

# Office of Housing

## Developer Fee Schedule

Draft for Public Comment

Effective Date: **TBD**

### Introduction

This Office of Housing (OH) Developer Fee Schedule applies to all multifamily rental housing projects seeking City funding, including recapitalization projects with existing OH loans, for which OH loan documents are executed after the effective date of this document. For projects seeking supplemental funding and not performing substantial rehabilitation, please see the Administrative and Financial Plan for allowable fees.

#### A. Principles

1. The use of the fee should not be controlled or prescribed by the City.
2. This fee framework relates to the net fee (the amount of cash the developer can keep, also known as the "Cash Fee"). It does not restrict additional developer fees where the surplus supports eligible project costs in the form of equity contributions or loaned to the project as deferred fee.
3. Supportive housing projects provide housing and services for seniors, individuals and/or families experiencing homelessness, restricting approximately 50% or more of the total units serving households with incomes below 30% of the area median income for the purposes described above, may not generate sufficient revenues to support the ongoing cost of operations and debt service. Therefore, supportive housing projects will be allowed a higher Cash Fee to balance the limited opportunity to generate additional fees from project operations. The fee framework is limited to the residential portion of any project, as determined by OH, and does not restrict the cash fee derived from the development of non-residential spaces financed separately from the residential spaces.
4. The fee framework covers the activities described on the attached exhibit labeled "Activities Compensated by Fee."
5. The fee framework will apply to all project applicants using permanent City development funding.
6. The fee framework recognizes that projects differ in terms of scale, scope and/or financial risk and has modified the cash fee policy accordingly.
7. The developer will establish the actual fee within the fee framework based on the financial feasibility and affordability of an individual project.

8. The fee is intended to be the sole compensation for all direct staff costs, overhead and administrative costs associated with the development of a particular housing project.

**B. Calculation of Cash Fee**

Total Project Cost (“TPC”) is defined as the total cost incurred in acquiring and constructing the project as set forth in the Closing Budget, or in an independent CPA’s report of sources and used of funds provided to OH. For purposes of calculating the maximum Cash Fee, OH defines the Total Residential Development Cost (“TRDC”) as the Total Project Cost less:

- costs related to developing non-residential spaces
- capitalized reserves
- soft cost contingencies
- the requested developer fee amount (for this purpose, TRDC includes all consultant fees (other than arm’s length: architectural, engineering, appraisal, market study and syndication costs) and all other fees paid in connection with the project for services that would ordinarily be performed by a developer, as determined by OH

\* Acquisition/rehab projects by an existing owner or affiliated general partner requiring additional or new City funds, shall additionally remove land acquisition costs as part of the TRDC calculation.

CALCULATION

1. The maximum Cash Fee for supportive housing projects shall be calculated at 8% of TRDC.
2. The Cash Fee for all other projects is calculated as described in the table below and further limited by the Cash Fee Framework

<u>Portion of TRDC</u>	<u>Maximum Fee</u>
Amount under \$5 million	12.0%
Amount between \$5 million and \$15 million	7.5%
Amount between \$15 million and \$27 million	5.0%
Amount over \$27 million	2.5%

## Cash Fee Framework

<b>Project Type</b>	<b>Supportive Housing – Cash Fee</b>	<b>Non-Supportive Housing – Cash Fee</b>
New Construction	Supportive Housing Cash Fee Calculation	The lesser of the maximum Cash Fee calculation or \$2,500,000 + \$7,500 per unit over 100 units
New Acquisition and Substantial Rehab (Per unit hard rehab cost >= \$75,000)	Supportive Housing Cash Fee Calculation	The lesser of the maximum Cash Fee calculation or \$2,500,000 + \$7,500 per unit over 100 units
New Acquisition with little or no rehabilitation	Flat fee of \$500,000	Flat fee of \$500,000
Acquisition/Rehab by existing or affiliated Owner with Substantial Rehab (Per unit hard rehab cost >= \$75,000) *	Supportive Housing Cash Fee Calculation	The lesser of the maximum Cash Fee calculation or \$2,500,000 (Base) + \$7,500 per unit over 100 units

### **C. Incentive Cash Fees**

Incentive Cash Fees are fees earned in addition to those outlined in the Fee Framework above.

#### Incentive Fee

The Incentive Fee shall be available only to new construction or substantial rehabilitation project, as defined by OH, whose TRDC minus the cost of land and capitalized reserves is at five percent (5%) below the applicable Washington State Housing Finance Commission (WSHFC) cost limits. TRDC shall be based on an independent CPA's report of source and uses of funds provided to OH (Cost Certification). If a project is 5% below TRDC, the developer shall be allowed to take an additional fee equal to the percent (10%) of their Cash Fee. If a project's TRDC is 10% below the WSHFC limits, the developer shall be allowed to take an additional fee equal to twenty percent (20%) of their Cash Fee. The Incentive Fee will be released after all requirements for final disbursement as set forth in the loan agreement are satisfied. If the final cost certification does not confirm the cost savings the Incentive Fee will not be released.

#### Joint Venture Incentive Fee

Projects whose ownership includes a joint venture where one member is a participant in the JumpStart Community Self-Determination Fund (CSDF), may be eligible for an additional incentive fee of up to \$500,000. Qualifying organizations will have

participated in and completed the JumpStart CSDF Capacity and Grant Program and have an agreed upon option to acquire the project as part of the joint venture agreement.

