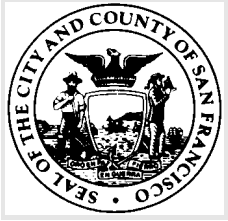


Mayor's Office of Housing and Community Development
City and County of San Francisco



London N. Breed
Mayor

Daniel Adams
Director

Memo

Date: November 15, 2024
To: Citywide Affordable Housing Loan Committee
From: Jackie Tsou, Director of Asset Management; Mara Blitzer, Director of Special Projects
Re: Operating Fees Policy Update

A. Background – Operating Fees Policy Update

The Multifamily Affordable Housing Operating Fees Policy (“Operating Fees Policy” or “OFP”) was last updated in April 2016, making it one of the longest standing policies under our Underwriting Guidelines.

Operating affordable housing has become increasingly complex as projects often serve a range of tenants and have requirements from various capital lenders and operating funding programs. The OFP reflects the City’s efforts to maintain policies that address the current challenges associated with managing affordable housing assets in San Francisco and keep in line with industry standards. The proposed OFP also incorporates feedback received from our affordable housing providers and other stakeholders. This policy replaces all previously published Asset Management Fee policies, including the April 1, 2016 Operating Fees Policy.

B. This Request

This request is to enact the Operating Fees Policy Update (effective the date of the Loan Committee meeting) to:

1. Update the fee amounts and annual escalation (generally 3.5%) for the following fees:
 - Property Management Fee
 - Project Sponsor Asset Management Fee (AMF)
 - General Partner Partnership Management Fee (GP-PMF)
 - Limited Partner Investor Asset Management Fee (LP-AMF, increased to \$7,500 for 2024 and called out separately for the first time)

2. Allow a \$3/unit/month property management fee add-on for LOSP, SoS, and CoC units

Property management fees are based on HUD's published schedule, which provides for add-on fees when projects have long-term characteristics or conditions that require additional management effort, eg administering Section 8 subsidies. This proposed add-on acknowledges that certain locally administered programs also require additional management effort.

3. Separate out AMF and GP-PMF fee charts, for ease of confirming maximum amounts for each of the fees.
4. Allow for accrued and unpaid AMF, GP-PMF, and LP-AMF to be taken during the tax credit compliance period with limits.

Allowing projects to take accrued and unpaid fees aligns better with current HCD policy.

5. Clarify the descriptions used in this policy to improve communications between MOHCD and Sponsors.

C. Staff Recommendation

These proposed updates to the OFP would allow project income to better pay for the cost of managing properties with more complex regulatory requirements. MOHCD Staff recommends Loan Committee approval of the Operating Fees Policy as proposed in Attachment A.

D. Loan Committee Modifications

Mayor’s Office of Housing and Community Development Multifamily Affordable Housing Operating Fees Policy Effective November 15, 2024

INTRODUCTION

This Mayor’s Office of Housing and Community Development’s (“MOHCD”) Multifamily Affordable Housing Operating Fees Policy (“Operating Fees Policy”) sets forth the maximum fees related to the operations of an affordable housing project funded by the City and County of San Francisco (the “City”). In addition, this Operating Fees Policy reflects the City’s efforts to address the current challenges associated with managing affordable housing assets in San Francisco and keep in line with industry standards for certain operating costs. This Operating Fees Policy replaces all previous MOHCD fee policies relating to property management, asset management, and partnership management, including the Operating Fees Policy dated April 1, 2016.

The operating fees addressed in this Operating Fees Policy consist of the following:

- Property Management Fee
- Project Sponsor Asset Management Fee
- General Partner Partnership Management Fee
- Limited Partner Investor Asset Management Fee

I. MAXIMUM FEES

a. Property Management Fee

Fee Type	Property Management Fee (PMF)
Annual Maximum for Tax Credit Period	HUD’s most current published schedule, at the time of underwriting
Annual Maximum for non-Tax Credit Project	HUD’s most current published schedule, at the time of underwriting
Maximum Annual Escalation	3.5%
Notes	<p>Payable from project income as a project expense (“above the line”).</p> <p>Basic rate plus any applicable add-ons. Please see the most current management fee schedule published by HUD (https://www.hud.gov/states/shared/working/west/mf/feesch).</p> <p>Additionally, subsidies not included in the HUD schedule, including LOSP, SOS, and CoC units, are permitted a \$3/unit/month add-on. The add-on amount is applicable to the entire building, regardless of how many units are subject to the subsidy program. For any unit where more than one subsidy type is applicable, the maximum add-on is \$3/unit/month.</p>

b. Asset Management Fee

Fee Type	Asset Management Fee (AMF)
Annual Maximum for Tax Credit Period	See Maximum AMF Chart below.
Annual Maximum for non-Tax Credit Project	See Maximum AMF Chart below.
Maximum Annual Escalation	3.5%
Source of Payment	AMF in a current year is payable from project income as a project expense (“above the line”) Accrued and unpaid AMF from prior years is payable from project income after all other project expenses (“below the line”), but before determination of residual receipts (see Residual Receipts Policy).
Duration	AMF may be paid for the life of the Project
Accrual	If the allowable AMF for a given year is not paid in full, the amount not paid may be accrued. Accrued and unpaid AMF from prior years may be taken up to the amount allowed for the current year AMF. For example, if the current year AMF limit is \$25,130, and a project has \$30,000 accrued and unpaid AMF, then the borrower may receive \$25,130 of AMF for the current year and another \$25,130 of accrued AMF for the prior years (\$4,870 of AMF would remain accrued and unpaid until a future year), for a total of \$50,260 in the year. Borrower is responsible for tracking accrued AMF and must present accrued AMF in audited financials. MOHCD will rely on audited financials to confirm the amounts accrued and unpaid.

