



**U.S. Department of Housing and Urban Development
Office of Public and Indian Housing**

Special Attention of:

NOTICE: PIH-2008 - PIH-2008-47 (HA)

Secretary's Representatives;
State and Area Coordinators;
Public Housing Directors;
Public Housing Agencies;

Issued: December 22, 2008

Expired: December 31, 2009

Cross References: PIH 2007-19 (HA)

Subject: Public Housing Development Cost Limits

1. Purpose

The purpose of this Notice is to:

- a. Explain procedures for establishing public housing development cost limits;
- b. Transmit the updated schedule of unit TDC limits for 2008.

2. Applicability

This Notice is applicable to the development and/or modernization of public housing and eligible home ownership under a HOPE VI Grant Agreement between HUD and a public housing agency (PHA) and/or under the Capital Fund Program through an Annual Contributions Contract (ACC). This Notice does not apply to Native American housing.

3. Background

- a. Statutory and Regulatory Requirement: Section 6(b) of the United States Housing Act of 1937 (Act) and the regulations found at 24 CFR 941.306 require the Department to establish TDC limits. The per unit construction cost guideline for a project is determined by averaging the current construction costs, as listed in not less than two nationally recognized residential construction cost indices, for publicly bid construction of a good and sound quality.
- b. Maximum Project Cost: The maximum project cost represents the total amount of public housing capital assistance used in connection with the development of a public housing project, and includes: (1) project costs that are subject to the TDC limit (i.e., Housing Construction Costs and Community

Renewal Costs); and (2) project costs that are not subject to the TDC limit (i.e., Additional Project Costs). The total project cost to be funded with public housing capital assistance, as set forth in the proposal and as approved by HUD, becomes the maximum project cost stated in the ACC. Upon completion of the project, the actual project cost is determined based upon the amount of public housing capital assistance expended for the project, and this amount becomes the maximum project cost for purposes of the ACC.

c. TDC Limit: Public housing capital assistance may not be used to pay for Housing Construction Costs and Community Renewal Costs in excess of the TDC limit and no exceptions to HCC limits will be granted within the TDC limit. However, HOPE VI grantees will be eligible to request a TDC exception for public housing and HOPE VI funds awarded in Fiscal Year 1996 and prior years.

4. **Total Development Cost Limit**

a. TDC Calculation: HUD will determine the TDC for a public housing project as follows:

Step 1: Unit construction cost guideline. HUD will first determine the applicable “construction cost guideline” by averaging the current construction costs as listed in two nationally recognized residential construction cost indices for publicly bid construction of a good and sound quality for specific bedroom sizes and structure types. The two indices HUD used for this purpose are the R.S. Means cost index for construction of “average” quality and the Marshal & Swift cost index for construction of “good” quality.

Step 2: Bedroom size and structure types. The construction cost guideline is then multiplied by the number of units for each bedroom size and structure type.

Step 3: Elevator and non-elevator type structures. HUD will then multiply the resulting amounts from step 2 by 1.6 for elevator type structures and by 1.75 for non-elevator type structures.

Step 4: TDC limit. The TDC limit for a project is calculated by adding the resulting amounts from step 3 for all the public housing units in the project.

b. Costs not subject to the TDC limit: Additional Project Costs (see section 4(e)) are not subject to the TDC limit.

c. Funds not subject to the TDC limit: A PHA may use funding sources not subject to the TDC limit (e.g., CDBG funds, HOME funds, low-income tax credits, private donations, private financing, etc.) to cover project costs that exceed the TDC limit or the Housing Construction Cost limit described in section 5(b). Such funds, however, may not be used for items that would result in substantially increased operating, maintenance or replacement costs, and must meet the requirements of section 102 of the HUD Reform Act (42 U.S.C. 3545). These funds must be included in the project development cost budget and legally

acceptable written commitments for such funds must be provided by the PHA for HUD approval.

d. TDC Limits on Public Housing Funds Only: The TDC limit, described in section 4(a), applies to the costs of developing public housing that may be paid from public housing funds. The term “public housing funds” is defined to include funds from: the Capital Fund Program, the public housing development program, the Major Reconstruction of Obsolete Projects program, the HOPE VI program, the Capital Fund Financing Program, and the Operating Fund Financing program. Costs subject to the TDC limit include, but are not limited to the following:

- planning, administration, site acquisition, relocation, demolition, site remediation;
- site development (except as noted in section 4(e));
- dwelling unit hard costs, including construction and equipment (except as noted in section 5(b));
- interest and carrying charges, builder’s overhead and profit;
- on-site streets and utilities from the street, off-site facilities including community buildings;
- finish landscaping;
- a contingency allowance;
- insurance premiums and any initial operating deficit; and
- cost attributable to Davis--Bacon wage rates, as applicable.

e. Demolition, Remediation of Environmental Hazards, Extraordinary Site Costs: The TDC will include the costs of demolition and remediation of environmental hazards, as approved by HUD, prorated with respect to the number of units being developed on the site. For example, if a PHA is demolishing a 300 unit public housing project and putting 100 new public housing units back on site, only one-third of the costs of demolition and site remediation will be included as part of the public housing development costs to be compared with the TDC limit.

