

DEVELOPMENT COST LIMITS

The development costs, fees, and expenses contained herein are the **maximum amounts that may be included in total development cost** and, if applicable, the Tax Credit eligible basis of the development. These limitations will apply through cost certification. Applicants who are applying for additional Tax Credits in a subsequent year will be subject to the limitations in effect for the year in which the initial Application was approved. Only those expenses properly chargeable to a capital account may be included in the Tax Credit eligible basis of the property. Expenses and fees may be required to be documented. The Agency reserves the right to review all costs and to disallow any costs which appear to be unreasonable.

Construction Costs

Construction costs will be reviewed on both a per-unit and a per square foot basis. The Agency will determine the reasonableness of the construction costs based on type of rehabilitation or new construction proposed and the geographic area in which the development is located. Applications must also provide a breakdown of any off-site improvements, site work, demolition costs, tap-in or municipal fees and/or any single budget line that includes multiple costs that are part of the development budget. *Note:* Construction fees that were disallowed at any stage in processing because they exceeded the limitations set forth herein may not be reallocated at a future date to other construction line items.

General Requirements: General Requirements will be limited to 6% of construction costs. Fees for “Clerk of the Works”, Construction Managers and MBE/WBE/Section 3 Consultants will also be included in the 6% cap. Builder’s overhead, builder’s profit, bond premium, construction contingency and building permits are not included in this calculation. General Requirements of the general contractor include, but are not limited to: attendance at development meetings; submittal of construction schedules, shop drawings, and progress reports; supplying of temporary facilities, controls, and utilities; handling of material and equipment including transportation and storage of materials; and development close-out requirements including clean up, final inspection, and punch list.

Builder’s Overhead: Builder’s Overhead is defined as expenses necessary to the operation of a construction business and is limited to 2% of the construction costs, which includes General Requirements.

Builder’s Profit: Builder’s Profit is limited to 6% of the construction costs, which includes General Requirements.

Bond Premium: The contractor must procure a Performance Bond and a Payment Bond, each in the amount of 100% of the Construction Contract Sum, or an unconditional and irrevocable letter of credit in the amount of 25% of the contract sum.

Building Permits: If the Contractor is responsible for obtaining permits, the cost of all permitting shall be included in construction costs.

Construction Contingency: A construction contingency may be budgeted to pay for additional construction costs that may result from unforeseen circumstances arising during construction. For Agency loan applicants, the following contingency amount must be included in the development budget, 3% of improvement cost for new construction developments and 5% of improvement cost for rehabilitation and preservation developments. For all other applicants, a contingency is not required, but if included these percentages are the maximum amounts that will be approved in the budget.

For developments that consist of both new construction and substantial rehabilitation, the maximum contingency will be pro-rated.

Agency loan applicants: An unconditional and irrevocable letter of credit by a qualified financial institution may be used in lieu of cash for the construction contingency.

For Agency loan Applications - Retainage: Ten percent (10%) of each payment request for a construction item shall be retained by PHFA. The percentage retained may be reduced to five percent (5%) after construction has been fifty percent (50%) completed. Upon Substantial Completion, the percentage retained may be reduced to two and one-half percent (2.5%). In the event of multiple Certificates of Substantial Completion being issued for phased projects, reduction to two and one-half percent (2.5%) will be considered only after the final phase of the whole is accepted. The balance due to the contractor shall be payable at final loan closing provided the work is fully completed and contractor has complied with all provisions of the Agreement and Addendum to the Owner's and the Agency's satisfaction, including, but not limited to, submission and approval of the contractor's certificate of actual cost to the Agency and receipt of all certificates of occupancy for all units by Owner and PHFA.

Fees

Architect Fees: The maximum allowable architectural fees for both design and construction administration are computed as a percentage of the total construction cost, including contingency, as listed in the Development Budget in the Application. The exact amount of the allowable fee must be determined by interpolation based upon the following chart. Design fees must be charged at a maximum of 75% of the total fee. Full architectural, structural, mechanical and electrical drawings and specifications must be provided. Construction administration fees must be charged at a minimum of 25% of the total fee and shall include site visits at a minimum frequency of once every two weeks. For Applications with a separate Landscape Architect or other consultants, the combined fee is subject to the limitations set forth below. Architects reimbursable expenses may be charged for reproduction of drawings and specifications, distance traveled over 100 miles in a single trip and overnight lodging only. All fees that may be considered reimbursable must be included within the Architect's fee limits.

