CONSENT

Agenda Item #5

April 30, 2025

Subject:	**Amending Round 8 Affordable Housing and Sustainable Communities (AHSC) Guidelines to align Developer Fee with other state programs**
Reporting Period:	N/A
Staff Lead:	Amar Cid, Deputy Director

Recommended Action

Amend the Round 8 AHSC Program Guidelines to align the developer fee limit with California Tax Credit Allocation Committee (CTCAC) Tax Credit Programs, Tax Credit Allocation Committee (TCAC) and California Debt Limit Allocation Committee (CDLAC).

Summary

The California Strategic Growth Council (SGC or The Council) ASHC Staff are seeking a Technical Amendment to Round 8 AHSC Program Guidelines to update Section 109. Legal Documents (b)(6) to allow for individual projects to align their Developer Fees with the requirements as outlined in the Notice of Funding Availability (NOFA).

Background

The Council adopted the Round 8 AHSC Program Guidelines on Dec. 13, 2023, with the Housing and Community Development releasing the NOFA on Jan. 19, 2024. At that time, the guidelines referred to the 2017 Uniform Multifamily Regulations (UMRs) concerning developer fee limits.

In April 2024, CTCAC increased developer fee limits to address rising industry costs. This change created misalignment with the AHSC and TCAC Funding Guidelines, potentially disadvantaging Round 8 projects that rely on TCAC and CDLAC funding.

Developer fees cover essential costs for affordable housing projects, including construction, legal fees, and administrative expenses. The Low-Income Housing Tax Credit Program (LIHTC) caps these fees at 15% of the eligible basis, with new limits established in April 2024 after a decade without changes. While the California Department of Housing & Community Development (HCD) limits cash-out developer fees, it does not restrict contributions to increase eligible basis. Developers need these fees to ensure successful project completion, noting that this is increasingly essential in a challenging economic climate marked by inflation and workforce shortages.

Developer fee alignment helps address challenges in sustaining operations and enables the continued expansion of affordable housing development. Local organizations have highlighted that inaction significantly impacts their ability to continue providing essential support services to residents. These fees bridge service gaps in reimbursement sources, which are compounded by lingering pandemic-related issues like unpaid rent and uncertain government resources.

Developer fees are crucial for maintaining operations, and changes in fee limits could mean the difference between staying open and closing down, particularly for smaller community-based developers. Aligning fees for projects currently in construction provides an opportunity to utilize recovered costs to expand their pipeline, which contributes to the production of more affordable housing sooner and mitigates rising construction risks, such as anticipated cost increases in supplies and labor in the current environment.

Recent adjustments in fee caps aim to support developers and enhance the effectiveness of statewide affordable housing programs without requesting new AHSC funding.

Scale of the Change

In Round 8, 24 projects were awarded. 7 of these projects have received awards from other HCD Programs or 9 percent tax credits, making them ineligible for an increase in the developer fee. The remaining 17 projects that were awarded in Round 8 may be eligible to increase their developer fee if they do not have other local sources that may otherwise make them ineligible.

AHSC provides funding for up to $35 million for Affordable Housing Developments (AHDs), and the remainder of the funds come from other sources, often including TCAC and CDLAC. In Round 8, the average Total Development Costs for awarded AHDs was $81 million. The average developer fee for the 24 awarded projects was $2.8 million per project. If the Council approves this change, that could increase total development costs to $4.7 million per project. If all 17 projects choose to exercise this option, the total amount of developer fees for Round 8 would increase from approximately $60 million to approximately $90 million.

While each project has not yet identified a source of funds for this increase, it is likely that one significant source would be project cash flow, once the project is built and occupied, or sources other than direct state funding. This change will *not* result in an increase in AHSC funds being used for developer fees and will *not* require any change in Round 8 awards or amounts.

Council Recommendation

Should the Council agree with Staff's recommendation, the following motion language is suggested:

"I move that the Council pass the consent calendar."

Attachments

Attachment A: Proposed language for the Round 8 AHSC Program Guideline amendments

Attachment B: AHSC Round 8 NOFA-Amendment 2025-04