Typical site costs will be included within the TDC. The Department will exclude extraordinary site costs from the TDC calculation. Examples of such extraordinary site costs include, but are not limited to: removal or replacement of extensive underground utility systems, extensive rock and/or soil removal and replacement, construction of extensive street and other public improvements, dealing with unusual site conditions such as slopes, terraces, water catchments, lakes etc., and dealing with flood plain as well as other environmentally corrective issues. The PHA must have an independent certified engineer or architect verify in writing any site remediation and extraordinary site costs and have these costs approved by HUD.

f. No Exceptions to TDC Limits: Although the Act authorizes the Secretary to approve a higher TDC for a project, the Department will not grant exceptions to the TDC limit for any projects funded from public housing funds awarded from

Fiscal Year (FY) 1997 forward. HOPE VI grantees will be able to request a TDC exception for projects developed with HOPE VI funds awarded in FY 1996 and prior years. For any project in which a PHA is combining HOPE VI funds awarded in FY 1996 and prior years and public housing funds awarded from later (or earlier) years, the PHA will be able to request a TDC exception. No exception to the HCC limits discussed in section 5(b) will be granted.

g. Modernization of Existing Units: The TDC limit for the modernization of existing public housing units is ninety (90) percent of the TDC limit. The HCC limit (described in section 5(b)) is not applicable to the modernization of existing units.

h. Acquisition of Existing Units or Newly Built Units: In the case of acquisition of existing units, the HCC limit does not apply; however, the TDC includes the cost of acquisition and the cost of any renovations to the acquired units.

5. **Project Fund Allocation Categories**

a. Requirements: HUD must review and approve all funds going into the development of a public housing project with respect to three distinct categories: Housing Construction, Community Renewal, and Community and Supportive Services (CSS). All costs, except for those excluded in section 4(e), paid from public housing funds must be within the TDC limit. A PHA can determine the amount of public housing funds allocated to Housing Construction costs and to Community Renewal costs; provided that the amount of funds allocated for Housing Construction does not exceed the HCC limit described in section 5(b). The allocation of funds for CSS is not part of the TDC calculation. However, the amount of the HOPE VI funds that may be dedicated to CSS is limited to either 15 or 20 percent of the HOPE VI grant (the percentage is specified in the HOPE VI grant agreement).

b. Housing Construction Cost (HCC) Limit: The Housing Construction Cost is the sum of the following HUD approved costs related to the development of a public housing project: dwelling unit hard costs (including construction and equipment); builder's overhead and profit; the cost of extending utilities from the street to the public housing project; finish landscaping; and the payment of Davis bacon wage rates. The HCC is derived from the average of the two construction indices named above. A PHA may exceed the HCC limit, as described above, using non-public housing funds, such as CDBG funds, HOME funds, low-income housing tax credits, private donations, and private financing.

c. Community Renewal Costs: Community Renewal costs consist of the sum of the following HUD approved costs related to the development of a public housing project: planning (including proposal preparation), administration, site acquisition, relocation, demolition of, and site remediation of environmental hazards associated with, public housing units that will be replaced on the project

site, interest and carrying charges, off site facilities, community buildings and non dwelling facilities, contingency allowance, insurance premiums, any initial operating deficit, onsite streets, on site utilities, and other costs necessary to develop the project that are not covered under the HCC. The funds allocated for Community Renewal, are limited to the TDC minus the HCC.

d. Community and Supportive Services Funds Allocation Limit: While not related to the TDC calculation, the Department will limit the amount of any public housing funds that a PHA may use for community and supportive services programs to the amount specified in its HOPE VI grant agreement. Such funds are to provide community and supportive services to residents who will reside in the redeveloped housing and residents who are provided Housing Choice Vouchers.

6. Limitations on New Construction

In submitting a development proposal for construction of new public housing units pursuant to 24 CFR Part 941, a PHA must comply with Section 9(g)(3) of the Act. Section 9(g)(3) provides that a PHA may not construct any new units if the construction would result in a net increase from the number of public housing units owned, assisted or operated by the PHA on October 1, 1999, including any public housing units demolished as a part of any revitalization effort. .

A PHA may construct new units in excess of the number of units in its inventory on October 1, 1999, but will not be eligible for additional funding under the Capital or Operating Fund formulas for such units. However, the PHA may construct new units in excess of the number of units in its inventory on October 1, 1999 and receive additional funding for such units under the Capital and Operating Fund formulas if:

- (1) the units are part of a mixed-finance project, or otherwise leverage significant additional private or public investments; and
- (2) the estimated cost of the useful life of the project is less than the estimated cost of providing tenant-based assistance under Section 8(o) of the Act for the same period.

Development proposals submitted to HUD pursuant to 24 CFR 941.304 or 24 CFR 941.606 must address compliance with this requirement. If the proposed project exceeds the 1999 threshold, a PHA must indicate in its proposal that it understands that the units in excess of the threshold will be excluded from Capital and Operating Fund formulas, or that it meets the exceptions stated above.

7. Effective Date of the TDC

The new TDC and HCC limits are effective on the date of issuance of this Notice.

/s/

Paula O. Blunt, General Deputy Assistant Secretary for
Public and Indian Housing

Attachment: TDC and HCC Limits for FY 2008