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Policy Alert

Frequently-Asked Questions on HUD Total Development Cost (TDC) and Housing Cost Cap (HCC) Limits

Ref: HUD Notice PIH 2001-22 (HA)

January 2, 2002

1Q. Why does HUD review Total Development Costs (TDC) and Housing Cost Caps (HCC) for Public Housing projects?

A. The United States Housing Act of 1937, Section 6(b), requires HUD to establish limits on the use of HUD funds toward the Total Development Costs of public housing. The purpose of the statute is to assure that public housing funds are being used reasonably and efficiently in the construction and rehabilitation of public housing. HUD reviews HCCs to ensure an appropriate and not an excessive amount of public housing funds are being used to construct residential units. Additional information on each of these topics is included below.

2Q. What types of housing development are subject to TDC and HCC limits?

A. TDC and HCC limits apply to the acquisition, development or rehabilitation of any rental or homeownership housing units when any HUD public housing development, capital funds or operating funds are used for all or part of the development costs.

3Q. What sources are defined as "HUD public housing development or capital funds?"

A. HUD public housing development or capital funds include funding originally awarded to a public housing authority (PHA) through (1) the public housing Capital Fund[1]; (2) any of the previously-existing public housing modernization or development programs; or (3) the HOPE VI public housing revitalization program. This would also include operating funds when they are used for expenses related to physical development (i.e., operating funds used to fund safety or security-related rehabilitation.)

[1] Any unobligated funds from the previously existing public housing modernization programs have been merged into the HUD "Capital Fund" program effective April 17, 2000. These include the former Comprehensive Improvement Assistance Program (CIAP), the Comprehensive Grant Program (CGP), the Major Reconstruction of Obsolete Projects MROP program, etc. Previously awarded development funds are now part of the Capital Fund.

4Q. Our housing authority will be constructing public housing using the "mixed-finance" method of development. Do the TDC and HCC limits restrict how much other (non-public housing) funding we may use for the project?

A. No. TDC and HCC limits restrict only the use of public housing funds. Your actual project costs may exceed the HUD TDC and HCC limits if you use non-public housing funds such as low income housing tax credit equity, Community Development Block Grant (CDBG) funds, bank loans, etc

5Q. When will HUD perform a TDC and HCC limit review?

A. For proposed public housing development projects using only public housing funds, HUD will evaluate TDC and HCC based on the budget provided in the public housing Development Proposal submitted by the PHA in accordance with 24 CFR subparts A through E. For mixed-finance public housing development projects, HUD will evaluate TDC and HCC based on the budget provided in the housing authority's Mixed-Finance Proposal submitted in accordance with 24 CFR 941 subpart F.

6Q. Will HUD consider requests for exceptions to the TDC or HCC limits?

A. See table below:

Funding Source	TDC/HCC Exceptions Considered?
Public Housing Capital Fund, Public Housing Operating Funds and HOPE VI funds awarded in FFY 97 or later	No
HOPE VI funds awarded in FFY 93– 96	Yes, but will only be granted under extraordinary circumstances
Public Housing Development (PDEV) and MROP funds (awarded through FFY 96)	Yes, but will only be granted under extraordinary circumstances
Comp Grant and CIAP funds approved for development through PIH Notice 96-56	No

7Q. How will exceptions be considered if a project involves multiple HUD public housing funding sources? What year notice should be used for TDC amounts?

A. The provision applicable to the funding most recently provided will govern (see chart above). The TDC notice in effect at the time the project closes establishes the TDC limit, not the TDC notice that was in effect at the time the funding was awarded.

For example, a PHA is developing a rental project with funds including a 1998 HOPE VI grant as well as FY 1996 MROP funds. HUD will treat the project according to the rules which apply to the most recent funding source (the 1998 HOPE VI grant) and will not grant exceptions for TDC and HCC. As the first phase of the development closed on September 4, 2001, Notice PIH 2001-22 was used to establish the TDC and HCC limits.

8Q. What costs are included in the TDC calculation?

