

Public and Indian Housing

Notice PIH 97-10 (HA)
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State/Area Coordinators;
Directors, Public Housing
Divisions; All Public Housing
Agencies

Public Housing Development Cost Limits

1. Purpose. This Notice is to:
 - a. Explain procedures for establishing public housing development cost limits.
 - b. Transmit the attached updated schedule of unit total development cost (TDC) limits, which are effective immediately for developments without executed construction/rehabilitation contracts.
 - c. This Notice does not apply to Indian housing.
2. Background.
 - a. Section 6(b) of the United States Housing Act requires that the Department establish TDC limits by multiplying construction cost "guidelines" (determined by averaging the current construction costs of two nationally recognized cost indices) by:
 - (1) 1.6 for elevator structures; and
 - (2) 1.75 for non-elevator structures.
 - b. The TDC limits are based on gross area of unit sizes as follows: 0-bedroom 500 square feet (SF), 1-bedroom 700 SF, 2-bedroom 900 SF, 3-bedroom 1,200 SF, 4-bedroom 1,500 SF, 5-bedroom 1,700 SF

and 6-bedroom 1,900 SF. These unit sizes represent today's standards for modest but decent housing.

3. Calculating a Development's TDC. The maximum TDC for a development is calculated by multiplying the number of units for each bedroom size and structure type times the applicable unit TDC limits and adding the resulting amounts for all units in the proposed development. A "trend" factor is applied to this total amount for inflation because the construction of the development would not be completed, on the average, for two years after the funds are reserved. For example, the maximum TDC of \$1,400,000 for a hypothetical development would be calculated as follows:

| <u>Structure</u> <u>Type</u> | <u>Bedroom</u> <u>Size</u> | Unit <u>No. of</u> <u>Units</u> | TDC <u>Limits</u> | <u>Total</u> |
|---------------------------------|-------------------------------|---------------------------------------|----------------------|----------------|
| Row | 3-BR | 10 x | \$68,000 | \$680,000 |
| Row | 4-BR | 10 x | 72,000 | <u>720,000</u> |
| | | | | \$1,400,000 |
| | | | | <u>84,000</u> |
| | | | | \$1,484,000 |

4. Initial Fund Reservation and amendments. Although Section 6(b) authorizes TDCs up to 110 percent of the TDC limit, Field Offices will continue to approve costs and reserve funds pursuant to 24 CFR 941.306(a) as follows:
 - a. The initial fund reservation may not exceed 100 percent of the maximum TDC based on the most recently issued cost limits, plus any trend factor that may have been specified in a NOFA.
 - b. After the initial fund reservation, a Field Office Public Housing Director may approve costs (excluding any local donations) and reserve funds up to 105 percent of the maximum TDC based on the most recently issued cost limits; only the Assistant Secretary may authorize costs in excess of 105 percent of the current TDC limits based on recommendation, with accompanying justification,

by a Field Office Public Housing Director. Projects that have funds reserved which included "trend" factor at the time of reservation will not be eligible for amendment funds unless the Assistant Secretary grants a special exception.

- c. 24 CFR 941.306(a) permits approval of higher costs if necessary and reasonable to develop a modest non-luxury development that provides for efficient design, durability, energy conservation, safety, security, economical maintenance, and a healthy family life that blends well in a neighborhood environment. Higher costs may be necessary because of the need to develop community space, which is not now in the TDC calculation; high land costs incurred to promote housing locations in low poverty areas; extraordinary site costs such as unavoidable environmental expenses; and extraordinary rehabilitation or development costs such as those related to historic preservation. The presence of any of these conditions may be justification for Field Office reservation up to 105 percent of the TDC limits or an exception by the Assistant Secretary to exceed that limit.
5. Cost Limits for the State of Alaska. In the event that public housing is developed outside the metropolitan market areas of Alaska identified in this Notice, cost limits established on the basis of the statutory methodology for the Indian housing program shall be used.
6. Cost Exceeding the TDC Limits. A development may not be terminated simply because costs cannot be brought within the TDC limits. If a development cannot proceed because the proposed TDC exceeds that which the Field Office can or will approve, it must be submitted to Headquarters for review.

/s/ Kevin Emanuel Marchman, Acting

Assistant Secretary for Public
Indian Housing

and

Attachment (Cost Limits are not attached.)