



MAYOR'S OFFICE OF HOUSING
CITY AND COUNTY OF SAN FRANCISCO
ASSET MANAGEMENT FEE & PARTNERSHIP
MANAGEMENT FEE POLICY (8/27/2010)

2010 UPDATE

This update makes explicit the circumstances when projects are ineligible for General Partner Partnership Management Fees and Limited Partner Asset Management Fees.

2009 UPDATE

This update increases the maximum allowable fees by 3.5% for the year 2010 and also enables the maximum fees to increase by 3.5% per year, effective January 1, unless the City chooses by November 1 of the prior year to forego or postpone the increase.

2008 REVISION OF ASSET MANAGEMENT FEE POLICY

This revised Asset Management Fee Policy reflects the City's efforts to maintain policies that address the current challenges associated with managing affordable housing assets in San Francisco. To inform the revised policy, the City solicited input from developers and owners of affordable housing and analyzed current costs of performing adequate asset management. Highlights of the revised policy include: an increase in the allowable Asset Management Fee; allowing Asset Management Fees to be taken "above the line" in some circumstances (see pages 3-4); and simplified administrative guidelines.

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MAXIMUM AMOUNT OF ASSET MANAGEMENT FEE ("MAXIMUM AMF"):

2009	2010	2011	2012	2013	2014	2015	2016
\$15,000	\$15,520	\$16,060	\$16,620	\$17,200	\$17,800	\$18,420	\$19,060

The table above reflects the maximum amount of the Asset Management Fee that can be taken in a project's first year of operations following development work funded by the City. This maximum applies regardless of whether tax credits or bond financing have been supplied to the project. This maximum amount may be allowed to increase annually for each project – see "Default Annual Escalation Rate" below.

The annual increase to the Maximum Asset Management Fee will become effective Jan 1st of each year unless the City acts affirmatively by November 1st of the prior year to forego or postpone the increase. An updated version of this policy document will be posted if the City chooses to exercise this option.

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MAXIMUM AMOUNT OF TOTAL OF ASSET MANAGEMENT FEE & PARTNERSHIP MANAGEMENT FEE ("MAXIMUM AMF & PMF"):

2009	2010	2011	2012	2013	2014	2015	2016
\$30,000	\$31,050	\$32,140	\$33,260	\$34,420	\$35,620	\$36,870	\$38,160



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For projects that are eligible for both a partnership management fee and an Asset Management Fee, the combined total for these fees shall not exceed the amounts listed in the table above. This maximum amount may be allowed to increase annually for each project – see “Default Annual Escalation Rate” below.

The annual increase to the Maximum Asset Management Fee & Partnership Management Fee will become effective Jan 1st of each year unless the City acts affirmatively by November 1st of the prior year to forego or postpone the increase. An updated version of this policy document will be posted if the City chooses to exercise this option.

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FOR TAX CREDIT-FUNDED PROJECTS:

Subject to the terms of the project’s limited partnership agreement and the Maximum AMF & PMF limits described above, tax credit-funded developments may allocate their total AMF/PMF as follows:

- 1) Managing General Partner Partnership Management Fee: payable “below the line” during the initial tax credit compliance period only (i.e., not including any extended use compliance period).
- 2) Limited Partner Asset Management Fee: payable “below the line” until the expiration of the tax credit compliance period or the exit of the limited partner investor, whichever shall occur first.
- 3) Project Sponsor Asset Management Fee: payable “above the line” for the duration of the project, capped subject to the Maximum AMF & PMF limits during the tax credit compliance period and subject to the Maximum AMF limits following the termination of the tax credit compliance period.

FOR NON-TAX CREDIT PROJECTS

Project sponsors may take Maximum AMF “above the line”, as an operating expense, for the duration of the project.

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**DEFAULT ANNUAL ESCALATION RATE FOR ANNUAL ASSET
MANAGEMENT FEE & PARTNERSHIP MANAGEMENT FEE**

Projects may increase the amount of the Asset Management Fee by the same rate of increase used for other project expenses in the 20-year operating pro forma approved during City underwriting, or any subsequent proforma approved by the City. If justified



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by project sponsors and approved during underwriting, projects may use a different escalation rate for the Asset Management Fee and other expenses.

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POLICY GOAL

The revised policy is not intended to result in a decrease in Asset Management Fees. Any reduction in Asset Management Fees should come only as a result of a thorough project-specific analysis.

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EFFECTIVE DATE & APPLICABILITY

This policy applies to any project that has not received its gap financing commitment from the City by the effective date of this policy.

Projects Without Executed City Funding Agreements

For projects that are currently under development but have not yet executed gap funding agreements with the City, the sponsor may submit for approval a proposed revision of the underwriting and operational projections that incorporate the limits under this revised policy. Requests will be subject to approval by City underwriters. Changes to projects that have already received gap funding approval from the Citywide Loan Committee may require Loan Committee approval for the changes, depending on the impact that such changes may have on debt service schedules or other major financing structures.

Projects with Existing City Gap Funding Agreements

The applicability of this revised policy to existing projects will vary depending on whether the City's underlying loan/grant agreements include any guidelines about Asset Management and related fees. There are two relevant categories: 1) Projects for which the City's underlying funding agreements include provisions for allowable Asset Management Fees; 2) Projects for which the City's underlying funding agreements are silent on Asset Management Fees.

