



# RE-ENVISIONING THE SAN FRANCISCO HOUSING AUTHORITY

## SPUR MEMORANDUM

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## INTRODUCTION

The San Francisco Housing Authority (SFHA) is in crisis. The agency owns and manages 6,300 public housing units<sup>1</sup> and administers roughly 9,000 Section 8 vouchers<sup>2</sup> throughout San Francisco, representing a critical part of San Francisco's affordable housing delivery system. However the SFHA suffers from a structural operating deficit. As a recent San Francisco legislative analyst and budget report notes, the agency had a budget short fall of \$4 million in fiscal year 2011 and \$2.6 million in 2012. In the first five months of this fiscal year, the budget shortfall has already exceeded \$1.7 million.<sup>3</sup>

Meanwhile, the agency does not have nearly enough funding to meet its capital needs. A recent SFHA presentation estimated the cost of current unfunded capital needs at more than \$270 million and funding at only \$10 million.<sup>4</sup> Currently roughly 2,500 SFHA units have a "high need"<sup>5</sup> for capital improvements out of a total portfolio of nearly 6,300 units.<sup>6</sup> This number will only increase as maintenance continues to be deferred. In addition, the agency is expected to run out of cash at some point between May 2013 and July 2013.<sup>7</sup>

At the same time the SFHA is experiencing this crisis, federal resources for public housing continue to dwindle. Absent additional resources, SFHA's physical assets will decline further.

Currently the City of San Francisco is seeking to provide housing and services for housing authority residents and voucher holders that is both high quality and financially sustainable. Without a major new strategy for managing SFHA resources, these goals will not be met, and the roughly 31,000 low-income residents served by the SFHA will suffer the consequences.

SPUR would like to offer recommendations to help transform the SFHA so that high-quality affordable housing can be offered to public housing residents in a way that is financially sustainable over the long term.

## CRITERIA FOR EVALUATING STRATEGIES

In order to determine which actions should be taken by the City of San Francisco to stabilize and support SFHA programs, SPUR recommends the following evaluation criteria:

- Does the proposed action help to provide high-quality housing and services to Housing Authority residents and voucher holders?
- Does the proposed action contribute to the economic and financial sustainability of both the City of San Francisco and the Housing Authority?

Both criteria should be taken into account when future actions are considered.

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<sup>1</sup> "Performance Audit of the San Francisco Housing Authority," prepared by the San Francisco Budget and Legislative Analyst, June 3, 2013, page 6.

<sup>2</sup> *Ibid*, page 89.

<sup>3</sup> *Ibid*, page iii.

<sup>4</sup> "Critical Financial Deficit and Action Plan" presented by Barbara T. Smith, acting executive director of the San Francisco Housing Authority, slide 7.

<sup>5</sup> Estimate of those units to be redeveloped as part of HOPE SF.

<sup>6</sup> "Performance Audit of the San Francisco Housing Authority," prepared by the San Francisco Budget and Legislative Analyst, June 3, 2013, page 6.

<sup>7</sup> *Ibid*, page iii.

## STRENGTHS TO BUILD ON

Although the SFHA is experiencing substantial challenges, there are significant resources that both the City of San Francisco and the private sector can bring to bear to help address SFHA's challenges. The city should build on these strengths when considering new actions or models for providing housing and services.

The Bay Area has a high concentration of some of the most sophisticated and experienced nonprofit and for-profit affordable housing providers in the country. These include both large regional and local community-based organizations.

San Francisco has experience with transforming public housing into high-quality affordable housing that is privately owned and managed.

The City of San Francisco, unlike many local jurisdictions, has financial resources it can bring to help address the current situation. This includes Housing Trust Fund dollars for HOPE SF developments and other financial assets such as general fund revenues, revenue bonds and other potential resources.

The City and County of San Francisco has in place an effective Mayor's Office of Housing (MOH) that currently administers a number of programs targeted toward low-, very low- and extremely low-income residents.

The City of San Francisco is committed to addressing the existing challenge.