A. Costs included are all HUD-approved eligible costs including, but not limited to, the following:

- Planning; i.e., mixed-finance proposal or LIHTC application preparation but not a HOPE VI application;
- Administration;
- Site acquisition;
- Relocation;
- Demolition;
- Site remediation;
- Site costs (except as noted below);
- Dwelling unit hard costs including construction and equipment, interest and carrying charges, builder's overhead and profit, on-site streets and utilities from the street, finish landscaping, a contingency allowance, insurance premiums;
- Off-site facilities including community buildings;
- Initial operating period deficit reserves which may be funded out of public housing funds.

The TDC calculation will also include any costs attributable to Davis-Bacon wage rates, as applicable.

9Q. How are HCC and TDC limits for a public housing project determined?

A. **HCC:** The Housing Cost Cap limit for a project is the sum of the HCCs for the individual units in the project. As described in PIH Notice 2001-22, the HCC and TDC limits for each unit in a project are determined as follows:

The Housing Cost Cap limit for a particular housing unit (just for "hard" construction cost of the housing unit itself including items such as utilities from the street and finished landscaping) is the average of two nationally recognized construction costs indices (the R.S. Means "average" quality housing index and the Marshall and Swift "good" quality housing index) for the appropriate unit type and size, as adjusted for regional construction cost variations.

TDC: The Total Development Cost limit for a project is the sum of the TDCs for the individual units in the project. To establish the HUD Total Development Cost limit for a unit in an elevator building, the average cost derived from the construction indices for the appropriate unit size (in other words, the HCC for the unit), is multiplied by 1.6. For non-elevator buildings, the average cost for the appropriate unit type and size derived from the construction indices (the HCC for the unit) is multiplied by 1.75. Thus, the per-unit HCC and TDC limits vary based on bedroom size, structure type and geographic region.

PIH Notice 2001-22 includes a table of the HCC and TDC limits, by structure type and unit size, for most cities and counties in the country. HUD periodically updates HCC and TDC limits to account for inflation.

Example: A PHA in Harrisburg, Pennsylvania plans to build a 100-unit multifamily rowhouse development using FFY 1999 HOPE VI funds. The unit mix is the following:

1 Bedroom Units	20
2 Bedroom Units	30
3 Bedroom Units	50

With the facts above, the HCC would be $8,319,270 as calculated on the following chart.

Size	Units		HCC Per Unit		HCC Totals
1BR	20	X	$60,236	=	$1,204,720
2BR	30	X	$78,640	=	$2,359,200
3BR	50	x	$95,107	=	$4,755,350
				TOTAL	$8,319,270

Based on the local averages from the table included in PIH Notice 2001-22 for a rowhouse-type structure in Harrisburg, PA, the TDC is calculated as follows:

Size	Units		TDC Per Unit		TDC Totals
1 BR	20	x	$105,413	=	$2,108,260
2 BR	30	x	$137,621	=	$4,128,630
3 BR	50	x	$166,437	=	$8,321,850
				TOTAL	$14,558,740

The TDC limit for the project is $14,558,740. This is the maximum amount of HUD public housing funding that can be used to develop the project. However, additional HUD public housing funds may be used for costs excluded from the TDC calculation, as described in Question 10, below.

Based on these calculations and the actual costs of a project, HUD will calculate TDC and HCC activities as a percentage of TDC and HCC limits. Using the project described in the examples above, assume that public housing funds pay for $7,071,379 in HCC eligible activities (that is, cost of construction). The project's HCC would be 85% of the HCC limit ($7,071,379 divided by $8,319,270). Similarly, assume that the project's public housing funds pay for $12,811,691 of TDC activities (including the dwelling unit hard costs, interest and carrying charges, builder's overhead and profit, on-site streets and utilities from the street, off-site facilities site prep, planning, and the other items referred to above). The project's percentage of TDC limits is 88% ($12,811,691 divided by $14,558,740).

10Q. What activities funded with HUD public housing funds are excluded or partially excluded from the TDC calculation, or which are only partially included?

A. HUD has determined that some specific uses of public housing funds may be excluded from the HCC and TDC calculations. There are three categories of possible exclusions:

- Extraordinary site costs
- Demolition and associated environmental remediation of units not replaced on site (may be partially excluded as described below)
- Community and supportive services to public housing residents

Extraordinary site costs: HUD will exclude public housing funds used to address "extraordinary site costs" from the TDC calculation. An independent certified engineer must verify the costs as being extraordinary, that is, significantly greater than the typical site preparation costs for buildable sites in the local area. Stated another way, extraordinary site costs are those site costs that are not accounted for in the R.S. Means or the Marshall and Swift construction cost indices. They could include such things as removal or replacement of extensive underground utility systems, extensive rock and/or soil removal and replacement, dealing with unusual site conditions such as slopes, terraces, water catchments, lakes, a flood plain, or other environmental corrective issues. Typical site costs are included in the TDC analysis.

