

I can't review all of them at this moment, but again, please attend our webinar in March and we can provide you A, with both much more detailed answer and B, a lot of good advice about how to submit a successful site and neighborhood standards application. The one thing I'll add right now on-site neighborhood standards is, you know, location matters. We all know that. And when you're picking a site to develop using mixed finance, you know, I think our successful PHAs do a fabulous job of picking sites that have access to amenities, so they have access to public transportation, they have access to quality schools, health care, job opportunities.

So, my advice is, you know, sites where you would want to live and raise your family and pick -- ideally pick sites that are in areas of opportunity. I know there can be very good reasons to redevelop sites that are in slightly more depressed areas, but if you're doing that, use mixed development as an opportunity to talk to your city partners about how the city can reinvest in that neighborhood and help make it a better neighborhood for the families who will continue to occupy it.

Antonella Salmeron: Thank you. Tess. We have another question here asking what happens when there is a mixed finance property that is currently out of the 15-year compliance period, but the PHA now wants to reposition and revitalize the project since it is back in ownership hands of PHA. Is this project required to go through SAC approval prior to new redevelopment?

Tess Mullen: Yes, this is a great question. So, this is taking up a lot of our time now. Because, you know, a lot of our mixed finance developments were constructed 15 to 20 years ago. And there are many, many, many PHAs in this situation. So, for the broad audience on the line, I want to clarify something and then how we answer the question. So, first of all, when the PHAs assumes ownership of a project, almost every time that happens, that means that a PHA instrumentality or affiliate is comprising the project's owner entity. Right.

So, the project continued to be mixed financed. It's still owned by a technical third party. It's just that the project owner entity is comprised of housing or the instrumentality number one and housing authority instrumentality number two. Right? So, the Public Housing Authority comprises the owner entity. And that happens a lot like Abby said. At the end of that 15-year compliance period? No. As for whether y'all have to go back to the SAC. You do not. So, if you did make finance on a site that was previously public housing, the SAC has already proved of that site's disposition, and it does not need to issue any additional approvals.

What you do need to do is to come back to our office, the Office of Urban Revitalization, because any time you change the ownership of a mixed finance site or any time you put any new encumbrance on which financial property you need to talk to us and get HUD approval. We are seeing a lot of these right now, and we would love to talk to you and your team about the best way to revitalize your project. A final comment, you would approach the SAC or the Red team if after 15 years you wanted to take that property out of the public housing program. I will say, if you want to do that, the easiest way to do that is by going through RAD -- pretty much the only way to do that is by going through RAD. So, if you're looking to reposition a mixed finance property, go through RAD. If you want to revitalize it and retain public housing, contact our@hud.gov.

Antonella Salmeron: Thank you. And I see new questions come up, so that's great. It seems like some of these are connected. So, I'll try to do my best to keep them together. just before I know we're going to have a webinar just as Tess said. Focusing on this, but we did have a quick follow up about tighter neighborhood standards. Do they apply to choice neighborhoods on site redevelopment tests?

Tess Mullen: No, they do not. Choice Neighborhoods is exempt from Site of Neighborhood Standards review for the housing units redeveloped within the target neighborhood. The reason for that is because Choice Neighborhoods is a comprehensive development program, and so there's ample funding being invested in improving the surrounding area. So, if you're doing choice neighborhood housing outside of the target neighborhood, you would have to do a site in neighborhood standards review.

Antonella Salmeron: Okay. Thank you. Someone else asked, how do we request a NARR?

Tess Mullen: Abbey, why don't you take that one?

Abbey Ogunbola: Yes. If you are interested in doing Faircloth-to-RAD -- so the very first step really is to secure a NARR, Notice of Anticipated RAD Rents. And the ideal way to do that is to talk to your public housing field office folks, you know, in addition to seeking guidance from the RAD resource desk. You know, our office, Office of Urban Revitalization will work with you and our RAD colleagues in producing the document. But that's really the this this step. You know, that to be sure that you get the NARR. Reach out to the field office and the RAD resource desk, and then we'll take it from there. Recognizing that ultimately Office of Urban Revitalization will issue dinner, and that would be your ticket to really being a Faircloth-to-RAD transaction PHA.