## THE SFHA'S CHALLENGE

The SFHA has struggled for many years due to operational mismanagement, high cost structures and programmatic isolation from other city services. For many years the SFHA has experienced a structural operating deficit in its Section 8 program that is exacerbating its longstanding public housing operating and capital improvement deficits. This is due to the following factors:

- For more than a decade, the federal government has been cutting public housing operating and capital funds, and more recently the Section 8 program.
- SFHA's cost structure for the maintenance of its public housing properties is very high.
- The SFHA has not addressed deferred maintenance of its properties, creating bigger and more expensive capital issues over time.
- Inefficient and inconsistent management practices have reduced the operating income of SFHA's housing portfolio.

Other housing authorities around the country have faced similar challenges. Some of these agencies have developed effective responses, including:

- Contracting out a significant portion of property management (Oakland, Los Angeles, Santa Clara County, Monterey County, Seattle);
- Allowing public housing to be rebuilt by private entities that include public housing units within the newly rebuilt property (Oakland, San Mateo, San Diego, Los Angeles, Ventura and Pleasanton, to name just a few);

- Using the project based Section 8 rental assistance program to help finance such redevelopment;
- Pursuing Moving to Work program status to gain financial and regulatory flexibility (Oakland, San Mateo, Santa Clara, Seattle, Portland);
- Better integrating housing authority functions into the rest of local government to ensure coordination across departments (San Diego, Sacramento).

For more information on other housing authorities see Appendix 1.

## RECOMMENDATIONS

1. **Transition SFHA's role in public housing to asset management to enable affordable housing developers and managers to modernize and manage the portfolio.**
  - **Retain public ownership of housing authority land to ensure the long-term affordability of the portfolio.**
  - **Where possible, engage affordable housing developers to rebuild or rehabilitate distressed properties.**
  - **Pursue effective private property management of public housing (either nonprofit or for-profit).**
  - **Charge the Mayor's Office of Housing with implementing this strategy, subject to SFHA Commission oversight.**

The city, working through the Mayor's Office of Housing, should retain public ownership of housing authority land to ensure the long-term affordability of the portfolio while pursuing a combination of strategies to better manage the existing portfolio.

Given the depth and breadth of the reforms required to bring the Housing Authority out of its troubled state and to generate sufficient revenue to provide modern, well-managed housing for its residents, a strong case can be made for the complete dissolution of the SFHA. However, short of complete dissolution, SPUR recommends that SFHA transfer the development and management of all public housing developments to third parties and that the ultimate role of the housing authority be reduced to asset management through a public land trust model.

In this model, the improvements (developments) would be ground-leased to high-functioning, private affordable housing developers and property managers who would either rehabilitate and manage or just manage the developments subject to all of the income and other restrictions intended to provide permanently affordable rental opportunities for public housing residents.

While almost all of SFHA's properties need some modernization, not all of them require demolition and rebuilding. In addition, it is not likely that resources will be available to redevelop the entire portfolio. Utilizing third party developers under this public land trust model will allow SFHA and MOH to leverage public housing resources through use of rental assistance demonstration, the Low Income Housing Tax Credit and other financing tools not available for direct use by the SFHA. The following chart categorizes the SFHA's existing portfolio by rehabilitation need, the probable tools for revitalization and the approximate number of units in each category.

## Portfolio Strategy

Rehabilitation Need	Tool for Revitalization	Number of Units*
Units in existing HOPE VI properties that do not require much, if any, modernization.	HOPE VI	1,200 units
Units in current active HOPE SF projects likely to be redeveloped in the next 10-15 years. These units will be demolished and rebuilt.	HOPE SF	1,800 units
Units that should be demolished and rebuilt as HOPE SF developments, but there currently isn't funding identified to make this happen.	Future HOPE SF	800 units
Senior units that require better property management and some rehabilitation. These units should be preserved and modernized using 4 percent rental assistance demonstration credits.	Preservation, Property Management + Rehabilitation (Senior Properties)	1,800 units
Family units that require better property management and some rehabilitation. These units should be preserved and modernized using 4 percent rental assistance demonstration credits. May have greater damage and may be more difficult to upgrade than senior units.	Preservation, Property Management + Rehabilitation (Family Properties)	1,100 units

\*Unit counts represent a rough approximation of the number of units in each category.

Identifying the appropriate partner to acquire the leasehold interest, secure financing and begin rehabilitation will take time. By way of phasing, SPUR recommends that the SFHA immediately identify and engage third-party property managers to assume management of all, or substantially all, of the developments. These would likely be interim property management contracts that would allow SFHA and MOH to engage in simultaneous processes of identifying the rehabilitation needs of the SFHA portfolio and identifying the appropriate partner to ground lease and rehabilitate each property.

