

Cost Policy Considerations for LIHTC Allocating Agencies

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Realities of Cost Policies

- Numbers in a QAP do not set or even cap development costs
 - cannot predict changes in labor or materials
 - don't know all variables (e.g., local assessment)
- Most, if not nearly all, costs are determined by third parties
- Instead, QAP maximums or points...
 - control what an application represents
 - indirectly limit funding sources

Developers' Decision Process

- The following is in order:
 1. What numbers give the best chance of an award?
 2. If a range, pick the maximum (most cushion).
 3. Will the resulting sources be close to enough?
 4. If yes, submit the application.
- Note what's missing: *guess of actual costs*

Responses to Policies

- Developers will act rationally based on incentives...
 - maximum: ask for it all, whether total or by line-item
 - points for being below \$X: up to whatever earns the most
 - relative to others: low as possible (“race to the bottom”)
- Note what’s missing: *guess of actual costs*
- Agencies must accept their role in the outcomes

What Agencies Can Do: Overall

- Understand both:
 - true effect of incentives/requirements
 - how to actually reduce eventual costs
- Separate standards for new and rehab are crucial
 - amount of cost for rehab depends on scope of work
 - unlike new construction, a higher number often is better

What Agencies Can Do: Review Process

- Agency staff or contractor visits buildings/sites
- Use data from recent PIS projects
- Compare applications, look for outliers
- Unannounced limits on certain line-items
- Directly hire third-party estimators
- Require general contractor cost certs (NCSHA rec. practice)

What Agencies Can Do: New Const.

- Consider amenities, design features, green, unit/BR sizes
- An all-in TDC/unit or /bedroom metric is imprecise at best
 - land and sitework are extremely variable
 - expands or constricts rest of the budget
- Instead, separate out line-item(s) for vertical construction
- Use per-unit developer fee (NCSHA rec. practice)

What Agencies Can Do: Most Important

- Do not award newspaper-worthy projects
 - amount varies across the country
 - often compared to cost of single-family house
- Any justifications will be lost
- No development is worth risking the program
- Need the QAP authority to deem applications ineligible

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