1. Projects for which the City's underlying funding agreements include provisions for allowable Asset Management 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 funding agreement (including the other documents related to the loan/grant agreement, such as the Promissory Note and Declaration of Restrictions). If a City funding agreement for a project includes any guidance related to asset management and related fees, the funding agreement must be followed unless an amendment is executed. The City will review requests for amendments, but project sponsors must recognize that the initial underwriting assumptions and current project circumstances may make it impossible to revise the guidelines in any significant way. Sponsors seeking



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amendments should be prepared to provide significant updates about project operations, including but not limited to:

- Updated 20-year proformas
- 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 asset management

2. Projects for which the City's underlying funding agreements are silent on allowable Asset Management Fees

For projects for which the City's underlying funding agreements are silent about asset management and related fees, the project may take Asset Management Fees and Partnership Management Fees in accordance with this revised 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 Asset Management Fee to be taken.
- The project submits a written request to the City to allow the Asset Management Fee to be taken, and the City approves the request in writing.

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 any other project funder(s).

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VARIATIONS FROM THE ASSET MANAGEMENT FEE POLICY

City underwriters have the authority to approve Asset Management and/or Partnership Management Fee(s) that vary from the revised policy; such variations must also be approved by City Asset Management staff, documented explicitly in the Evaluation of Request for Funding and approved by the Loan Committee so the operational teams from both the sponsor and the City can reference them in the future..

Approval of maximum fees above the limits established by the revised policy is highly unlikely; proposals to increase the maximum fee(s) will require submission of an extensive project-specific analysis to justify the added operational expense.



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Approval of maximum fees below the limits established by the revised policy is possible, particularly when any of the following factors are present.

- Project has a relatively small operational budget.
- Project has relatively fewer capital and/or operational funders, and therefore less compliance reporting.
- Building and/or the systems is/are new and/or in good working order
- Target population/s is expected to have minimal impact on the building & staff.
- Project sponsor has adequate existing Asset Management staffing & infrastructure.



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PREVIOUS POLICY

As described above, many funding agreements created prior to the implementation of the revised Asset Management Fee policy may include explicit guidelines regarding the acceptable practices related to a given project's allowable asset management and related fees. Because these agreements' guidelines are generally based upon the Previous Asset Management Fee policy, the previous policy is being kept available below for reference.

The Asset Management Fee policy will become effective for completed projects which are required to submit annual compliance monitoring reports for the 2001 reporting year and subsequent years. The City's review of annual CDBG Housing Program Administration grant requests for asset management expenses will take into consideration those amounts received from other sources which may be used for asset management, including any Asset Management Fees derived from projects as described below.

The Asset Management Fee can be taken in addition to whatever partnership management fee is allowed under the partnership agreement, if any.

The minimum amount that can be taken as an Asset Management Fee is \$3,000 per project per year; the maximum amount of the Asset Management Fee is the lesser of:

- \$15,000 per year per project; or,
- \$12 per residential unit per month (total units including assisted and non-assisted).

For underwriting purposes, the Asset Management Fee may increase three percent (3%) per year after the first complete year of operation.

In the first year, the first \$3,000 of the Asset Management Fee is to be considered an operating expense. After the first year, the amount to be considered an operating expense is the first \$3,000 plus whatever amount is derived from the 3% annual increase. This amount will be referred to as the "base Asset Management Fee. Amounts beyond the base Asset Management Fee may be taken only after payment of required reserves and debt service (if any), but prior to a ground lease fee (if any), partnership management fee (if any), non-amortizing loans (if any), and residual receipts (if any).

Should a project be eligible for both a partnership management fee and an Asset Management Fee, then the total for these fees shall not exceed \$25,000, unless the borrower provides a detailed breakdown for the line item uses for each of these fees, to be approved by the City, which clearly demonstrates that there is no duplicative funding of activities. If there is duplicative funding of activities such that a particular task or function could be paid through both a partnership management fee and an Asset Management Fee, then the Asset Management Fee shall be reduced by a commensurate amount to preclude duplicative funding of the same cost.



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As permitted by other sources of project financing, the Asset Management Fee may be taken provided that the borrower complies with each of the following conditions:

1. Sponsor must request the City approval of the Asset Management Fee in writing concurrently with or after the submission of that project's fully completed annual compliance report to the City, as applicable. Approval by the City shall not be unreasonably withheld. The request should include the following items:
 - A. A brief description of staff devoted to asset management. These staff must not be the property managers responsible for day-to-day operations. Adequate and non-duplicative oversight must be provided;
 - B. A description of all amounts and sources the project receives or may be allowed to receive for asset management activities (e.g. Community Development Block Grant Housing Program Administration, California Department of Housing and Community Development Asset Management Fee, HUD Asset Management Fee, etc.), if any;
 - C. If not submitted within the last 3 years, a comprehensive, 20-year capital needs assessment (aka replacement reserve study or long-term capital improvement plan). This assessment must have been completed, approved by the City, and be updated every three (3) years;
 - D. An analysis showing that reserves are fully funded in accordance with the most recent comprehensive capital needs assessment or the final budget approved by the City, whichever is more current;
2. The project must be in full compliance with all regulatory requirements;
3. There must be no significant outstanding monitoring findings; and,
4. Required reports and budgets must be consistently submitted to City on time. Property management fees for sponsors collecting both property management and Asset Management Fees should be within the normal range for comparable projects as determined by City.