**Phasing Strategy**

Time Frame	SFHA Role	MOH Role
<b>Short Term</b>	Contract with private property managers to manage SFHA developments.	Work with SFHA to transition voucher program. Work with SFHA and others to prioritize which properties will enter into long-term leases with affordable housing providers. Continue to support HOPE SF program.
<b>Medium Term</b>	Continue to manage those properties that are not in long-term leases with affordable housing providers.	Manage the voucher program. Work with affordable housing providers to implement transition plan, negotiate long-term leases. Implement HOPE SF.
<b>Long Term</b>	Remain as long-term lease holder.	Continue to manage the voucher program. Work with affordable housing developers to address long-term capital needs of the portfolio.

Lastly, the city should resource and authorize MOH to staff this effort. Given the lack of SFHA staffing and financial capacity, and MOH’s role as the city’s housing finance agency, this is a natural fit. Unlike past efforts, where MOH and SFHA worked through the SFHA, the MOH staff should report directly to the SFHA Commission in carrying out this vision.

**2. Transfer oversight of the Public Housing Voucher Program to the Mayor’s Office of Housing.**

Given the importance of the voucher program in the provision of housing, and given also that vouchers can be used to help finance the rehabilitation and rebuilding of public housing, MOH should be responsible for overseeing the voucher program over the long term.

There are many options for how this management can be implemented. MOH can chose to run the voucher program in house or can contract other city agencies, nearby public agencies or private entities to administer some or all of SFHA’s Section 8 vouchers. Potential contractors include other local housing authorities, such as the Oakland Housing Authority, or private consulting firms, such as Quadel, which

currently operates the Section 8 programs of housing authorities in Baltimore, Memphis, Miami-Dade and Newark.

It is critical that the voucher program be managed in a professional manner. MOH should develop a set of best practices to ensure that the voucher program is effectively managed.

MOH should also evaluate:

- The cost of effectively managing the voucher program in house versus contracting out with a private entity, and
- The quality of service offered by a public agency versus a private entity. This analysis should take into account the cost of developing the technology platform needed to effectively manage the voucher program.

We recommend that in the immediate term, MOH contract out the voucher program to a private entity and take the time needed to determine how the voucher program should be managed over the long term, including how it should be integrated with other city programs.

### **3. Clearly define the role of the Housing Authority Commission.**

Given the state of the SFHA's operations, it is hard to imagine how the commission can function as an effective oversight body unless it begins to focus its staff on a more limited set of roles. In doing so, the Housing Authority Commission should also proscribe its focus to concentrate solely on issues that are of strategic importance to protect the long-term viability of the assets of the SFHA.

The authority of the SFHA Commission should include and be limited to:

- Review and approval of disposition agreements
- Review and approval of long-term leases
- Review and approval of annual plans
- Review and approval of annual operating budget
- Review and approval of changes to major policies
- Review and approval of major contracts (more than \$1 million)

In addition, SPUR recommends that the mayor continue to appoint commissioners to the San Francisco Housing Authority Commission, but that those appointments be confirmed by the Board of Supervisors. This is similar in practice to many San Francisco commissions and boards (such as the Municipal Transportation Agency board), and to many other housing authority commissions throughout the country.<sup>8</sup>

The mayor should consider recruiting commissioners based on specific skills and qualifications and should consider implementing terms and term limits to ensure the expertise and on-going accountability of commissioners. The mayor must establish and communicate a clear code of ethics to prevent commissioners from inappropriately voting on matters where they may have conflicts of interest.

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<sup>8</sup> *“Performance Audit of the San Francisco Housing Authority,” prepared by the San Francisco Budget and Legislative Analyst, June 3, 2013, page 15.*

**4. Put the Mayor's Office of Housing in charge of managing the long-term implementation of the recommendations outlined above.**

San Francisco currently has a well-organized and efficient housing department. MOH is in the best position to oversee the long-term implementation of the recommendations outlined above; to integrate and better coordinate the city's housing priorities, resources and programs; and to achieve economies of scale by avoiding duplication of administrative functions.