Antonella Salmeron: Great. Thank you. So, will the NARR rent amounts be issued during development, change when construction is completed? And we convert to RAD is another related question we got.

Abbey Ogunbola: Okay. Good question. So once the PHA has secured now. And then we go into the development approval process. Now understanding that the NARR is the basis of the underwriting of the transaction. So, what happens is it's very streamlined – Faircloth-to-RAD transactions are streamlined, the underwriting is done once, and then we close the transaction as a regular public housing with the same NARR rents. And the same rains continue after the conversion to RAD. If that makes sense.

Antonella Salmeron: Okay. Another attendee asked if the PHA already owns a nonpublic housing property, that it wishes to convert to public housing and then pursue RAD and has the authority for this addition to the PHA stock. Is the SAC application this first step in order to achieve their goal?

Tess Mullen: Yes. So, I might have Jane Orenstein weigh in on this as well because she's the director of the SAC. But so, there's always a question before the answer. So, one thing to consider is whether there is a declaration of trust on that nonpublic housing property. So, the SAC approves a transfer in the ownership of a public housing property, a project, a property that is under DOT. So, if your PHA bought land with public housing funds, that land should be under DOT. And therefore, it needs SAC approval to leave the -- to be released, rather, from the DOT. If your PHA bought land with nonpublic housing funds and there's never been a DOT on that site, then you do not need to request SAC disposition approval. Jane, do you have anything to add?

Jane Orenstein: No. I think that's right. This is if they're bringing in nonpublic housing property.

Tess Mullen: Right.

Jane Orenstein: So, when they bring it in, they just put the DOT on it and then it goes out through RAD. So, that works.

Tess Mullen: When -- so when you -- just to clarify if it's nonpublic housing property that makes finance closing, you would put a declaration of restrictive covenants on the property and then that would be released and replaced with RAD use agreement when the property converted to RAD.

Antonella Salmeron: Great. Thank you. Is there any guidance on what kind of DOJ entities are appropriate in different situations? When would it be appropriate to use an instrumentality versus an affiliate versus a whole independent entity?

Tess Mullen: Yeah. Kathy, that is a great question. So, it is really up to the PHA and their own needs. I will say -- so for those of you who don't know, PHA instrumentality is basically, a legal entity that is completely controlled by the PHA. It has the same board and the same employees. And it's, you know, it's a separate legal entity, but it's entirely run by the PHA. And affiliate is a closely related entity that is, you know, a bit more separate from the PHA. So, it might have, you know, some of its board members or PHA board members, but not all of them. So, I wouldn't say there's hard and fast guidance on which one to use. I would simply say that there are different requirements from a procurement perspective. So, if --

Jane Orenstein: Actually, Tess, can I step in here for a second?

Tess Mullen: Let me finish my comment and then I can -- and then you can step in. So, if a PHA instrumentality is developing a project the -- that is such a closely related entity to the PHA that the PHA doesn't have to procure that instrumentality. The instrumentality, however, would have to procure the subcontractors. By contrast, if an affiliate or wholly independent development entity is developing the project, then the PHA has to procure that affiliate or that third party developer. But the third-party developer doesn't have to procure its subcontractors. So, there is a slight difference in the procurement requirements depending on what type of entity you're using. Jane?

Speaker6: Yeah, actually, the instrumentality versus affiliate versus wholly independent are creations of the IRS, not HUD. As far as HUD is concerned, if it's independent according to the state and you can get us a certificate in good standing from the state, we will recognize it as an independent entity. Yeah. We're not as concerned with what that relationship is. The IRS, however, is. So, you need to be very careful and talk to your lawyers.

Tess Mullen: Yes. That's an excellent point.

Abbey Ogunbola: Don't we have a guidance – a guidance. Don't we have a notice on this?

Tess Mullen: We do have a notice on this. I'll look up --

Abbey Ogunbola: I don't remember it, but I think we do, so.

Tess Mullen: We do. I think it's on our mixed financial HUD website.

Abbey Ogunbola: Thanks.

Antonella Salmeron: Thank you. Yeah. We'll try to find that notice and either add the link here or add it as a follow up making a quick note of that. All right, we have a couple more questions to go. Maybe we can spend before we part some time on some confusion regarding site specific waitlist versus existing waitlist. I know we briefly touched on that before, but we had an attendee ask, what is, it's a new construction without current residents. how do they go about that waitlist?