Maximum Project Sponsor Asset Management Fee (“Maximum AMF”)

	2024	2025	2026	2027	2028	2029	2030
Current Year AMF	25,130	26,010	26,920	27,860	28,840	29,850	30,890
Accrued AMF from Prior Years	25,130	26,010	26,920	27,860	28,840	29,850	30,890
Total Maximum AMF	50,260	52,020	53,840	55,720	57,680	59,700	61,780

c. General Partner Partnership Management Fee

Fee Type	General Partner Partnership Management Fee (GP-PMF):
Annual Maximum for Tax Credit Period	See Maximum PMF Chart and Notes below.
Annual Maximum for non-Tax Credit Project	\$0 (Not allowed)
Maximum Annual Escalation	3.5%
Source of Payment	GP-PMF (including any accrued and unpaid PMF) is payable from project income after all project expenses (“below the line”), but before determination of residual receipts (see Residual Receipts Policy).
Duration	GP-PMF is only payable until the expiration of the tax credit compliance period. Unpaid and accrued GP-PMF is payable during and after the tax credit compliance period until all unpaid and accrued GP-PMF has been paid.
Accrual	If the allowable GP-PMF for a given year is not paid in full, the amount not paid may be accrued. Accrued and unpaid GP-PMF from prior years may be taken up to the maximum amount allowed for the current year GP-PMF. For example, if the current year GP-PMF limit is \$25,130, and a project has \$30,000 accrued and unpaid GP-PMF, then the borrower may receive \$25,130 of GP-PMF for the current year and another \$25,130 of accrued GP-PMF for the prior years (\$4,870 of GP-PMF would remain accrued and unpaid until a future year), for a total of \$50,260 in the year. Accrued PMF from prior years would be payable “below the line,” after calculation of surplus cash and before calculation of residual receipts. Borrower is responsible for tracking accrued GP-PMF and must present accrued GP-PMF in audited financials. MOHCD will rely on audited financials to confirm the amounts accrued and unpaid.
Notes	For tax credit projects only

Maximum General Partner Partnership Management Fee (“Maximum GP-PMF”)

	2024	2025	2026	2027	2028	2029	2030
Current Year GP-PMF	25,130	26,010	26,920	27,860	28,840	29,850	30,890
Accrued GP-PMF from Prior Years	25,130	26,010	26,920	27,860	28,840	29,850	30,890
Total Maximum GP-PMF	50,260	52,020	53,840	55,720	57,680	59,700	61,780

d. Limited Partner Investor Asset Management Fee

Fee Type	Limited Partner (Investor) Asset Management Fee (LP-AMF)
Annual Maximum for Tax Credit Period	\$7,500 Not allowed after tax credit compliance period
Annual Maximum for non-Tax Credit Project	\$0 (Not allowed)
Maximum Annual Escalation	3.5%
Source of Payment	LP-PMF (including any accrued and unpaid LP-PMF) is payable from project income after all project expenses (“below the line”), but before determination of residual receipts (see Residual Receipts Policy).
Duration	LP-PMF (and any accrued and unpaid LP-PMF) is only payable until the earlier of: (1) expiration of the tax credit compliance period or (2) the exit of the limited partner investor.
Accrual	<p>If the allowable LP-AMF for a given year is not paid in full, the amount not paid can be accrued during the tax credit compliance period.</p> <p>Accrued and unpaid LP AMF from prior years’ may be taken up to the amount allowed for the current year LP AMF as long as the Limited Partner (Investor) remains in the ownership structure. For example, if the current year LP-AMF limit is \$7,500, and a project has \$10,000 accrued and unpaid LP-AMF, then the borrower may receive \$7,500 of GP-PMF for the current year and another \$7,500 of accrued LP-AMF for the prior years (\$2,500 of LP-AMF would remain accrued and unpaid until a future year), for a total of \$15,000 in the year. Any accrued LP-AMF shall be taken after accrued AMF or accrued GP-PMF.</p> <p>Borrower is responsible for tracking accrued LP-AMF and must present accrued LP-AMF in audited financials. MOHCD will rely on audited financials to confirm the amounts accrued and unpaid.</p>
Notes	For tax credit projects only

Maximum Limited Partner Investor Asset Management Fee (“Maximum LP AMF”)

	2024	2025	2026	2027	2028	2029	2030
Current Year	7,500	7,760	8,030	8,310	8,600	8,900	9,210
Accrued LP AMF from Prior Years	7,500	7,760	8,030	8,310	8,600	8,900	9,210
Total Maximum LP AMF	15,000	15,520	16,060	16,620	17,200	17,800	18,420

II. MAXIMUM ANNUAL ESCALATION RATE FOR ANNUAL ASSET MANAGEMENT FEE, PARTNERSHIP MANAGEMENT FEE & LIMITED PARTNER ASSET MANAGEMENT FEE

The above charts show the maximum fee amounts through 2030. During years for which maximum fee amounts are not yet published in this Policy, allowable annual escalation is described below.