## APPENDIX 1: HOUSING AUTHORITY CASE STUDIES

SPUR evaluated several public housing authorities nationally and throughout California to help inform our recommendations for how to reimagine the structure and operations of the San Francisco Housing Authority. We used five categories to evaluate the housing authorities:

### 1. Portfolio Size

We looked at the number of units the agency manages and how many residents it serves or, in many cases, how many vouchers it administers.

### 2. Regulatory Flexibility

This category included the capacity of the housing authority to access the Moving to Work and rental assistance demonstration (RAD) programs.

Moving to Work is a demonstration program for public housing authorities that provides them the opportunity to design and test innovative, locally created strategies that use federal dollars more efficiently, help residents find employment and become self-sufficient, and increase housing choices for low-income families. Moving to Work gives housing authorities exemptions from many existing public housing and voucher rules and more flexibility with how they use their federal funds.

The RAD program allows proven financing tools to be applied to at-risk public and assisted housing and has two components:

**Component 1** allows public housing and moderate rehabilitation properties to convert, under a competition limited to 60,000 units, to long-term Section 8 rental assistance contracts.

**Component 2** allows rent supplement, rental assistance payment, and moderate rehabilitation properties to convert tenant-based vouchers issued upon contract expiration or termination to project-based assistance.

### 3. Functions

We looked at both the management of public housing as well as the administration of the housing authority's voucher program. We explored if public housing and the voucher program was managed by a third party or by the housing authority itself.

### 4. Governance

This category was used to evaluate whether or not housing authorities operated as separate entities or were managed within an existing city department. Additionally, we looked at the commission structure and composition for housing authorities.

### 5. Coordinating Strategies

This category examined the role of the city and the housing authority as a separate agency and its formal or informal coordination with the city.

## **Case Study 1: Oakland Housing Authority (OHA)**

### **Portfolio Size**

OHA oversees roughly 1,600 public housing units on 14 sites — 966 units at large developments, 383 units at designated senior sites and 307 units in mixed-finance partnerships. OHA’s Section 8 voucher program serves 11,000 families and involves more than 5,200 property owners.

### **Regulatory Flexibility**

Oakland is a Moving to Work site and as such is able to access RAD financing.

### **Functions**

Oakland owns 2,600 public housing units. The remaining units are owned by an affiliate of OHA in an arrangement where the affiliate owns the improvements of the units and leases the land from OHA. Some of OHA public housing portfolio is property managed by third party entities.

OHA administers and manages its own voucher program. OHA provides services to its public housing residents through the Family and Community Partnership as well as the Oakland Housing Authority Police Department.

### **Governance**

The OHA is governed by a seven-member board of commissioners appointed by the mayor of the City of Oakland, with the approval of the Oakland City Council. Two members are residents of the housing authority. Commissioners establish policies under which OHA conducts business, ensuring that policies are followed by OHA staff and ensuring that OHA is successful in its mission. OHA has a formal and informal relationship with the City of Oakland. The formal partnerships allow OHA to compete for city notices of funding availability refer youth to the mayor’s summer job program and assign vouchers to certain projects being developed or managed.

### **Coordinating Strategies**

OHA also works with the City of Oakland and Alameda County to provides services for their most vulnerable residents. Some properties have contracts with specific nonprofits to administer services to a particular population.

## Case Study 2: Housing Authority of the County of San Mateo (HACSM)

### Portfolio Size

HACSM manages 200 public housing units and administers 4,200 vouchers.

### Regulatory Flexibility

San Mateo is a Moving to Work site and also able to access RAD financing tools.

### Functions

HACSM provides property management for all of its public housing units. The agency plans to move to a land trust model for its public housing, where the housing authority will retain ownership of the land but will outsource the rehabilitation and management of the properties. HACSM manages its voucher programs in house.

### Governance

The San Mateo County Board of Supervisors, in a separate legal capacity, serves as the housing authority's board of commissioners.

### Coordinating Strategies

HACSM is a separate agency from the city but coordinates and works closely with city departments.

## Case Study 3: Sacramento Housing and Redevelopment Agency (SHRA)

### Portfolio Size

SHRA provides housing for 51,000 residents. It manages 3,100 public housing units and administers 11,000 vouchers and is combined with the redevelopment agency, which oversees close to 5,000 affordable housing units.