Tess Mullen: So, I am not an expert on this, but my understanding is this is an area of PHA discretion. So, some PHA choose to develop a site-specific waiting list for a particular development. Others will um fulfill the units using the general PHA wait list, so it's only a matter of PHA discretion.

Antonella Salmeron: Great. Thank you And, is there a time limit on construction of a housing site?

Tess Mullen: No. There's not. I would say things to keep in mind is that you're only going to get mixed financial approval when you firmly when you have secured firm commitments for all your other financing. And since most mixed finance projects include LIHTC, like the low-income housing tax credit program certainly has time limits on construction. I would also say that you know, if you're not completing construction for five years, that's obviously something we're going to talk to you about and voiced concerns about. But HUD itself doesn't have any specific requirements, regarding construction timelines other than, you know, the standard requirements for obligating an extending neck capital fund, you're investing in the deal.

Antonella Salmeron: Okay. Thank you. So, this kind of goes to the next question. The funds can be used for grounding up construction if you could confirm that.

Tess Mullen: Yes.

Antonella Salmeron: And then -- great. And confirm if for can work with a developer.

Tess Mullen: Absolutely.

Antonella Salmeron: Okay. That goes to LIHTC mention that you made. And so, [inaudible], if you had any follow up to that, please feel free to add that. In Faircloth-to-RAD, its initial operating subsidy come as the same as the approved broadband.

Tess Mullen: Abbey, I'm going to shoot that one to you.

Abbey Ogunbola: Yes. could you repeat the question, Antonella? I'm having difficulty with my vent here. It's so noisy.

Antonella Salmeron: Okay. Yeah, sorry about that. So, Danielle is asking in Faircloth-to-RAD, is initial operating subsidy pump the same as the approved rent?

Abbey Ogunbola: Okay. So, it's important to understand the requirements of Faircloth-to-RAD. The Faircloth-to-RAD requires that you get a NARR. It's important to understand that. The NARR, Notice of Anticipated RAD Rent, that determines your rent period. It's one time. And that's the underwriting criteria. For the Public Housing Unit or the Faircloth-to-RAD public housing units. It's determined in conjunction with RAD policies. But it's that number. There is no other number. You close with that. And then you transition to RAD with the same number. If that makes sense. So, it's all about the NARR. Once you get the NARR, that's your rent. That's your rent structure.

Antonella Salmeron: Great. Thank you. Another attendee shares that they thought that if the PHA goes for section 18 RAD rent for a 15-year fixed finance property, they need a section 18 approval first. Is that correct?

Tess Mullen: Jane, this is for you.

Jane Oberstein: Yes. If -- we do a section 18 RAD blend for 15-year mixed finance property. You would need section 18 approval under that, yes. But you go through the RAD desk on that. RAD resource desk.

Antonella Salmeron: Okay. Thank you. We have another attendee shared that their PHA planning, and route Section 8 team planned for a rededication rehab of a mixed finance LIHTC project, which has completed its 15-year compliance period. Their understanding is that they need to get a concurrent SAC and Office of Recap approval for the syndication transaction, and would that be correct?

Jane Oberstein: Yes.

Antonella Salmeron: Great. Thank you. And we have one more question back to NARR; is it subject to OCAF?

Abbey Ogunbola: Subject to what, Antonella? Well, put it this way. Once we use NARR as the underwriting numbers. It can be escalated by the inflation or escalator factor we have in the development proposal calculator. This is part of what we do during the development phase, when the deal's actually underwritten, and everybody sees how the rent will trend. I don't want to be categorical by saying yes, it's part of OCAF. That's why I'm saying what I'm saying. They say there is an escalator number that the owner entity provides, and the lenders all agree to that number, and that is then the basis of the trending. Does that make sense?

Antonella Salmeron: Debbie, If you have any follow ups too, feel free to add them. as soon as you can to the Q&A. And she did. Who funds the NARR? Is it HUD multifamily. Like other RAD PPBV or RAD PBRA?

