

September 14, 2018

JD Bondurant  
Director, LIHTC Programs  
Virginia Housing Development Authority  
601 S. Belvidere Street  
Richmond, Virginia 23220

Re: Proposal to Recalculate Developer Fees

Dear Mr. Bondurant:

The Leadership Council of the Northern Virginia Affordable Housing Alliance and others signing below, are writing to follow up the NVAHA letter of August 30<sup>th</sup>. As we noted last month, the proposed new 2019 Developer Fee formula would cut fees in half for 9% NOVA projects, from a per unit average of \$28,635 to \$14,142. We believe that limiting Developer Fees uniformly across the state, as proposed, could dramatically reduce the production of new affordable housing in Northern Virginia.

First, we want to suggest that VHDA allow much more time to analyze the problem and evaluate possible solutions. We would like to work with you over the next year to craft an efficient and productive solution to be rolled out for the 2020 QAP. The timeline for the proposed 2019 change does not allow a robust discussion on the options and impacts. If we defer a decision until 2020, we could evaluate more variations in developer fees caps, including differential formulas for new construction versus acquisition/rehab, 4%/9% and cash/deferred portion, in addition to geography.

As we understand it, VHDA was most concerned about excessive fees for acquisition/rehab projects under the rule allowing a 20% developer fee for 4%, Earthcraft-certified projects. We endorse the new rule that, in no event, will fees exceed 15% of total development costs.

However, if VHDA is intent on moving ahead with changes to the Developer Fee formula in 2019, we suggest a new formula segregated by region, similar to the TDC caps.

A single statewide per unit cap does not address the dramatically different construction costs, financial exposure, complexity and execution risk inherent in a new construction, site plan project in NOVA as compared to a typical project in a lower cost area of the state. In most recent projects in NOVA, we are typically risking in excess of \$1 million before we know that we have locality zoning approval and a tax credit award. The current fee format, we feel, reasonably covers the risks we are taking.

VHDA distinguishes the Total Development Cost cap (in the 2018 QAP) where NOVA deals have been allowed a TDC cap equal to 181% (new construction) of projects in the remainder of the state. Outer NOVA deals have a cap equal to 134% of the rest of VA. VHDA should similarly set Developer Fees commensurate with the level of work performed and risk exposure in these expensive and difficult to develop areas of northern Virginia.

We propose the following schedule to address the differences in geography:

Per Unit Developer Fee	First 60	61 - 120	121 +
Inner NOVA	\$ 36,000	\$ 27,000	\$ 18,000
Outer NOVA	\$ 26,800	\$ 20,100	\$ 13,400
ROVA (same as proposed)	\$ 20,000	\$ 15,000	\$ 10,000

We think the scale should be the same for both 4% and 9% projects—that is, the highest fee allowed for 60 units, declining above 60 and again above 120. Both types of projects are challenging and the 9% project can bring more complexity and added execution risk related to the competition. Also, more “twin” projects are underway, which bring additional complexity to the developer.

As a side note, we suggest VHDA look at the distinction between the amount of cash fee placed and the amount deferred and paid over time from operations. Some states require a portion of the developer fee to be deferred. Deferred fees often serve as a last source of financing while ensuring that the General Partner shares in cashflow and is motivated to maintain strong operations.

Thank you, as always, for considering our input and working for the best outcomes for our residents and communities.

Sincerely,

AHC, Walter Webdale, President/CEO  
Alexandria Housing Development Corporation, Jon Frederick, Executive Director  
APAH, Nina Janopaul, President/CEO  
Conrad Egan  
Enterprise Community Partners, David Bowers, Leader Mid-Atlantic Region  
Fellowship Square, Christy Zeitz, Executive Director  
Good Works LP, G. Kimball Hart, President  
Habitat for Humanity Northern Virginia, Rev. Jon Smoot, Executive Director  
Northern Virginia Affordable Housing Alliance, Michelle Krockner, Executive Director  
The Michaels Organization, Nick Bracco, Sr Vice President  
Wesley Housing Development Corporation, Shelley Murphy, President/CEO