



SAN DIEGO  
HOUSING  
COMMISSION

## REPORT

**DATE ISSUED:** April 19, 2017

**REPORT NO:** HAR17-011

**ATTENTION:** Chair and Members of the Housing Authority of the City of San Diego  
For the Agenda of April 25, 2017

**SUBJECT:** Request for Approval of Updated Developer Fees

**COUNCIL DISTRICT:** Citywide

**REQUESTED ACTION:**

Approval of updated Developer Fees for multifamily loans and bonds issuances.

**STAFF RECOMMENDATION**

That the Housing Authority of the City of San Diego (Housing Authority) take the following actions:

1. Approve using the California Tax Credit Allocation Committee (CTCAC) developer fee guidelines for the production / creation of new affordable housing, the conversion of market rate housing to affordable housing, and the preservation of “at-risk” housing;
2. Approve the draft Developer Fee Guidelines as described in this report for projects that are refinancing existing affordable housing and for projects that do not utilize tax credit financing;
3. Ratify using the CTCAC developer fee guidelines for 4 percent tax credit multifamily housing revenue bond issuances that do not include San Diego Housing Commission (Housing Commission) gap financing; and
4. Authorize the Housing Commission President & Chief Executive Officer (President & CEO) or designee, to negotiate and recommend alternative Developer Fees, in his reasonable and sole discretion for developments that warrant larger fees (such as developments of more than 100 units; developments that involve the assembling of multiple sites; or highly complex and high risk developments); or developments that warrant smaller fees (refinance of an existing affordable development by the same owner). Such recommendations will be presented to the Housing Commission Board for their review and approval.

**SUMMARY**

The Housing Commission provides loans for development of affordable multifamily rental housing and the Housing Authority issues bonds for the development of affordable multifamily rental housing.

A Notice of Funding Availability (NOFA) is used to notify developers of available funding for loans, as well as terms and conditions for this funding, including allowable Developer Fees. Most of the developments applying for Housing Commission loan funds are also applying to CTCAC for either 4 percent or 9 percent tax credit financing.

“Developer fees” are upfront fees that are earned by developers of low-income affordable housing projects. These projects are financed in whole or in part with government funding programs or assistance, which were established to subsidize the rents of lower income households. As a result, these affordable housing projects do not generate sufficient operating revenue to compensate affordable housing developers and therefore require upfront developer fee payments. Conversely, market-rate developers are typically compensated from revenues generated through operations, which provide a rate of return on their capital investment. Developer fees are the counterpart of profit in market-rate projects.

The current allowable developer fee under the Housing Commission’s NOFA is \$1.4 million. Additional developer fee is allowed for tax credit projects for the purpose of generating additional tax credit equity, which reduces the need for Housing Commission loan funds. Additional developer fee is permitted and contingent upon: 1) the Developer contributing the additional developer fee back to the project as a source of permanent financing (equity), or; 2) receiving payment of additional developer fee out of the borrower’s share of residual cash flow.

The Housing Commission has allowed developers to use CTCAC guidelines for developer fees in the past, but limited the developer fee to \$1.4 million since 2012.

In 2015, Housing Commission staff engaged Keyser Marston and Associates to work on potential changes to developer fees, factoring in Housing Commission policy objectives. In the fall of 2015, CTCAC proposed amending their developer fee guidelines, and Housing Commission staff tabled their review until after the CTCAC process was completed. CTCAC conducted extensive stakeholder meetings throughout California and solicited public comment. Changes were made to developer fee under the 4 percent and 9 percent low-income housing tax credit programs.

In an effort to create additional financing sources (tax credit equity) and incentivize housing production, CTCAC made considerable modifications to developer fee limits under the 4 percent low-income housing tax credit program. The previous CTCAC guidelines limited developer fee to \$2,500,000. Developer fee under current CTCAC guidelines is determined by project size and development cost as follows:

#### *Development Size*

Developers are eligible for up to \$2,500,000 plus \$10,000 per unit for each tax credit unit in excess of 100. For example, a 150-unit affordable development would be eligible for up to \$3,000,000 (\$2,500,000 + (\$10,000 x 50 units)).

#### *Development Cost*

The low-income housing tax credits program was enacted under the Tax Reform Act of 1986 and is outlined in Section 42 of the Internal Revenue Code (IRC). Tax credits are generated from eligible costs (IRC defines as “eligible basis”) associated with the development of affordable housing. Developer fee limits vary between 4 percent tax credit financing structures and 9 percent tax credit financing structures. Developer fee is based off of a set percentage (established by CTCAC) of eligible basis. The developer fee calculation and set percentages differ slightly between new construction and acquisition rehabilitation development.

### Stakeholder Meetings

The Housing Commission conducted a stakeholder meeting on November 17, 2016, to seek developer input regarding proposed changes to the Housing Commission's allowable developer fee. Twenty development companies were invited to attend and nine were able to attend. General consensus from the stakeholder group was to use the CTCAC guidelines and to keep the fee calculation simple. Developers operate throughout the State of California as well as other states. They cited the challenges encountered trying to meet the various public and private lender requirements. They also cited the need for payment of fair and reasonable fees, recognizing the risks and complexity of affordable housing development.