Abbey Ogunbola: Well, the NARR – essentially -- the public housing operating subsidy, essentially a subsidy because remember what we've discussed it -- to do a fare plus transaction. The question or the units under question as public housing have to be closed as public housing. And when we close public housing in this transaction, they get operating subsidies only in a regular listener transaction. So, innovation wise, we came up with a NARR, which is a combination of operating subsidy that a regular public housing transaction will have gotten, and then super inlay that with the capital funds that the same unit will have gotten over time. So that's where going in on a fair closed transaction, the operating subsidy or the rent is substantially higher than a regular public housing rent. Does that make sense?

Antonella Salmeron: Abbey, I could hear most of that, but I am getting a lot of feedback, and it does sound -- just like a lot of static in the background. Do you get the same thing, Tess?

Tess Mullen: Yeah, I can repeat what Abby said. Basically, the NARR is the properties anticipated RAD rent. We said that would come from – would -- that rent when it is paid would be a RAD PBV or RAD PBRA rent? So, the NARR is the projection of what the rad PV or RAD PBRA rent will be after conversion.

Antonella Salmeron: Great. I'm just a quick reminder for folks, that might have raised their hands before. I did send you a message soliciting to please add any questions or comments to the Q&A, just in case you miss that webinar chat. So, I will allow a couple more minutes for you to add your questions there. At this time, we're not unmuting attendees. Thank you for your understanding. And we do have a follow up from Debbie saying that sounds like the same calculation for other RAD grants. Meaning operating subsidy plus capital. When is the HAP contract dated then?

Tess Mullen: So, the HAP contract would be signed after the RAD conversion. So, you're not -- you could sign a AHAP at closing, but you would not sign the HAP contract until the units had received -- had achieved a public housing DOFA date and were eligible and actively converting through RAD.

Antonella Salmeron: Thanks. Thanks to you for your questions, Debbie. So, we have a last pending question here. I wasn't necessarily sure if I understood it, but I'm going to share it just in case any of our panelists can identify what it is about. The question simply states, do we get certificated?

Tess Mullen: Yeah, unfortunately, I don't know what that means. So, if someone could illuminate on what they mean, that'd be great.

Antonella Salmeron: Yes. I -- for now marked your question as dismissed, as we're not 100 percent sure what you mean by that. But please if you could come back and add it or expanded it or happy to get to it.

Antonella Salmeron: One more question in -- if there are unforeseen disasters such as a flood or maybe vandalism and the budget increases, can PHAs receive additional funding to address these unforeseen issues?

Tess Mullen: Yeah. So, a couple principles for answering that question. So, it would depend in part on whether or not the development was -- the investment of public housing capital fund in the development, was that there TDC limit. So, if the PHA had only -- if they hadn't maxed out the amount of public housing capital funds it could provide to the project, the PHA could theoretically invest more public housing capital fund in the project in event of a disaster. If it had maxed out the amount of public housing capital funds it could invest, then we could talk about an extraordinary site cost waiver. But there are specific criteria for how to meet an exemption to invest additional public housing funds. Now, if you're paying for increased costs with nonpublic housing funds, then you wouldn't necessarily need HUD approval. But you would need to come back to HUD to notify us of the financing changes. And certainly, if you're putting any new encumbrances on the project like a new mortgage, you have to get approval from HUD before you do that.

Antonella Salmeron: Thank you. Tess. We have another question related to this, or I can be asked, can you receive a RAD designation on a previously approved LIHTC mixed finance property if a section 18 disposition approval was provided at the time of mixed finance approval/closing.

Tess Mullen: Yes, I believe you can.

Antonella Salmeron: Okay. I think that brings us to the end of our Q&A section. Tess, would you like to walk us through the appendix, or do you want folks to go through that on their own time?

Tess Mullen: I'm going to let people go through that on their own time. But again, I will just put a plug in for our@hud.gov. You would love to talk to you in more detail, to answer your questions. and to walk you through the proposal development process.

Antonella Salmeron: Great. I think it has just, showing folks what you can find in the appendix once you receive the slide deck. We appreciate you, thank you to our panels for their time. And thanks to you for attending. Again, the recording will be available in about two weeks next to the slide deck as well. Thank you everyone. Have a good day.

(END)