Demolition and remediation: HUD will exclude public housing funds used to perform environmental remediation (such as asbestos removal) and demolition of public housing units which are <u>not</u> to be replaced on site.

Community and Supportive Services: HOPE VI public housing revitalization grant funds used to provide community and supportive services to affected public housing residents will be excluded from the TDC calculation. However, CSS costs are subject to limitations in the Notice of Funding Availability for the year in which they were awarded.

Example: A PHA is using a HOPE VI public housing revitalization grant to demolish a 400 unit project and build 200 replacement units, 100 of which will be built back on the original public housing site. Demolition and asbestos removal will be performed with public housing funds at a cost of $1,000,000.

In addition, the site contains extraordinary changes in grade which complicate plans to re-establish the surrounding street-grid pattern on the site. This will require the construction of several retaining walls using public housing funds. An independent certified engineer has certified that the cost of the retaining walls is $50,000.

The PHA will use $500,000 of the HOPE VI grant to implement a community and supportive services (CSS) program for public housing residents during the project.

Seventy-five percent (300/400) of the costs of demolition and site remediation, or $750,000, will be excluded from the TDC calculation for the project. The entire $50,000 cost for the retaining walls is an extraordinary site cost and will be excluded from the TDC calculation. The $500,000 cost of the CSS program is also excluded from the TDC calculation.

11Q. How are public housing funds used for rehabilitation treated under the notice?

A. Public housing funds for the rehabilitation of existing public housing units will be 90% of the TDC limit. Public housing funds for the rehabilitation of acquired units will be 100% of the TDC limit. The Housing Cost Cap limit does not apply to the rehabilitation of existing public housing units or acquired units.

12Q. For projects developed in phases, do the HCC and TDC limits apply to the entire multi-phased development or to each phase of the project?

A. HUD will evaluate both the entire redevelopment efforts at the time of grant award and Revitalization Plan approval (where HOPE VI funds are involved), and each phase of the project for conformance with the HCC and TDC limits. Predevelopment and administrative costs associated with the entire project (e.g., demolition and remediation, PHA administration expense, program management costs, relocation, etc.) are to be allocated among the phases for purposes of calculating TDC limits. The allocation shall be based on the some reasonable method, such as proportionally, based on the number of public housing units in each phase in relation to the total number of public housing units to be built in all phases of the project.

13Q. What if a PHA is demolishing public housing units and then building both public housing units and homeownership units back on the original site. Should the homeownership units be included in the calculation of units being built back on site?

A. Yes, if public housing funds, such as HOPE VI grant funds, will be used for any part of the cost of developing the homeownership units or financing the sale of the homeownership units.

14Q. Are bridge loans funded with public housing funds included as a funding source for purposes of calculating the HCC and TDC percentages?

A. No. Only permanent funds are considered in the TDC/HCC analysis.

15Q. Will homeownership units undergo a TDC/HCC analysis separate from or as part of a phase that includes rental housing?

A. Homeownership units will undergo a separate TDC/HCC analysis and will not be combined with public housing rental units. A TDC/HCC analysis is done for each financial closing.

16Q. What if a project includes off-site demolition? Are those demolition costs included?

A. Yes. Those costs are included in TDC analysis.

17Q. Are funds that a PHA obtains from sale or lease of an existing site included as public housing funds within the TDC limits?

A. No. The rules pertaining to demolition or disposition of public housing projects, 24 CFR 970.9, outline the use of sale or lease proceeds. The sale or lease proceeds are considered program income and not public housing funds. Therefore, the sales or lease proceeds are not included in a TDC analysis.

18Q. Is program income generated by loan repayments of loans advancing public housing funds included in the TDC/HCC analysis?

A. Yes. Program income generated by loan repayment of loans (e.g., bridge loans) funded with public housing funds will be treated as public housing funds for purposes of conducting the TDC/HCC analysis.