Total Construction Costs (Including Contingency)	Regular Developments	Complex Developments	Rehabilitation and Restoration Developments
\$100,000	9.50%	10.00%	10.50%
1,000,000	7.31%	7.53%	7.91%
3,000,000	6.57%	6.72%	7.01%
5,000,000	6.04%	6.19%	6.50%
7,000,000	5.50%	5.65%	5.93%
10,000,000	4.83%	4.98%	5.23%
15,000,000	4.63%	4.78%	5.02%
20,000,000	4.42%	4.59%	4.82%
25,000,000	4.27%	4.46%	4.68%
Over \$25,000,000	To be negotiated and approved by Agency staff		

Professional fees must be based on the construction cost budget established and submitted with the application. Adjustments may be made with subsequent changes in construction costs.

A "Regular Development" is defined as a townhouse, walk-up flat, and one-story type development.

A "Complex Development" is defined as a low-rise, mid-rise, or high-rise elevator building; a building with central heating and water heating systems; and/or a preservation development.

A "Rehabilitation and Restoration Development" is defined as a building that is being converted from another use into housing, or a major renovation/rehabilitation of a building currently used for housing.

The Agency reserves the right to adjust the Architect fees based upon the scope of work associated with the development and the services provided.

The Agency may consider increased fees for additional services including but not limited to energy conservation consultant's certification, LEED certification, historical reviews and approvals or other unusual conditions. A waiver request must be submitted with a detailed justification for the additional fees. (Include waiver request in Tab #29.)

Engineering Fees: Professional fees for civil engineering services, including Land Development Plan Approval where applicable, must be established by a separate prime contract between the Civil Engineer and the Owner. The Architect, Landscape Architect and Civil Engineer must fully and completely coordinate their design work and documents. During construction, the Civil Engineer must make site visits as needed and be present at each monthly Pay-Out meeting where payment for site work is requested. Civil Engineer professional fees must include fully executed Land Development Planning documents approved by the governing municipality and Construction Documents (drawings and specifications) in sufficient detail to construct the development in conformance with the approved Land Development Plan.

Civil engineering fees for new construction developments shall not exceed 20% of the total of Site work and Offsite Improvements costs listed on the Development Budget in the Multifamily Housing Application. Higher fees may be allowed by the Agency if a waiver request is submitted with a detailed justification for the increased fees. (Include waiver request in Tab #29.)

Appraisal: If the Application qualifies for Acquisition Tax Credits, a pro-rated portion (building value divided by the total land and building acquisition cost recognized by the Agency) of the total cost may be included in Acquisition Tax Credit basis. None of the cost should be allocated to Rehabilitation/New Construction Tax Credit basis.

Legal Fees: Following are the general guidelines to be applied by the Agency in review of legal fees for inclusion in the budget for developments seeking PennHOMES Program funding, Agency financing, or Tax Credits. Please note that these guidelines should be provided to all legal professionals engaged in the development process as soon as possible to minimize confusion about how the Agency will review fees during the underwriting and disbursement process.

All requests for payment of fees to developer's counsel shall be for work completed by counsel and accompanied by detailed and itemized statements on the letterhead of the firm. The total amount of developer's real estate counsel fees shall not exceed \$80,000. This fee is the maximum allowable and includes all fees, travel, expenses, incidentals, and other costs incurred by the firm or the counsel in connection with the work. The Agency may allow payment (and inclusion in Tax Credit eligible basis) of documented additional legal fees attributable to matters such as 1.) NIMBY litigation; 2.) document preparation and negotiation with the U.S. Department of Housing and Urban Development for preservation or Hope IV transactions; 3.) document preparation and loan negotiation for transactions involving more than three funding sources; or 4.) additional legal work deemed reasonable in the Agency's sole discretion. Such additional fees may not exceed \$20,000 per development. Syndication legal expenses and legal fees charged by the financial institution(s) providing financing to the development are in addition to the \$80,000 cap. (These fees are not generally included in Agency financing and must be paid from developer fee or equity.)

Fees are limited to invoices from only one member of a firm for internal meetings and conferences dealing with specific real estate matters. It is the Agency's policy to disallow amounts charged by the higher paid of the partners or associates for interoffice conferences.

