2023 Qualified Allocation Plan Development –
Summary of On Cost Containment including Cost/SF Scoring
(As Reflected in the Survey on Cost Containment)
March 25, 2022

The following reflects the content, including the background material and questions, as posted in the Survey released on this topic.

Part A. Current Scoring Item: Cost Per Square Foot

Texas Government Code requires that the sixth highest scoring item in the QAP be for: "(F) the cost of the development by square foot." In staff's review of the scores of applications, this item is one that all applications claim and are typically awarded; all applicants earning maximum points is generally a reason to support an item being moved from scoring to threshold as the scoring itself creates no distinctions among applications. However, because this item is statutorily required to be a scoring item, it must remain so.

Results from Other States related to Cost/SF:
Roughly 12 states have either scoring or caps on a per SF basis. Those include:

- No details, but indicated they do have SF limits (California, NY, Utah)
- A cap of hard costs or construction costs per SF, some based on a range (Alabama, DC, North Dakota, Ohio, Oklahoma)
- Projects compared and scored against each other (Nebraska)
- Limit cost per SF with Acquisition costs removed (Virginia)
- Points awarded for the project compared to median cost/SF (Washington)
- Set at 130% of the per SF average hard construction cost + arch/eng fees (New Mexico)

1. This scoring item is not currently structured in the QAP to provide points based on the literal "cost of the development by square foot" but rather has evolved over time to provide points based on the voluntary Eligible Building Costs per square foot (voluntary eligible basis). Based on that, please respond:
    a. The scoring item should remain structured as based on voluntary eligible basis, not total development costs
    b. The scoring item should be revised to be based on total development costs
    c. I think it should be calculated a new way other than options a or b – [FILL IN]

2. The scoring item is currently structured in the QAP to distinguish points between New Construction and Rehab and for high cost developments. Based on that, please respond:
    a. No additional distinctions are needed, but I want to see an increase to the allowable cost per SF for points
    b. No additional distinctions are needed, and the costs per SF are fine as is ☺
    c. I would like to see another distinction included, in addition to New vs Rehab and High Cost – [FILL IN BLANK]

3. If this scoring item is revised to provide for an annual adjustment factor, the annual adjustment factor should be based on:
    a. The Construction Price Index for Multifamily Housing Units Under Construction (US Census Bureau)
    b. The Producer Price Index (Bureau of Labor Statistics)

c. The Mortenson Construction Cost Index, benchmarking against one of their specific studied cities (note that none are in Texas and a city would be selected uniformly for all applications)
d. RSMeans Data stratified by 1-3 Story Apartments, 4-7 Story Apartments, and 8 Story+ based on the # of floors in the proposed Application
e. I have a different adjustment factor I think should be used: [FILL IN BLANK]
f. I don't think there should be an annual adjustment factor established – TDHCA should just increase the costs each year as part of the QAP development process

4. If this scoring item is revised to provide for an annual adjustment factor, in what calendar month would it be most helpful to have that factor updated annually and the new costs released (consider that if released by the Department too early, it may not reflect cost changes as thoroughly, but you will want to know early enough to prepare your applications).
    a. Pick month want the comparison done [shows each month as a choice]

B. Other Cost Containment Approaches

Below summarizes information on other states' approaches to limiting costs and is followed by questions for you. It should be noted that across the different types of cost containment strategies some states further distinguish costs geographically – by urban/rural, by regions within their state, or by having several specified higher costs areas that have different limits.

Per Unit: Roughly half of all states have provisions in their QAPs for limitations or standards per unit. These include:

- A specified cap on development cost per unit – some with distinctions for # of bedrooms in the unit (Alaska, California, Georgia, Virginia, South Carolina, Michigan, Kentucky, Montana, Oregon, South Dakota, New Hampshire, Ohio, Pennsylvania, Wyoming); caps appear to range from roughly $150K/unit up to $310K/unit. In 2 states the cap also was based on development type (Florida, Washington)
- A cap on the eligible basis per unit (Arizona, NY for 4%)
- A cap on the tax credits per affordable unit (Indiana, Wisconsin, Arkansas, Iowa)
- Several benchmarked their limits against a third-party measure, including RSMeans Data (Colorado), HUD's Public Housing Total Development Cost (TDC) Limits (Louisiana), HUDs 234 limits (Delaware), 221d3 limits (Missouri), HOME Max Per Unit Subsidy (Oklahoma)
- Tie breakers:
    - Tie goes to the deal with the lower credits per LI unit or cost per LI unit (Mississippi, Georgia, New Mexico, Idaho)
    - Tie goes to most credit efficiency (Arizona)
    - Tie goes to the lowest credit request (NJ)

Per Development: Approximately 9 states reported that they had a per development cap, some of which were a flat amount (with one state having a different cap for family properties versus elderly properties), some were tied to an index and some were capped at a percentage of the state ceiling. (CA, GA, Maine, Alabama, Montana, Nebraska, New Jersey, Utah, Illinois, Rhode Island, Iowa)

Scoring for Lower Costs (does not include leveraging):

- Credits per LI unit (Indiana, Michigan, Nevada, Wisconsin)
- Points awarded for the Total Development Cost per Unit being at least 15% below Max TDC Cap (Louisiana)

- Points for projects with lower overall Total Development Costs (NY State, Northern Marianas, Washington)
- Points for Hard Costs within Construction Cost Limits (Illinois)
- Points for the percentage that Hard Costs are of the Total Development Costs (Illinois)
- Imposing penalties for requesting additional credits (Georgia)
- Cost or Credit Efficiency Scoring (Nebraska, Utah, Virginia)
- Negative Points Awarded for Every Percentage Point that Costs Exceed Limits (Wyoming)
- Cost Savings Points (Pennsylvania)
- Points for Demonstrating Capacity to Curb Costs (Puerto Rico)
- Design Review includes evaluation of value for lower costs (Massachusetts)
- Lower costs - unspecified (Nevada, California, Illinois, Missouri)
- Scores are tied to Total Development cost ratios to the cost standard (Alaska)
- Points for the lowest intermediary costs (Connecticut, