

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

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Notice PIH 2003-8 (HA)

Special Attention of:

Regional Directors;

State and Area Coordinators;

Public Housing Directors;

Public Housing Agencies;

Issued: March 27, 2003

Expires: March 31, 2004

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**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 consistent with the Quality Housing and Work Responsibility Act of 1998.
  - b. Transmit the updated schedule of unit Total Development Cost (TDC) limits.
  - c. This Notice does not apply to Native American housing.
2. **Applicability.** This Notice is applicable to the development of public housing and other eligible replacement housing under a HOPE VI Grant Agreement between HUD and a Public Housing Agency (PHA) chosen to participate in the HOPE VI program and or under an Annual Contributions contract (ACC) for public housing development and modernization of Public housing under Capital Fund grant.
3. **Background.**

**Statutory and Regulatory Requirement:**

Section 6(b) of the United States Housing Act of 1937 (Act) and the regulations at 24 CFR 941.306 require the Department to establish TDC limits by multiplying the construction cost guideline for the project (which shall be 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 by 1.6 for elevator type structures and by 1.75 for non-elevator type structures.

Housing Indices

In order to establish cost guidelines consistent with Section 6(b) (2) of the Act, the department has used R.S. Means "average" and Marshall and Swift "good" indices to establish TDC.

Purpose of TDC Policy and Cost Allocations:

As explained in the Notice PIH 2001-22 the Department has established this policy with respect to statutory TDC requirements. The TDC and cost allocations policy enables the Department to identify the actual costs associated with the different aspects of the entire development program -- (1) the costs and funds allocated to construct the dwelling units, (2) the costs and funds allocated to renewal of the community including soft costs and (3) the costs and funds allocated to provide services to the residents.

4. Total Development Cost limit Policy.

Construction Indices: As indicated above, the statutory TDC is determined by multiplying the per unit construction cost guideline for a project (that is determined by averaging the current construction costs as listed in two nationally recognized construction indices for publicly bid construction of good and sound quality for specific unit sizes and structure types) by 1.6 for elevator buildings and 1.75 for non-elevator construction by unit size and then adding the resulting amounts for all the units in the development. This calculation determines the maximum amount of public housing capital funding that may be used to pay for the costs of development of a public housing project. In this Notice, HUD has used R.S. Means "average" and Marshall and Swift "good" housing indices to establish the TDC.

TDC Limits on Public Housing Funds Only: The TDC limit, as determined above, 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 Capital funds, public housing development funds, Major Reconstruction of Obsolete Projects funds, HOPE VI funds, and operating funds. In order to determine whether a public housing project satisfies the TDC limit, HUD will consider all HUD-approved costs for planning, administration, site acquisition, relocation, demolition, site remediation, site development (except as noted below), the 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, off-site facilities including community buildings, finish landscaping, a contingency allowance, insurance premiums and any initial operating deficit. This calculation will also include costs attributable to Davis-Bacon wage rates, as applicable.

Demolition, Remediation of environmental hazards, and Extraordinary Site Costs: HUD has determined that these costs, in some cases, associated with existing public housing properties, are not development related costs since they are incurred by the PHA whether or not the site of the demolished public housing project is being redeveloped for public housing. Therefore, the TDC calculation 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 only 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 for HOPE VI grant purposes. Examples of such 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 and other environmentally corrective issues. The site remediation and extraordinary site costs must be verified by an independent certified engineer, and approved by HUD.

No Exceptions: Although the Statute authorizes the Secretary to approve a higher TDC for a project, the Department will grant no exceptions to the TDC limit for any projects funded from Public Housing funds awarded from Fiscal Year (FY) 1997 forward. This includes any FY 1997 funds awarded under the HOPE VI NOFA, and modernization funds provided to the PHA in FY 1997 and prior years which were subsequently approved for conversion to development purposes. HOPE VI grantees will be able to request a TDC exception for public housing and HOPE VI funds awarded in FY 1996 and prior years. No exception to the housing construction cost (HCC) limits discussed in paragraph 5 below will

be granted. For any public housing development project in which a PHA is combining Public Housing funds from different years, the TDC and other costs requirements applicable to the funding most recently provided to the PHA will govern. For purposes of this Notice, in addition to public housing development, HUD will apply the TDC limit and the funds allocation assessment set out below to the development of any replacement housing using public housing funds, e.g., eligible homeownership replacement housing.

Modernization of Existing units: The TDC limit of Public Housing funds for modernization of existing public housing units will be ninety (90) percent of the TDC for the development of new units. Also, the HCC limit (described below) is not applicable to the modernization of existing units.

Acquisition of Existing units or newly built units: In the case of acquisition of existing units the HCC limit does not apply and the TDC includes the cost of acquisition and the cost of any renovations to the acquired units.

#### 5. Project Fund Allocation Categories.

For the purposes of HUD's project funds allocation assessment, HUD must review and approve all funds going into the development of the public housing project with respect to three distinct categories: Housing construction, Community Renewal, and Community and Supportive Services. All costs, except for excess demolition and remediation environmental hazards and extraordinary site costs, related to the Housing and Community Renewal, which are to be paid out of Public Housing funds must be within the TDC limit. Within the TDC limit, the PHA can determine the Public Housing funds allocation for Housing costs and the Public Housing funds allocation for Community Renewal costs; provided that the amount of funds allocated for Housing cannot exceed the HCC limit described below. The allocation of funds for Community and Supportive Services for HOPE VI projects is outside of the TDC calculation, but HUD is capping the amount that a PHA can pay for Community and Supportive Services from any Public Housing funds at fifteen (15) percent of the HOPE VI grant.

**Housing Construction Cost Limit** - Public Housing funds are capped by the average of the two indices, as described above, prior to the application of the multiplier for housing construction costs. In determining whether housing costs are within this

limit, HUD will consider housing unit hard costs; builder's overhead and profit; utilities from the street; finish landscaping; including Davis-Bacon wage rates, as applicable. 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.

**Community Renewal** - The funds allocated for Community Renewal, including the pro-rated costs for demolition and site remediation as discussed above, are the balance of funds remaining within the TDC limit after the allocation of housing costs is subtracted from the TDC limit. While there is no separate cap on the project funds allocated for Community Renewal costs, the Public Housing funds allocated for Community Renewal plus Public Housing funds allocated for housing purposes must be within the TDC limit.

A PHA may exceed the TDC limit with non-Public Housing funds, i.e., a community may provide CDBG or other HUD funds eligible for use for such purposes, and/or non-HUD funds for eligible costs.

HUD Reform Act's subsidy layering requirements are applicable to all PHA development projects. In addition, any costs above TDC paid from other sources for project improvements and/or amenities cannot result in substantially increased operating and maintenance costs, or other increased costs to be covered by the PHA.

**Community and Supportive Services Funds Allocation Limit** - While not related to the TDC calculation, the department has determined it will limit the amount of any Public Housing funds that a PHA may use for community and supportive services programs to 15 percent of its HOPE VI grant. Such funds are to provide community and supportive services both to current residents who will reside in the redeveloped housing, new residents, and residents who are provided Section 8 certificates and vouchers as replacement housing.

All Community and Supportive Services shall be performed based with quantifiable results and sustainability after expenditure of HOPE VI funds.

/s/ Michael Liu

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Assistant Secretary for  
Public and Indian Housing

Attachments: TDC Housing Cap Limits for FY 2003