#### **D. Fee Payout Schedule**

Cash Fees shall be distributed according to the achievement of certain development milestones as established at the time of loan closing. The Office of Housing allows no more than 50% of the total approved Cash Fee to be distributed at the time of closing to cover predevelopment activities. The developer acknowledges the remaining Cash Fee is “at-risk” in the event of cost overruns during construction, lease-up and/or project close-out. In the event of cost overruns requiring in an additional capital ask, OH staff will work with the developer on a case-by-case basis to determine the proportion of the cash fee at risk costs, while reasonably preserving the balance of the cash fee.

\*Joint Venture’s utilizing the Joint Venture Incentive Fee must split the initial Cash Fee payment *at closing* 50%-50% or some other split approved by OH. This helps ensure the CSDF participant has access to fees to support their ongoing participation in the project and capacity building efforts.

#### **E. Activities Covered by Developer Fee**

The activities described in Attachment A ("Activities Compensated by Cash Fee") are intended to be compensated by the Cash Fee, whether or not the project applicant uses its in- house staff to perform them. No additional fee will be paid to cover the cost of hiring outside consultants or experts to perform the activities, except for certain relocation activities. For projects that include relocation, the developer will have overall responsibility as indicated. Costs for a consultant with appropriate experience to conduct tenant interviews and assist with relocation activities together with actual moving expenses should be budgeted separately. Finally, no reimbursables are allowed; the Developer Fee is intended to cover all expenses related to activities on Attachment A. Reimbursables paid to a consultant to perform the activities on Attachment A will be counted toward the Cash Fee limit.

## **Developer Fee Schedule**

### **Activities compensated by fee**

#### Preconstruction

1. Initial feasibility: Determine potential funding sources, prepare preliminary development budget, prepare preliminary operating budget site search: Identify and evaluate properties (title, occupancy, insurance, zoning, etc.), confirm compliance with CHAS policies, follow City siting procedures, determine possible ownership structures.
2. Predevelopment financing: Identify sources and prepare applications, negotiate loan terms and conditions, revise project budgets as necessary, predevelopment loan closing, establish procedure for and execute disbursements, submit reports as required.
3. Site control: Complete title research, neighborhood notification per OH policy, prepare purchase and sale agreement for legal review; modify as necessary, negotiate terms with seller, sign site control documents.
4. Development team: Select and negotiate contracts with: architect/engineer, legal counsel, developer, hazmat inspectors, soils analyst, management agent, other development team members, coordinate team meetings, coordinate and track team activities, prepare necessary reports and information.
5. Final feasibility: Review and revise design development, review and revise design development, review and revise project budgets, finalize selection of all funding sources, determine allocation of costs among funding sources, finalize ownership structure of project, complete due diligence, including: extent and cost of hazmat abatement; DCLU issues: title, zoning, and legal issues, development management plan, including: management and marketing staff plan, resident composition and housing needs, schedule of activities through rent-up.
6. Relocation activities: Determine relevant relocation policies, determine extent of relocation and/or displacement, prepare relocation plan, budget, and schedule.
7. Completion of financing: Review financing package with City, finalize and submit all funding proposals, obtain funding commitments, review and evaluate loan documents, negotiate loan terms, prepare disbursement schedule and procedures, sign documents at loan closing(s).
8. Property acquisition: Complete negotiations with seller, satisfy contingencies in purchase and sale agreement, arrange for closing extensions if necessary, assemble and review necessary materials and documentation, select escrow agent and review escrow agreements, close on property, implement marketing plan.
9. Occupancy: Implement tenant screening and selection process, monitor rent-up process, establish any necessary bank accounts.
10. Close-out: Submit final draw request, cost certification and certify relocation activity.

## Construction

1. Working drawings and specifications: Review design issues with architect; determine alternatives; arrange budget modifications with funding sources.
2. Permits and approvals: Complete applications for all permits, attend pre-design conference with City planning department (DPD), negotiate code issues with DBP, obtain approvals from design commission, obtain approvals from Fire department, coordinate MUP process.
3. Contractor selection: Manage bidding process; arrange inspections of property, negotiate and sign contract.
4. Construction start-up: Establish plans for quality assurance of construction progress, wage reporting, WMBE reporting, subcontractor utilization, and reviewing change orders; Participate in pre-construction conferences.
5. Hazmat abatement: Select consultants for asbestos, lead paint, etc., coordinate preparation of specifications and bid documents; conduct bidding process for contractors, prepare and sign abatement contracts, monitor abatement process through completion.
6. Construction: Attend weekly construction meetings, monitor construction progress, including regular site visits; review change orders and monitor funding, review draw requests and submit to lenders, monitor draw payments to contractor, coordinate relocation activities; ensure compliance with Section 3, WMBE, and wage rate requirements; oversee project close-out, including final inspections, reports and documents, punch list review, obtain certificate of occupancy, sign final loan closings and review repayment schedule and procedures.
7. Occupancy: Follow-up on warranty or call-back items.
8. Close-out: Complete WMBE, wage requirements, and contractor retainage issues.

## Administrative Costs

All administrative costs, reimburseables or other expenses associated with the activities above are covered by the Cash Fee and cannot be billed separately. These include but are not limited to the following: checking account fees, copying charges, mailing costs, FedEx or UPS fees or courier fees, parking or mileage fees, food or other refreshments.