Fees must be itemized specifically detailing property real estate work, acquisition legal expenses, obtaining financing and syndication costs.

For Agency loan applicants: The Agency shall review the itemized statements and authorize payment of counsel's fees only for property real estate work. Counsel seeking reimbursement for fees at the initial loan closing must submit statements for Agency review and approval at least five business days prior to closing. The developer must approve the statements prior to submission to the Agency.

The amount of fees budgeted for a development will determine the maximum allowable amount of fees available for payment from development funds. Therefore, if the amount budgeted for legal fees is less than the actual amount later incurred by the counsel, there will be no reimbursement for such overages by the Agency (unless the Agency has been advised of the change and the budget has been amended to reflect such change in advance of the development closing, Tax Credit reservation, or allocation).

As a reminder, legal fees and costs incurred in the preparation and review of any aspect of a Tax Credit Application will not be reimbursed or paid by the Agency as a mortgagable item. Additionally, no fees related to syndication, tax review for the partnership, or developer matters other than the acquisition of the real estate, property development, or loan closing will be allowable. These fees must be reimbursed and charged against the Developer's Fee.

Cost Certification/Accounting: Accounting costs for completing audits or cost certifications required by the Agency or another governmental entity providing funds to the development are permitted charges. Accounting fees are based on actual costs of the accounting firm. For budget purposes Accounting/Cost Certification fees may not exceed \$15,000.

Accounting charges relating to the syndication of the development, such as financial projections, annual partnership tax return fees, or preparation of financial statements, must be shown as a separate line item under Syndication Fees and Expenses. Fees paid to an accountant for housing consultant services are not considered to be accounting fees for syndication purposes and must be paid from the Developer's Fee.

If the Application qualifies for Acquisition Tax Credits, a portion of the cost must be allocated to Acquisition Tax Credit Basis. The percentage that is the estimated Acquisition Basis divided by the combined Acquisition and Rehabilitation Tax Credit basis must be charged to Acquisition Tax Credit basis. The remaining cost not reflected in acquisition basis may be allocated to Rehabilitation Tax Credit basis.

Historic Consultant: For developments utilizing historic rehabilitation tax credits, the Agency will allow a reasonable historic consultant fee in both total development cost and eligible basis. The historic consultant fee may not exceed the lesser of 0.75% of the eligible basis for the historic rehabilitation tax credit or \$30,000. A contract to provide historic consultant services must be submitted with the Application.

Housing Consultant/Organizational Expense: All consultant fees, other than the historic consultant as described above, and organizational costs are required to be paid from the Developer's Fee. A Minority Consultant, if required by the entity providing the financing, must be paid from General Requirements and will be limited to the 6% cap. These fees may not be listed as separate line items on the Application documents. Consultant fees include all fees paid for professional advice and services related to packaging an Application.

Miscellaneous Development Charges

Furnishings: Furniture and equipment will be limited in total development cost and eligible basis to \$1,000 per unit unless the development is comprised of single room occupancy units or for developments with 24 or less units. For developments with 24 or less units, SRO units, elderly 62+ developments, and other developments with significant community space, an amount greater than \$1,000 per unit may be permitted if an itemized breakdown of the costs which will be reviewed by the Agency to determine reasonableness is provided with the application. Invoices for furnishings may be required to be submitted at cost certification. Furnishings and equipment for commercial space must be covered outside of the Tax Credit budget, and will not be recognized in either the total development cost or the eligible basis of the Tax Credit development.

Rent-Up: For **new construction or unoccupied rehabilitation developments**, rent-up costs incurred should be limited to pre-operational expenses incurred during the 120 day period prior to initial occupancy and shall not exceed \$1200 per unit. Rent-up expenses should not be necessary for buildings with a history of sustained occupancy, unless permanent displacement is anticipated, and may not be recognized as a development cost. If including rent-up cost in the budget, an itemized, detailed breakdown must be included in the application.

Relocation: Must provide a detailed breakdown of the costs included in the Application.

Utility Tap in, Hook-up & Municipal Fees: An itemized breakdown of the utility tap in, hook-up, municipal fees, and any other fees included in this line item must be provided. Also include Building Permit fees if paid by the Owner.