### Regulatory Flexibility

SHRA is not a Moving to Work site and does not use RAD financing.

### Functions

SHRA provides property management for all of its public housing units. The voucher program is administered in house. SHRA works with the city and county to provide services to residents. It also contracts with private and nonprofit organizations to manage services to particular sites.

### Governance

SHRA is a joint powers authority created by the City and County of Sacramento to represent both jurisdictions for affordable housing and community redevelopment needs. The city council serves as the governing board of the housing authority for the City of Sacramento, while the county board of supervisors serves as the governing board of the housing authority for the county. The Sacramento Housing and Redevelopment Commission serve as an advisory panel to the agency on projects, programs and activities relating to redevelopment, community development and the housing authority.

### Coordinating Strategies

As a joint powers authority, SHRA coordinates all housing and housing authority staff under the joint powers authority.

## Case Study 4: Fresno Housing Authority (FHA)

### Portfolio Size

FHA owns and/or manages more than 4,500 residential units, which are rented to low-income households. Within this portfolio, nearly 2,300 housing units are public housing while 2,414 units were created through a combination of Low Income Housing Tax Credits, grants and/or conventional funding. In addition, FHA also administers 12,500 Housing Choice vouchers for qualified individuals and families, including specific populations such as veterans and people with disabilities.

### Regulatory Flexibility

Fresno is not a Moving to Work site. It does have three properties that qualified for RAD financing.

### Functions

Fresno owns and manages its public housing portfolio. FHA also manages its voucher program in house. FHA provides services to its public housing residents through an affiliate and works with the city and county for additional services to residents.

### Governance

FHA uses a joint powers model for its commission structure but for not the operation of the housing authority itself. FHA is governed by 14 commissioners: seven are appointed as city commissioners; five are appointed by the mayor in staggered terms; and two are Fresno Housing Authority residents. The FHA operates as a separate agency and is not within any city department.

### Coordinating Strategies

Not available

## Case Study 5: San Diego Housing Commission (SDHC)

### Portfolio Size

SDHC currently manages 35 public housing units and administers 13,900 vouchers.

### Regulatory Flexibility

Not available

### Functions

SDHC has disposed of most of its public housing portfolio. What remains is in a land trust model. SDHC manages its voucher program in house. It works with the county to provide services to its residents.

### Governance

SDHC has seven commissioners. Five are county board supervisors and two are residents of the housing authority. SDHC has a separate internal staffing structure within the city's housing department that manages the housing authority functions.

### Coordinating Strategies

SDHC maintains a high level of coordination between the city and the housing authority due to its shared governance structure.

## Case Study 6: Seattle Housing Authority (SHA)

### Portfolio Size

SHA manages 6,000 public housing units and administers 8,400 vouchers.

### Regulatory Flexibility

Seattle is a Moving to Work site and uses RAD financing tools.

### Functions

SHA manages a portion of its public housing portfolio. The authority outsources a small amount of its public housing sites to third-party property management entities. SHA provides services in house to its public housing residents and has several contracts with private and nonprofit entities for additional services for specific sites.

### Governance

SHA is governed by a seven-member board of commissioners, two of whom are housing authority residents. The mayor appoints the board members, subject to confirmation by the Seattle City Council. SHA's policies are reviewed and approved by the board of commissioners.

### Coordinating Strategies

The mayor has a strong presence in the operations of the SHA, and therefore there is a great deal of coordination with the city and the housing authority.

## Case Study 7: Portland Housing Authority (PHA)

### Portfolio Size

The Portland Housing Authority manages 3,100 public housing units and administers 7,900 vouchers.

### Regulatory Flexibility

PHA is a Moving to Work site and qualifies for RAD financing tool.

### Functions

PHA provides property management for its public housing portfolio. The voucher program is also managed in house. PHA contracts with nonprofit organizations for services to its public housing residents.

### Governance

PHA operates within a city department and has dedicated housing authority staff. Four commissioners represent the City of Portland, two represent the City of Gresham and two represent Multnomah County. A ninth member — who participates in one of Home Forward's housing programs — represents residents and program participants. Commissioners are recommended from the area they serve, appointed by the Mayor of Portland and approved by the Portland City Council.

### Coordinating Strategies

PHA has a high level of coordination with the city because it is located within a city department. The city heavily influences the operations and management of the PHA.