### Developer Fee Recommendations

*Guidelines for production / creation of new affordable housing and preservation of "at-risk" housing.*

Staff recommends using the CTCAC developer fee guidelines for the production / creation of new affordable housing, the conversion of market rate housing to affordable housing, and the preservation of "at-risk" housing.

Staff prepared draft Developer Fee Guidelines, which were presented to the Real Estate Committee on January 23, 2017. The Real Estate Committee was supportive of staff's draft recommendation, as well as using the CTCAC guidelines. They requested additional analysis be provided to the Housing Commission that shows what developer fees would look like if the Housing Commission allowed CTCAC guidelines. Attachment 2 provides an analysis of the seven most recent loans and the impacts to developer fees, tax credit equity, and Housing Commission gap financing, by allowing use of CTCAC developer fee guidelines.

This analysis shows that allowing the CTCAC developer fee guidelines would increase tax credit equity to these seven projects by \$2,557,000 while decreasing the Housing Commission's gap financing by \$357,000.

Staff recommends allowing increasing the developer fees in recognition of the costs and risks related to affordable housing finance, development and operation. This recommendation only applies to the production and creation of new affordable housing and the preservation of "at-risk" housing. At-risk housing is existing affordable housing that has expiring rent restrictions and will convert to market rate housing within the next ten years, unless preserved.

### *Guidelines for projects that are refinancing existing affordable housing*

Staff recommends adopting the following developer fee guidelines for projects that are refinancing existing affordable housing (with an existing Housing Commission loan) to make needed property improvements.

1. Purchases from Unrelated Parties: \$30,000 per unit up to \$2,000,000
2. Purchase from Related Party: \$30,000 per unit, up to \$1,400,000

This recommendation will result in lower allowable developer fees, recognizing that there is less risk for these types of transactions. For example, when selling to a related party, all property details are known, and there is less risk for additional unknown expenses related to operating or recapitalizing the asset.

Staff also recommends allowing higher developer fees for the purpose of generating additional tax credit equity. Any fee above the unrelated or related party limits shall be required to be contributed back to the project as equity or paid for out of the developer's share of residual cash (typically 50 percent of cash flow). This recommendation will increase tax credit equity and reduce the need for Housing Commission gap financing, while protecting repayments on the Housing Commission loan.

*Guidelines for projects that do not utilize tax credit financing*

1. \$30,000 per unit up to \$2,200,000 (new construction)
2. \$30,000 per unit up to \$2,000,000 (acquisition/rehabilitation)

*Guidelines for projects that do not utilize Housing Commission gap financing*

Multifamily housing revenue bond issuances that do not include Housing Commission gap financing shall not be restricted to Housing Commission developer fee limits.

Because each project is unique, there is no one-size-fits-all approach. All developer fees are fully disclosed in Housing Commission Board Reports for Board review.

**AFFORDABLE HOUSING IMPACT**

The proposed changes are expected to have positive impacts for affordable housing development in the city of San Diego, resulting from increased incentives for the production of new affordable housing and preservation of existing at-risk housing in the city of San Diego.

**FISCAL CONSIDERATIONS**

The proposed action may increase or decrease SDHC's gap financing depending on the individual structure of the multifamily loans and bonds issuances.

**KEY STAKEHOLDERS and PROJECTED IMPACTS**

Key stakeholders include numerous San Diego Developers, including Affirmed Housing, AMCAL Housing, Bridge Housing, Chelsea Investment Corporation, Community Housing Works, Hitzke Development, National CORE, Retirement Housing Foundation, Townspeople, Trestle Housing, and Wakeland Housing and Community Development. Civic San Diego will also be impacted on any future joint-funded projects.

**ENVIRONMENTAL REVIEW**

This activity is not a project as defined by the California Environmental Quality Act Section 21065 and State CEQA Guidelines Section 15378(b)(5), as it is an administrative activity of government that will not result in direct or indirect physical changes in the environment. The determination that this activity is not subject to CEQA, pursuant to Section 15060(c)(3), is not appealable and a Notice of Right to Appeal the Environmental Determination (NORA) is not required. Processing under the National Environmental Policy Act is not required as no federal funds are involved in this action.

Respectfully submitted,

*Ted Miyahara*

Ted Miyahara  
Director, Housing Finance  
Real Estate Division

Approved by,

*Deborah N. Ruane*

Deborah N. Ruane  
Executive Vice President & Chief Strategy Officer  
San Diego Housing Commission

Attachment: 1) Analysis of Recent Housing Commission Loans

Hard copies are available for review during business hours at the security information desk in the main lobby and at the fifth floor reception desk of the San Diego Housing Commission offices at 1122 Broadway, San Diego, CA 92101 and at the Office of the San Diego City Clerk, 202 C Street, San Diego, CA 92101. You may also review complete docket materials in the "Public Meetings" section of the San Diego Housing Commission website at [www.sdhc.org](http://www.sdhc.org)

SUMMARY OF DEVELOPER FEE REGULATIONS/GUIDELINES  
DEVELOPER FEE ANALYSIS  
SAN DIEGO HOUSING COMMISSION

ATTACHMENT 1

	SDHC Existing Guidelines	TCAC Regulations	SDHC Proposed New Guidelines (February 2017) (1)(2)(3)	
I. Developer Fee	• 9% Tax Credits \$1.4 million	• 9% Tax Credits - In project costs: 15% eligible basis up to \$2.2 million (new construction); \$2.0 million (rehabilitation) - In eligible basis: up to \$1.4 million	• 9% Tax Credits - In project costs: 15% eligible basis up to \$2.2 million (new construction); \$2.0 million (rehabilitation) - In eligible basis: up to \$1.4 million	
	• 4% Tax Credits \$1.4 million	• 4% Tax Credits - In project costs 15% of eligible basis - In eligible basis: 15% of eligible basis	• 4% Tax Credits - In project costs 15% of eligible basis - In eligible basis: If hard construction costs < \$20,000 per unit = 15% of construction related basis; 5% of acquisition basis  If hard construction costs > \$20,000 per unit, or at-risk project, or 30% of project at 50% AMI or lower = 15% of eligible basis	
			• Refinance of Existing Affordable Development Purchased from Unrelated Party: \$30,000/unit up to \$2.0 million	
			• Refinance of Existing Affordable Development Purchased from Related Party: \$30,000/unit up to \$1.4 million	
			• New Construction and Acquisition/Rehabilitation without Low Income Housing Tax Credits: \$30,000/unit up to \$2.2 million (new construction); \$2.0 million (rehabilitation)	
II. Required Fee Deferral	Developer fee in excess of ceiling limits; to be repaid from developer's share of residual receipts and/or contributed as equity toward the project	4% Tax Credits: Developer fee in excess of \$2.5 million + \$10,000/unit for projects in excess of 100 units	New Construction:  Acquisition Rehabilitation:	Payable out of developer's share of residual receipts  Allowed for the purposes of increasing eligible basis, amounts in excess of developer fee limitation shall be deferred and paid out of developer's share of residual receipts

(1) Developer fee modeled pursuant to TCAC Regulations.  
(2) Additional developer fee above limits allowed for the purpose of increasing eligible basis and generating additional tax credit equity, but increased fee must be deferred/contributed.  
(3) Development projects proposing to utilize a source of financing with more restrictive developer fee limits, those limits shall be applied.

EXHIBIT 2

COMPARISON OF SDHC EXISTING GUIDELINES VS. PROPOSED GUIDELINES  
DEVELOPER FEE ANALYSIS  
SAN DIEGO HOUSING COMMISSION

Project	Number of Units	Tax Credits	Type	Developer Fee				Tax Credit Equity				SDHC Financing Gap			
				SDHC Existing Guidelines	SDHC Proposed Guidelines (February 2017)	Difference		SDHC Existing Guidelines	SDHC Proposed Guidelines (February 2017)	Difference		SDHC Existing Guidelines	SDHC Proposed Guidelines (February 2017)	Difference	
						Total	Per Unit			Total	Per Unit			Total	Per Unit
A. Encanto Village	66	9% Tax Credits	New Construction	\$1,400,000	\$1,400,000 <sup>(1)</sup>	\$0	\$0	\$12,617,000	\$12,617,000	\$0	\$0	\$7,250,000	\$7,250,000	\$0	\$0
B. North Park Senior Apartments	76	4% Tax Credits	New Construction	\$1,400,000	\$2,952,000	\$1,552,000	\$20,421	\$10,545,000	\$11,321,000	\$776,000	\$10,211	\$8,013,000	\$8,337,000	\$324,000	\$4,263
C. The Lofts at Normal Heights	53	4% Tax Credits	New Construction	\$1,400,000	\$1,952,000 <sup>(2)</sup>	\$552,000	\$10,415	\$6,283,000	\$6,528,000	\$245,000	\$4,623	\$5,445,000	\$5,200,000	(\$245,000)	(\$4,623)
D. Fairmount Family	80	4% Tax Credits	New Construction	\$1,400,000	\$3,216,000	\$1,816,000	\$22,700	\$9,335,000	\$10,078,000	\$743,000	\$9,288	\$9,934,000	\$10,291,000	\$357,000	\$4,463
E. Twain Veterans	80	4% Tax Credits	New Construction	\$1,400,000	\$2,683,000 <sup>(2)</sup>	\$1,283,000	\$16,038	\$9,612,000	\$10,252,000	\$640,000	\$8,000	\$5,579,000	\$4,939,000	(\$640,000)	(\$8,000)
F. Zephyr (Grantville Veterans)	85	9% Tax Credits	Acquisition / Rehabilitation	\$1,400,000	\$1,400,000 <sup>(2)</sup>	\$0	\$0	\$16,656,000	\$16,656,000	\$0	\$0	\$3,000,000	\$3,000,000	\$0	\$0
G. Post 310	43	4% Tax Credits	New Construction	\$1,400,000	\$1,764,000 <sup>(2)</sup>	\$364,000	\$8,465	\$5,524,000	\$5,677,000	\$153,000	\$3,558	\$3,267,000	\$3,114,000	(\$153,000)	(\$3,558)
Total	483			\$9,800,000	\$15,367,000	\$5,567,000	\$11,530	\$70,572,000	\$73,129,000	\$2,557,000	\$5,290	\$42,488,000	\$42,131,000	(\$357,000)	(\$740)

(1) Assumes SDHC would limit developer fees on 9% tax credit projects to \$1.4 million, the amount allowed in eligible basis.  
(2) Veterans Housing and Homelessness Prevention Program (VHHP) requires developer fee in excess of \$1.4 million be deferred or contributed as equity toward the project.

TABLE A

DEVELOPER FEE AND FINANCING GAP  
DEVELOPER FEE ANALYSIS  
SAN DIEGO HOUSING COMMISSION

		Encanto Village			
		Developer Pro Forma	SDHC Existing Guidelines	TCAC Regulations <sup>(1)</sup>	SDHC Proposed New Guidelines (February 2017) <sup>(1)</sup>
<b>I. Developer Fee</b>					
A. Developer Fee Per Unit	\$1,400,000 \$21,210	\$1,400,000 \$21,210	\$1,400,000 \$21,210	\$1,400,000 \$21,210	\$1,400,000 \$21,210
B. % of Eligible Basis	13.8%	13.8%	13.8%	13.8%	13.8%
<b>II. Upfront Developer Fee to Developer</b>					
A. Upfront Developer Fee	\$1,400,000	\$1,400,000	\$1,400,000	\$1,400,000	\$1,400,000
<b>III. Deferred Developer Fee and Equity Contribution</b>					
A. Deferred Developer Fee	\$0	\$0	\$0	\$0	\$0
B. Equity Contribution	\$0	\$0	\$0	\$0	\$0
C. Total	\$0	\$0	\$0	\$0	\$0
<b>IV. Tax Credit Equity</b>					
A. Tax Credit Equity	\$12,617,000	\$12,617,000	\$12,617,000	\$12,617,000	\$12,617,000
<b>V. SDHC Financing Gap</b>					
A. SDHC Financing Gap Per Unit	(\$7,250,000) (\$109,800)	(\$7,250,000) (\$109,800)	(\$7,250,000) (\$109,800)	(\$7,250,000) (\$109,800)	(\$7,250,000) (\$109,800)

(1) Assumes SDHC would limit developer fees on 9% tax credit projects to \$1.4 million, the amount allowed in eligible basis.



TABLE B

DEVELOPER FEE AND FINANCING GAP  
DEVELOPER FEE ANALYSIS  
SAN DIEGO HOUSING COMMISSION

		North Park Senior Apartments			
		Developer Pro Forma	SDHC Existing Guidelines	TCAC Regulations	SDHC Proposed New Guidelines (February 2017)
I. Developer Fee					
A. Developer Fee Per Unit	\$2,888,000 \$38,000	\$1,400,000 \$18,420	\$2,952,000 \$38,840	\$2,952,000 \$38,840	
B. % of Eligible Basis	14.7%	7.1%	15.0%	15.0%	
II. Upfront Developer Fee to Developer					
A. Upfront Developer Fee	\$1,400,000	\$1,400,000	\$2,500,000	\$2,500,000	
III. Deferred Developer Fee and Equity Contribution					
A. Deferred Developer Fee	\$288,000	\$0	\$452,000	\$452,000	
B. Equity Contribution	\$1,200,000	\$0	\$0	\$0	
C. Total	\$1,488,000	\$0	\$452,000	\$452,000	
IV. Tax Credity Equity					
A. Tax Credit Equity	\$11,289,000	\$10,545,000	\$11,321,000	\$11,321,000	
V. SDHC Financing Gap					
A. SDHC Financing Gap Per Unit	(\$7,269,000) (\$95,600)	(\$8,013,000) (\$105,400)	(\$8,337,000) (\$109,700)	(\$8,337,000) (\$109,700)	

TABLE C

DEVELOPER FEE AND FINANCING GAP  
DEVELOPER FEE ANALYSIS  
SAN DIEGO HOUSING COMMISSION

The Lofts at Normal Heights				
	Developer Pro Forma	SDHC Existing Guidelines	TCAC Regulations <sup>(1)</sup>	SDHC Proposed New Guidelines (February 2017) <sup>(1)</sup>
<b>I. Developer Fee</b>				
A. Developer Fee Per Unit	\$1,952,000 \$36,840	\$1,400,000 \$26,420	\$1,952,000 \$36,830	\$1,952,000 \$36,830
B. % of Eligible Basis	15.0%	10.8%	15.0%	15.0%
<b>II. Upfront Developer Fee to Developer</b>				
A. Upfront Developer Fee	\$1,400,000	\$1,400,000	\$1,400,000	\$1,400,000
<b>III. Deferred Developer Fee and Equity Contribution</b>				
A. Deferred Developer Fee	\$0	\$0	\$0	\$0
B. Equity Contribution	\$552,000	\$0	\$552,000	\$552,000
C. Total	\$552,000	\$0	\$552,000	\$552,000
<b>IV. Tax Credit Equity</b>				
A. Tax Credit Equity	\$6,528,000	\$6,283,000	\$6,528,000	\$6,528,000
<b>V. SDHC Financing Gap</b>				
A. SDHC Financing Gap Per Unit	(\$5,200,000) (\$98,100)	(\$5,445,000) (\$102,700)	(\$5,200,000) (\$98,100)	(\$5,200,000) (\$98,100)

(1) Veterans Housing and Homelessness Prevention Program (VHHP) requires developer fee in excess of \$1.4 million be deferred or contributed as equity toward the project.

TABLE D

DEVELOPER FEE AND FINANCING GAP  
DEVELOPER FEE ANALYSIS  
SAN DIEGO HOUSING COMMISSION

		Fairmount Family		
		Developer Pro Forma	SDHC Existing Guidelines	TCAC Regulations
				SDHC Proposed New Guidelines (February 2017)
<b>I. Developer Fee <sup>(1)</sup></b>				
A. Developer Fee Per Unit	\$3,210,000 \$40,130	\$1,400,000 \$17,500	\$3,216,000 \$40,200	\$3,216,000 \$25,000
B. % of Eligible Basis	15.0%	6.5%	15.0%	15.0%
<b>II. Upfront Developer Fee to Developer</b>				
A. Upfront Developer Fee	\$1,700,000	\$1,400,000	\$2,500,000	\$2,500,000
<b>III. Deferred Developer Fee and Equity Contribution</b>				
A. Deferred Developer Fee	\$560,000	\$0	\$716,000	\$716,000
B. Equity Contribution	\$950,000	\$0	\$0	\$0
C. Total	\$1,510,000	\$0	\$716,000	\$716,000
<b>IV. Tax Credit Equity</b>				
A. Tax Credit Equity	\$10,100,000	\$9,335,000	\$10,078,000	\$10,078,000
<b>V. SDHC Financing Gap</b>				
A. SDHC Financing Gap Per Unit	(\$9,470,000) (\$118,400)	(\$9,934,000) (\$124,200)	(\$10,291,000) (\$128,600)	(\$10,291,000) (\$128,600)

TABLE E

DEVELOPER FEE AND FINANCING GAP  
DEVELOPER FEE ANALYSIS  
SAN DIEGO HOUSING COMMISSION

		Twain Veterans			
		Developer Pro Forma	SDHC Existing Guidelines	TCAC Regulations <sup>(1)</sup>	SDHC Proposed New Guidelines (February 2017) <sup>(1)</sup>
I. Developer Fee					
A. Developer Fee Per Unit	\$2,680,000 \$33,500	\$1,400,000 \$17,500	\$2,683,000 \$33,500	\$2,683,000 \$25,000	
B. % of Eligible Basis	15.0%	7.8%	15.0%	15.0%	
II. Upfront Developer Fee to Developer					
A. Upfront Developer Fee	\$1,400,000	\$1,400,000	\$1,400,000	\$1,400,000	
III. Deferred Developer Fee and Equity Contribution					
A. Deferred Developer Fee	\$0	\$0	\$0	\$0	
B. Equity Contribution	\$1,280,000	\$0	\$1,283,000	\$1,283,000	
C. Total	\$1,280,000	\$0	\$1,283,000	\$1,283,000	
IV. Tax Credit Equity					
A. Tax Credit Equity	\$10,240,500	\$9,612,000	\$10,252,000	\$10,252,000	
V. SDHC Financing Gap					
A. SDHC Financing Gap Per Unit	(\$4,950,000) (\$61,900)	(\$5,579,000) (\$69,700)	(\$4,939,000) (\$61,700)	(\$4,939,000) (\$61,700)	

(1) Veterans Housing and Homelessness Prevention Program (VHHP) requires developer fee in excess of \$1.4 million be deferred or contributed as equity toward the project.

TABLE F

DEVELOPER FEE AND FINANCING GAP  
DEVELOPER FEE ANALYSIS  
SAN DIEGO HOUSING COMMISSION

		Zephyr (Grantville Veterans)			
		Developer Pro Forma	SDHC Existing Guidelines	TCAC Regulations <sup>(1)</sup>	SDHC Proposed New Guidelines (February 2017) <sup>(1)</sup>
<b>I. Developer Fee</b>					
A. Developer Fee Per Unit	\$1,400,000 \$16,470	\$1,400,000 \$16,470	\$1,400,000 \$16,470	\$1,400,000 \$16,470	\$1,400,000 \$16,470
B. % of Eligible Basis	11.1%	11.1%	11.1%	11.1%	11.1%
<b>II. Upfront Developer Fee to Developer</b>					
A. Upfront Developer Fee	\$1,400,000	\$1,400,000	\$1,400,000	\$1,400,000	\$1,400,000
<b>III. Deferred Developer Fee and Equity Contribution</b>					
A. Deferred Developer Fee	\$0	\$0	\$0	\$0	\$0
B. Equity Contribution	\$0	\$0	\$0	\$0	\$0
C. Total	\$0	\$0	\$0	\$0	\$0
<b>IV. Tax Credit Equity</b>					
A. Tax Credit Equity	\$16,656,000	\$16,656,000	\$16,656,000	\$16,656,000	\$16,656,000
<b>V. SDHC Financing Gap</b>					
A. SDHC Financing Gap Per Unit	(\$3,000,000) (\$35,300)	(\$3,000,000) (\$35,300)	(\$3,000,000) (\$35,300)	(\$3,000,000) (\$35,300)	(\$3,000,000) (\$35,300)

(1) Assumes SDHC would limit developer fees on 9% tax credit projects to \$1.4 million, the amount allowed in eligible basis.

TABLE G

DEVELOPER FEE AND FINANCING GAP  
DEVELOPER FEE ANALYSIS  
SAN DIEGO HOUSING COMMISSION

		Post 310		
		Developer Pro Forma	SDHC Existing Guidelines	TCAC Regulations <sup>(1)</sup>
I. Developer Fee				
A. Developer Fee Per Unit	\$1,763,470 \$41,010	\$1,400,000 \$32,560	\$1,764,000 \$41,020	\$1,764,000 \$41,020
B. % of Eligible Basis	15.0%	11.9%	15.0%	15.0%
II. Upfront Developer Fee to Developer				
A. Upfront Developer Fee	\$1,400,000	\$1,400,000	\$1,400,000	\$1,400,000
III. Deferred Developer Fee and Equity Contribution				
A. Deferred Developer Fee	\$0	\$0	\$0	\$0
B. Equity Contribution	\$363,000	\$0	\$364,000	\$364,000
C. Total	\$363,000	\$0	\$364,000	\$364,000
IV. Tax Credity Equity				
A. Tax Credit Equity	\$5,676,000	\$5,524,000	\$5,677,000	\$5,677,000
V. SDHC Financing Gap				
A. SDHC Financing Gap Per Unit	(\$3,115,000) (\$72,442)	(\$3,267,000) (\$76,000)	(\$3,114,000) (\$72,400)	(\$3,114,000) (\$72,400)

(1) Veterans Housing and Homelessness Prevention Program (VHHP) requires developer fee in excess of \$1.4 million be deferred or contributed as equity toward the project.

**TABLE H**

**DEVELOPER FEE AND FINANCING GAP  
DEVELOPER FEE ANALYSIS  
SAN DIEGO HOUSING COMMISSION**

		Mayberry Townhomes			
		Developer Pro Forma	SDHC Existing Guidelines	TCAC Regulations	SDHC Proposed New Guidelines (February 2017)
I. Developer Fee					
A. Developer Fee Per Unit	\$1,868,417 \$26,690	\$1,400,000 \$20,000	\$1,868,000 \$26,690	\$1,868,000 \$26,690 <sup>(1)</sup>	
B. % of Eligible Basis	15.0%	11.2%	15.0%	15.0%	
II. Upfront Developer Fee to Developer					
A. Upfront Developer Fee	\$664,000	\$1,400,000	\$1,868,000	\$1,868,000	
III. Deferred Developer Fee and Equity Contribution					
A. Deferred Developer Fee	\$667,000	\$0	\$0	\$0	
B. Equity Contribution	\$537,000	\$0	\$0	\$0	
C. Total	\$1,204,000	\$0	\$0	\$0	
IV. Tax Credit Equity					
A. Tax Credit Equity	\$5,464,000	\$5,301,000	\$5,464,000	\$5,464,000	
V. SDHC Financing Gap					
A. SDHC Financing Gap Per Unit	(\$908,000) (\$12,970)	(\$1,806,000) (\$25,800)	(\$2,111,000) (\$30,160)	(\$2,111,000) (\$30,160)	

(1) Developer fee at \$30,000 per unit exceeds 15.0% of eligible basis.

TABLE I

DEVELOPER FEE AND FINANCING GAP  
DEVELOPER FEE ANALYSIS  
SAN DIEGO HOUSING COMMISSION

	Prototype 1: New Construction		
	SDHC Existing Guidelines	TCAC Regulations	SDHC Proposed New Guidelines (February 2017)
<b>I. Developer Fee</b>			
A. Developer Fee Per Unit	\$1,400,000 \$9,330	\$6,170,000 \$41,130	\$6,170,000 \$41,133
B. % of Eligible Basis	3.4%	15.0%	15.0%
<b>II. Upfront Developer Fee to Developer</b>			
A. Upfront Developer Fee	\$1,400,000	\$3,000,000	\$3,000,000
<b>III. Deferred Developer Fee and Equity Contribution</b>			
A. Deferred Developer Fee	\$0	\$3,170,000	\$3,170,000
B. Equity Contribution	\$0	\$0	\$0
C. Total	\$0	\$3,170,000	\$3,170,000
<b>IV. Tax Credit Equity</b>			
A. Tax Credit Equity	\$18,670,000	\$20,834,000	\$20,834,000
<b>V. SDHC Financing Gap</b>			
A. SDHC Financing Gap Per Unit	(\$16,856,000) (\$112,400)	(\$16,435,000) (\$109,600)	(\$16,435,000) (\$109,600)



HOUSING AUTHORITY OF  
THE CITY OF SAN DIEGO

RESOLUTION NUMBER HA-\_\_\_\_\_

DATE OF FINAL PASSAGE \_\_\_\_\_

A RESOLUTION OF THE HOUSING AUTHORITY OF THE  
CITY OF SAN DIEGO APPROVING DEVELOPER FEES FOR  
MULTIFAMILY LOAN AND BOND ISSUANCES.

WHEREAS, the San Diego Housing Commission (Housing Commission) provides loans for the development of affordable multifamily rental housing and the Housing Commission, acting on behalf of the Housing Authority of the City of San Diego (Housing Authority), issues bonds for the development of affordable multifamily rental housing; and

WHEREAS, to incentivize development of affordable multifamily housing in the City of San Diego and to maintain competitiveness among affordable housing developers in the City of San Diego, periodic updates to developer fees may be undertaken; and

WHEREAS, in 2015, Housing Commission staff engaged Keyser Marston Associates to review and recommend changes to the developer fees; and

WHEREAS, a stakeholder meeting was held on November 17, 2016, to seek developer input regarding proposed changes to the developer fees; and

WHEREAS, on March 10, 2017, the Housing Commission Board of Commissioners (Board of Commissioners) recommended that the Housing Authority approve changes to the developer fees, as detailed in Report HCR17-022; NOW, THEREFORE,

BE IT RESOLVED, by the Housing Authority of the City of San Diego (Housing Authority) that the California Tax Credit Allocation Committee (CTCAC) developer fee limits, as they may be amended from time to time by CTCAC, shall apply to the production and

creation of new affordable housing, the conversion of market rate housing to affordable housing, and the preservation of “at-risk” housing.

BE IT FURTHER RESOLVED, that the developer fees described in report HAR17-011 shall apply to projects that refinance existing affordable housing with an existing Housing Commission loan and projects that do not utilize tax credit financing.

BE IT FURTHER RESOLVED, that the CTCAC developer fee limits shall apply to 4 percent tax credit multifamily housing revenue bond issuances that do not include Housing Commission gap financing.

BE IT FURTHER RESOLVED, that the Board of Commissioners is authorized to approve developer fees higher than those fees described above, where such an increase is warranted and allowed by law (under circumstances that may include, but that are not limited to, developments of more than 100 units, developments that involve the assembling of multiple sites under different ownership, or highly complex and high risk developments).

BE IT FURTHER RESOLVED, that the Board of Commissioners is authorized to approve developer fees lower than those fees described above, where such a reduction is warranted (under circumstances that may include, but that are not limited to, the refinance of an existing affordable development by the same owner).

BE IT FURTHER RESOLVED, that the Housing Commission President & Chief Executive Officer may negotiate and make recommendations to the Board of Commissioners prior to its consideration of a higher or lower developer fee for a project and that such recommendations shall be presented to the Board of Commissioners for its review and approval.

APPROVED: MARA W. ELLIOTT, General Counsel

By \_\_\_\_\_  
Keely M. Halsey  
Deputy General Counsel

KMH:als  
04/10/2017  
Or.Dept: SDHC  
Doc. No. 1468797\_2

<b>REQUEST FOR HOUSING AUTHORITY ACTION</b> CITY OF SAN DIEGO				CERTIFICATE NUMBER (FOR COMPTROLLER'S USE ONLY)	
TO: CITY COUNCIL		FROM (ORIGINATING DEPARTMENT): Housing Commission		DATE: 3/14/2017	
SUBJECT: Request for Approval of Updated Developer Fees					
PRIMARY CONTACT (NAME, PHONE): Ted Miyahara, 619-578-7550			SECONDARY CONTACT (NAME, PHONE): ,		
COMPLETE FOR ACCOUNTING PURPOSES					
FUND					
FUNCTIONAL AREA					
COST CENTER					
GENERAL LEDGER ACCT					
WBS OR INTERNAL ORDER					
CAPITAL PROJECT No.					
AMOUNT	0.00	0.00	0.00	0.00	0.00
FUND					
FUNCTIONAL AREA					
COST CENTER					
GENERAL LEDGER ACCT					
WBS OR INTERNAL ORDER					
CAPITAL PROJECT No.					
AMOUNT	0.00	0.00	0.00	0.00	0.00
COST SUMMARY (IF APPLICABLE): The proposed action may increase or decrease SDHC's gap financing depending on the individual structure of the multifamily loans and bonds issuances.					
ROUTING AND APPROVALS					
CONTRIBUTORS/REVIEWERS:		APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED	
Liaison Office		ORIG DEPT.	Davis, Jeff	03/14/2017	
		CFO			
		DEPUTY CHIEF	Graham, David	04/10/2017	
		COO			
		CITY ATTORNEY	Halsey, Keely	04/10/2017	
		COUNCIL PRESIDENTS OFFICE	Demorest, Erin	04/11/2017	
PREPARATION OF:	<input checked="" type="checkbox"/> RESOLUTIONS	<input type="checkbox"/> ORDINANCE(S)	<input type="checkbox"/> AGREEMENT(S)	<input type="checkbox"/> DEED(S)	
That the Housing Authority of the City of San Diego (Housing Authority) take the following actions:					
1. Approve using the California Tax Credit Allocation Committee (CTCAC) developer fee guidelines for the production / creation of new affordable housing, the conversion of market rate housing to affordable housing, and the preservation of "at-risk" housing; 2. Approve the draft Developer Fee Guidelines as described in this report for projects that are refinancing existing affordable housing and for projects that do not utilize tax credit financing; 3. Ratify using the CTCAC developer fee guidelines for 4 percent tax credit multifamily housing revenue					

bond issuances that do not include Housing Commission gap financing; and	
4. Authorize the Housing Commission President & Chief Executive Officer (President & CEO) or designee, to negotiate and recommend alternative Developer Fees, in his reasonable and sole discretion for developments that warrant larger fees (such as developments of more than 100 units; developments that involve the assembling of multiple sites; or highly complex and high risk developments); or developments that warrant smaller fees (refinance of an existing affordable development by the same owner). Such recommendations will be presented to the Housing Commission Board for their review and approval.	
STAFF RECOMMENDATIONS: Approved Requested Actions	
SPECIAL CONDITIONS (REFER TO A.R. 3.20 FOR INFORMATION ON COMPLETING THIS SECTION)	
COUNCIL DISTRICT(S):	Citywide
COMMUNITY AREA(S):	
ENVIRONMENTAL IMPACT:	This activity is not a project as defined by the California Environmental Quality Act Section 21065 and State CEQA Guidelines Section 15378(b)(5), as it is an administrative activity of government that will not result in direct or indirect physical changes in the environment. The determination that this activity is not subject to CEQA, pursuant to Section 15060(c)(3), is not appealable and a Notice of Right to Appeal the Environmental Determination (NORA) is not required. Processing under the National Environmental Policy Act is not required as no federal funds are involved in this action.
CITY CLERK INSTRUCTIONS:	Please docket item for the Regular Housing Authority meeting of April 25, 2017.

**HOUSING AUTHORITY ACTION  
EXECUTIVE SUMMARY SHEET  
CITY OF SAN DIEGO**

DATE: 3/14/2017

ORIGINATING DEPARTMENT: Housing Commission

SUBJECT: Request for Approval of Updated Developer Fees

COUNCIL DISTRICT(S): Citywide

CONTACT/PHONE NUMBER: Ted Miyahara/619-578-7550

**DESCRIPTIVE SUMMARY OF ITEM:**

Approval of updated Developer Fees for multifamily loans and bonds issuances.

**STAFF RECOMMENDATION:**

Approved Requested Actions

**EXECUTIVE SUMMARY OF ITEM BACKGROUND:**

The Housing Commission provides loans for development of affordable multifamily rental housing and the Housing Authority issues bonds for the development of affordable multifamily rental housing.

A Notice of Funding Availability (NOFA) is used to notify developers of available funding for loans, as well as terms and conditions for this funding, including allowable Developer Fees. Most of the developments applying for Housing Commission loan funds are also applying to CTCAC for either 4 percent or 9 percent tax credit financing.

“Developer fees” are upfront fees that are earned by developers of low-income affordable housing projects. These projects are financed in whole or in part with government funding programs or assistance, which were established to subsidize the rents of lower income households. As a result, these affordable housing projects do not generate sufficient operating revenue to compensate affordable housing developers and therefore require upfront developer fee payments. Conversely, market-rate developers are typically compensated from revenues generated through operations, which provide a rate of return on their capital investment. Developer fees are the counterpart of profit in market-rate projects.

The current allowable developer fee under the Housing Commission’s NOFA is \$1.4 million. Additional developer fee is allowed for tax credit projects for the purpose of generating additional tax credit equity, which reduces the need for Housing Commission loan funds. Additional developer fee is permitted and contingent upon: 1) the Developer contributing the additional developer fee back to the project as a source of permanent financing (equity), or; 2) receiving payment of additional developer fee out of the borrower’s share of residual cash flow.

The Housing Commission has allowed developers to use CTCAC guidelines for developer fees in the past, but limited the developer fee to \$1.4 million since 2012.

In 2015, Housing Commission staff engaged Keyser Marston and Associates to work on potential changes to developer fees, factoring in Housing Commission policy objectives. In the fall of 2015, CTCAC proposed amending their developer fee guidelines, and Housing

Commission staff tabled their review until after the CTCAC process was completed. CTCAC conducted extensive stakeholder meetings throughout California and solicited public comment. Changes were made to developer fee under the 4 percent and 9 percent low-income housing tax credit programs. Please refer to staff report for further information.

CITY STRATEGIC PLAN GOAL(S)/OBJECTIVE(S): N/A

**FISCAL CONSIDERATIONS:**

The proposed action may increase or decrease SDHC's gap financing depending on the individual structure of the multifamily loans and bonds issuances.

EQUAL OPPORTUNITY CONTRACTING INFORMATION (IF APPLICABLE): N/A

PREVIOUS COUNCIL and/or COMMITTEE ACTION (describe any changes made to the item from what was presented at committee): N/A

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: N/A

**KEY STAKEHOLDERS AND PROJECTED IMPACTS:**

Key stakeholders include numerous San Diego Developers, including Affirmed Housing, AMCAL Housing, Bridge Housing, Chelsea Investment Corporation, Community Housing Works, Hitzke Development, National CORE, Retirement Housing Foundation, Townspeople, Trestle Housing, and Wakeland Housing and Community Development. Civic San Diego will also be impacted on any future joint-funded projects.

Davis, Jeff

Originating Department

Graham, David

Deputy Chief/Chief Operating Officer