Credit Report: Charges for a credit report will be limited to \$500.

Construction and Financing Charges

Construction Loan Interest: Construction period interest within the meaning of Section 263 A(f) of the Internal Revenue Code allocable to the construction or rehabilitation of a building is a qualifying cost. Verification of the interest expense from the financial institution providing the interim financing must be provided. For developments containing multiple buildings, only that interest incurred from the start of construction to the placed-in-service date of each building can be included in Tax Credit Basis. Upon construction completion, a schedule of construction loan interest that itemizes, by building, interest incurred from the initiation to the completion of construction must be provided. Interest incurred after the completion date may not be capitalized and is not includible in eligible basis.

The Agency reserves the right to determine whether or not a construction loan is actually an equity bridge loan, in full or in part, and may reclassify construction financing expenses to syndication expenses.

Financing Fees: Only those financing fees applicable to the construction financing of the development are includible in eligible basis. Verification of these costs from the financial institution providing the construction financing must be provided. A financing fee that encompasses both the construction and permanent financing must be pro-rated between the actual term of the construction period and the term of the permanent financing.

Taxes During Construction: Only those real estate taxes allocable to the construction period may be included in the eligible basis of the property. For occupied buildings, indicate what percent of this cost is classified as an operating cost and what percent is chargeable to a capital account.

Real estate taxes during construction will be determined in accordance with the current tax assessment and millages applicable from the "Notice to Proceed" to construction completion.

The latest tax bills available should be submitted with the Application to substantiate this amount.

Insurance: Only those insurance costs allocable to the construction period may be included in the eligible basis of the property. For occupied buildings, indicate what percent of this cost is classified as an operating cost and what percent is chargeable to a capital account.

The general contractor's builder's risk policy is part of the construction costs and must be included in the construction contract under either General Requirements or Builder's overhead.

Title & Recording: Acceptable costs are those costs related to obtaining title insurance in the amount of the mortgage(s), recording costs, and transfer taxes. Transfer taxes are limited to costs incurred at time of initial loan closing and must be documented. The Agency will only recognize one half of the transfer tax in the budget. The other half is the responsibility of the seller. The Agency will also recognize costs related to obtaining title insurance for other funding sources (i.e. FHLB, CDBG, HOME, etc.).

Costs related to obtaining title insurance for the equity investor or syndicator must be shown as syndication costs and may not be included in eligible basis.

If the application qualifies for Acquisition Tax Credits, a prorated portion (building value divided by the total land and building acquisition cost) of the total cost may be included in Acquisition Tax Credit basis.

Land and Building Purchase

The acquisition costs recognized by the Agency will be determined by the criteria outlined below.

In instances where the transfer of title (third party or related entity) occurs within a one-year period prior to closing, the recognized value of land will be the lower of the purchase price or the as-is appraised value. Under no circumstances will the Agency recognize more than the as-is appraised value.

If the site has been owned by a General Partner or a related entity for a period of more than one year, the as-is appraised value may be recognized provided the Sales Agreement with the limited partnership supports the as-is appraised value.

For related party transfers, if the transfer occurs within one year of the original purchase, the Agency will recognize only the price the developer paid for the land and building and the settlement costs as set forth on the settlement statement.

The Agency may also recognize costs to stabilize or improve the value of the property incurred from the time of the original purchase until the date of the Application. Documentation supporting these costs must be submitted with the Application. The Agency will review these costs for reasonableness and confirm that none of them are already included in the development budget. If the property is held for more than one year, the Agency may accept an as-is appraisal or update to determine the acquisition price. This appraisal is subject to Agency approval.

Property acquired through a public acquisition process, i.e., eminent domain, donor taker programs, urban redevelopment, etc., for a nominal consideration, is excluded from this section. If costs were incurred with the site acquisition that did not exceed the as-is appraised value, they may be recognized in total development costs.

All appraisals must be in compliance with the Agency's As-Is Appraisal Requirements. The appraisal must assign a separate value for both the land and the building. In its discretion, the Agency may commission an independent appraiser to perform an independent appraisal which the development may be responsible for reimbursement of any costs associated.

Transfer taxes are limited to costs incurred at the time of initial loan closing and must be documented. The Agency will only recognize one half of the transfer tax in the budget. The other half is the responsibility of the seller.

Tax Credit applicants requesting Acquisition Tax Credits: An “As-Is” appraisal is required for all Applications requesting Acquisition Tax Credits. All costs associated with the acquisition of the property and chargeable to a capital account may be included in the eligible basis for the Acquisition Tax Credit. The value attributable to the land must be deducted from the adjusted basis of the property prior to determining the eligible basis. All closing fees must be allocated between land and building based on the appraised values.

Broker Fees: Broker’s fees are required to be paid from the Developer’s Fee. This fee may not be listed as a separate line item.

Holding Costs: Certain costs of acquisition may be itemized separately from the actual land and building purchase on the development budget. These costs include, but are not limited to, utilities, real estate taxes, etc. These costs may include site improvements during the option period, finance and carrying costs, payment of lien from judgments, and other costs associated with owning the property. The applicant must provide documentation to support the expenditures, i.e., paid invoices, satisfied tax liens, etc. Holding costs and carrying charges incurred prior to the Application date will not be recognized as part of the total development costs of the development.

Other Acquisition Costs: Some other acquisition costs may be Tax Credit basis eligible. If the Application qualifies for Acquisition Tax Credits, a pro-rated portion (building value divided by the total land and building acquisition cost) of the total cost may be included in Acquisition Tax Credit basis. None of the costs should be allocated to Rehabilitation Tax Credit basis.

Development Reserves

For **all** of the Reserves outlined below, the limited partnership agreement must include a provision addressing the terms and conditions for disbursement from the reserve that specifically states that in the event the reserve is not used for its intended purpose, any funds remaining in the reserve from the initial amount included in the capital budget at the end of the compliance period or sale of the property, whichever is earlier, must be used to reduce any outstanding debt on the development, or if there is no outstanding debt, the funds must remain with the project to fund capital improvements. The Tax and Insurance escrows are excluded from this requirement as the amount included in the capital budget is only the amount necessary to fund the first year expenses.

For Agency loan applicants, the Development Contingency Fund must be funded at closing. All other reserves and escrows (operating, tax, insurance, supportive services, rental subsidy, etc.) must be funded two months prior to construction completion.

For Tax Credit-only applicants, all reserves and escrows **MUST** be funded prior to the submission of the cost certification package. Bank statements or other documentation will be required evidencing that the accounts have been established.

Operating Reserve: An operating reserve, funded either with cash or an irrevocable and unconditional letter of credit, may be recognized in total development costs. The minimum required reserve is an amount that is four months of projected operating expenses, reserve deposits, and amortizing debt service. The maximum reserve is nine months of projected operating expenses, reserve deposits, and amortizing debt service. The operating reserve may not be used to fund projected operating deficits. Furthermore, applications projecting operating losses will be deemed financially infeasible.

For Tax Credit Only applicants: For preservation or other applications which include buildings that have a history of sustaining occupancy, an operating reserve should not be necessary and may not be recognized as a development cost.

For Agency loan applicants: The Operating Reserve will be held by the Agency until actual construction completion, achievement of two years of positive cash flow and satisfactory management and maintenance of the property. If cash is provided, amounts remaining in the Operating Reserve will be applied to an outstanding Agency loan. In the event the Operating Reserve is funded by a letter of credit, only the letter of credit fee will be recognized in the replacement cost of the development.

If a development is also including a Transformation Reserve as defined below, the Operating Reserve maximum is limited to only six months of projected operating expenses, reserve deposits, and amortizing debt service.

Transformation Reserve: Included with the Application must be documentation from both the lender and investor verifying the necessity for this reserve, along with a detailed analysis of the method used to calculate it. The Agency will review the Application and documentation supporting this reserve to determine its reasonableness. For HOPE VI or other public housing authority subsidized developments, a transformation reserve not to exceed one year of the ACC subsidy may be recognized in total development costs. This reserve is in addition to a six month operating reserve maximum.

Rental Subsidy Fund: The Rental Subsidy Fund is a voluntary fund established to subsidize rent categories as delineated below for the first 15 years of the compliance period. The funds must be held in an escrow account by an independent third party. A Rental Subsidy Fund will be allowed if the applicant demonstrates a compelling need for the reserve based upon the targeted income level of the tenant to be residing in the unit and a projected operating budget that is within a reasonable per-unit range as determined by the Agency. If the amount of the Rental Subsidy has been trended at the current Agency underwriting requirement of 2%, the owner must demonstrate that the funds will be invested at a current market interest rate. **For a development with any amortizing debt in its financing plan, a rental subsidy amount may not be included in the rental income projections.**

A narrative must be included in Tab #2 that demonstrates the source of funding and how it will be used to reduce rents. In no event, however, will the Rental Subsidy be permitted on rents above the 50% median income level. Included in the application must be a letter from the anticipated escrow agent acknowledging its intent to act as disbursing agent and a copy of the draft escrow agreement outlining the proposed terms of disbursement.

The following are the categories for which a Rental Subsidy Fund will be permitted:

- Rental Subsidy for Accessible Units – In the event the Rental Subsidy is funding accessible units at 20% of area median income this subsidy is only permissible for households whose gross incomes do not exceed 50% of the area median income. The total number of subsidized units must also be tied to the corresponding number of accessible units. A preference for the 20% Rental Subsidy must be given to persons with disabilities.
- Rental Subsidy for 40% Units – In the event the Rental Subsidy is established to fund rents for residents at or below 40% of area median income, the subsidy is only permissible for households whose gross incomes do not exceed 40% of area median income.

Rents may not exceed 50% AMI rents when an internal Rental Subsidy is being utilized.

Development Contingency Fund (Agency loan applicants only): The Agency requires owners of developments with 12 or more units to provide, at initial loan closing, a development

contingency fund (“DCF”) consisting of an irrevocable and unconditional letter of credit or cash equal to 4% of total Agency financing. The DCF is provided to pre-fund construction change orders and to ensure timely performance of the loan conditions. The Agency may apply the DCF to provide capital for operating deficits and physical or maintenance deficiencies. At initial occupancy, it must be replenished to equal 4% of the Agency loan. The DCF will be held by the Agency and released two years after construction completion or the Agency’s final cost certification, whichever is later. If cash is provided, amounts remaining in the DCF will be applied to the outstanding Agency loan. If the DCF is in the form of a cash deposit, the amount included in the development budget must be funded by the reinvestment of Developer’s Fee, and the reinvestment of Developer’s Fee included as a source of funding in the budget. In the event the DCF is funded by a letter of credit, the fee will be recognized in the replacement cost but not for determining Tax Credit eligible basis of the development. (Note that if the source of the Agency loan is DCED non-HOME funds or PHFA Phase funds, a DCF is not required.)

Real Estate Taxes (first year escrow for Agency Loan Applications is required): This represents the estimate of first year taxes at full assessment after rehabilitation or construction. A detailed calculation of taxes, including a letter from the county tax assessor, should be submitted with the Application. Any applicable tax abatement information should be included with the Application. In addition, the Tax Escrow cannot be counted toward the minimum four month operating reserve. For preservation or other Applications which include buildings which have a history of sustaining occupancy, a real estate tax escrow should not be included in the development budget.

Insurance (first year escrow for Agency Loan Applications is required): The Agency will require an insurance quote with the original Application for all properties of 12 units or more. The quote must include the cost of hazard, general liability, and any other applicable premiums for the first year of operations. The Agency will also require the submission of an updated insurance quote prior to loan commitment. In addition, the Insurance Escrow cannot be counted toward the minimum four month operating reserve if utilizing Agency financing. For preservation or other Applications which include buildings which have a history of sustaining occupancy, an insurance escrow should not be included in the development budget.

The Agency reserves the right to request a quote for properties of eleven units or less if the reasonableness of the amount budgeted is in question.

Supportive Services Escrow: A supportive services reserve will only be recognized for those developments in which a third party is responsible for the disbursement of the funds. For proposals in which the nonprofit general partner is also the supportive services provider, the limited partner may be responsible for the disbursement of the funds. A draft supportive services escrow agreement which clearly delineates the procedure for disbursement must be provided with the Application. A letter of intent to enter into the escrow agreement must be executed by all partners. If the supportive services escrow has been budgeted to pay for services outlined in a supportive services plan submitted for consideration of points in application ranking, and that plan is not approved by the Agency, the supportive services escrow will not be included in total development cost.

Replacement Reserves: Please see Operating Budget instructions.

Developer’s Fee

The developer's fee, which is meant to compensate the developer for staff time, effort and work involved in the development of the property, includes developer's expenses, overhead, profit and consulting fees or other fees and costs that are above the maximums allowed by the Agency. Development consultant's fees and organizational costs are required to be paid

from the developer's fee. These fees may not be listed and shall not be recognized as separate line items on the Application.

The maximum "base" developer fee allowable (except as limited below) is calculated on the lesser of the development's replacement cost (less all costs of acquisition) or the Agency's maximum basis. For developments that have 25 or more units, the developer's fee is limited to 15 percent of the first \$10 million of replacement cost of the development less all costs of acquisition and 10 percent on every \$1 of replacement cost thereafter. For developments of 24 units or less, the developer's fee is limited to 20 percent of the replacement cost of the development less all costs of acquisition.

In determining the maximum base developer fee the following criteria must also be considered:

- The developer's fee to be earned on applications from existing Tax Credit properties with the same or a related party or affiliated entity as the general partner on the original application will be limited to 10 percent of replacement cost less all costs of acquisition.
- The developer's fee to be earned on applications from subsequent phases of a project previously awarded tax credits may be limited to 10 percent of replacement costs less all costs of acquisition.
- For rehabilitation and preservation developments that qualify for Acquisition Tax Credits, a developer's fee will be allowed on a portion of the acquisition cost that is basis eligible. The fee is limited to 10 percent of the purchase price of the property less the cost of the land. The maximum acquisition cost that will be recognized in determining the developer's fee will be the lesser of the actual amount paid for the building or the MAI appraised value. The Agency may limit the acquisition developer's fee to 5 percent if the seller and buyer are related parties.
- The Agency may impose a developer's fee cap of \$1,500,000 per development on the total developer's fee allowable for costs associated with both the rehabilitation and acquisition of the development.
- Additional developer's fee will not be available for applications requesting Additional Tax Credits

In addition to the maximum base developer fee, Applicants may request an additional 5 percent developer fee. The 5 percent is determined exclusive of acquisition costs. The Applicant must commit to provide to the development the entire amount of the equity raised for the additional developer's fee to fund an internal rent subsidy for all threshold required units set aside for persons at or below 20 percent of area median income for the initial 15 year compliance period and/or to subsidize rents to persons with income at or below 40 percent of the area median income for the initial 15 year compliance period; or to fund a supportive services escrow for the provision of social supportive services for the benefit of the residents (provided the plan for services is satisfactory to the Agency). Funds deposited in an internal rent subsidy will be limited to the difference between the 20 percent/40 percent rent and the rent at 50 percent of area median income, as applicable. The Agency reserves the right to determine the exact mechanism necessary and appropriate to ensure funding of the internal rent subsidy or supportive service escrow based on specific tax issues and ownership structure. For developments not receiving Agency financing, Agency staff will only approve an increased developer's fee if the applicant provides adequate assurances and documentation (including evidence of a third party escrow arrangement) that an amount of funds equal to the increased equity raised from the additional developer's fee is necessary to support financial operations and will be committed to the for at least the initial 15 year occupancy period.

Whenever an increased developer's fee is allowed, the partnership or operating agreement must provide that the approved developer's fee will, in fact, be paid to the developer from available funds (which may include development sources, operating revenue and additional capital contributions). Additionally, provision of funds for supportive services or to fund various internal rent subsidies will be incorporated in the Restrictive Covenant Agreement.

Syndication Fees and Expenses

Fees that are paid to a syndicator for costs related to the syndication of the Tax Credits should be included in this section of the budget. However, if the fees are consulting fees or fees paid for packaging the Application, they must be paid from the Developer's Fee and cannot be shown as separate costs in the development budget. Syndication costs are not includible in Tax Credit eligible basis except as noted below.

Organizational: Organizational costs are related to the formation of the ownership entity of the development and may include such costs as legal, filing, and registration fees.

Bridge Loan Interest: Developments requiring bridge loan financing to cover equity installments must supply verification of the anticipated interest amount from the financial institution providing the financing. Bridge loan interest, through the construction period only, may be included in Tax Credit eligible basis.

Bridge Loan Fees and Expenses: Verification of these costs from the financial institution providing the financing must be provided. If the bridge loan extends beyond the construction completion date the bridge loan expenses must be pro-rated as to what is basis eligible.