A. Projects with Approved Annual Escalation in Operating Budget

Projects may increase the amount of the AMF, GP-PMF, and LP-PMF by the same rate of increase used for other project expenses in the MOHCD 20-year Operating Budget Proforma approved during City underwriting, or any subsequent proforma approved by the City.

B. Projects without Approved Annual Escalation in Operating Budget

If the project's 20-year Operating Budget Proforma is silent with regard to the Project Sponsor Asset Management Fee or Partnership Management Fee, and any of these fees are subsequently approved in writing by MOHCD, then the default annual increase is 3.5% per year, effective January 1st of each year, unless the City chooses by November 1 of the prior year to forego or postpone the increase.

III. APPROVAL PROCESS FOR PROJECTS NOT CURRENTLY SUBJECT TO THE OPERATING FEES POLICY

Projects with existing City loan agreements that are not currently subject to the Operating Fees Policy may be eligible for the Policy. The approval process for projects not currently subject to the policy is described below.

A. Projects with City Funding Agreements that Include Provisions for Allowable Operating Fees

As with all aspects related to the development and operation of a project, the ultimate source of guidance for how the project must be developed and operated is the loan agreement (including other documents related to that agreement, such as the Promissory Note and Declaration of Restrictions). If a City loan agreement for a project includes any guidance related to allowable Operating Fees, the funding agreement must be followed unless an amendment is executed or MOHCD waiver is provided. Sponsors should be prepared to provide significant updates about project operations, including but not limited to:

- Updated 20-year Operating Budget Proforma
- Variance analysis/es
- Operating reserve analysis
- Replacement reserve analysis informed by a current capital needs assessment
- Descriptions of asset management structure and staffing and sources of income to cover asset management costs
- Asset Management Plans
- Analysis/es of obstacles to effective property management and/or asset management

B. Projects with City Funding Agreements that are Silent on Allowable Operating Fees

For projects for which the City's underlying funding agreements are silent about any operating fees, the project may take the any operating fee in accordance with this policy but only if all of the following conditions are met.

- The project is in full compliance with all of the City's funding agreements.

- Project funds can support the Operating Fees proposed to be taken, as evidenced by an updated 20-year MOHCD Operating Budget Proforma.
- The project submits a written request to the City, and the City approves the request in writing.

Other fees, such as fees proposed for compliance, reporting, and other asset management-related functions, must be paid out of the fees included within the Operating Fees Policy. No other fees will be allowed for project underwriting and during project operations. No amendment to the funding agreements is needed as long as the conditions above are satisfied.

Important note regarding possible conflicts with the funding agreements of other project funders:

The City recognizes that agreements with other project funders may not be consistent with those of the City, and encourages sponsors to assess agreements for inconsistencies. Under no circumstances should the existence of an agreement based on the policy of one funder be used by a project sponsor as a justification for failing to satisfy the requirements of the City or any other project funder(s).

IV. WAIVERS OF THE OPERATING FEES POLICY

The Citywide Affordable Housing Loan Committee may recommend a waiver or modification of any portion of this policy for the purpose of assuring project feasibility. All recommendations related to this policy are subject to the Mayor's approval in his or her sole discretion.

V. POLICY IMPLEMENTATION

This policy applies to any development that has not received its gap financing commitment, as evidenced by an approval for financing by the Citywide Affordable Housing Loan Committee, by the effective date of the policy.

LOAN COMMITTEE RECOMMENDATION

Approval indicates approval with modifications, when so determined by the Committee.

APPROVE DISAPPROVE. TAKE NO ACTION.

DocuSigned by:

Daniel Adams

Date: 11/15/2024 | 11:30 AM PST

Daniel Adams, Director
Mayor's Office of Housing and Community Development

APPROVE DISAPPROVE. TAKE NO ACTION.

DocuSigned by:

Marc Slutzkin

Date: 11/15/2024 | 12:47 PM PST

Marc Slutzkin for Thor Kaslofsky, Executive Director
Office of Community Investment and Infrastructure

APPROVE DISAPPROVE. TAKE NO ACTION.

DocuSigned by:

Salvador Menjivar

Date: 11/15/2024 | 11:32 AM PST

Salvador Menjivar, Housing Director
Department of Homeless and Supportive Housing

APPROVE DISAPPROVE. TAKE NO ACTION.

DocuSigned by:

Vishal Trivedi

Date: 11/15/2024 | 11:29 AM PST

Vishal Trivedi for Anna Van Degna, Director
Controller's Office of Public Finance

Attachments: Attachment A – Operating Fees Policy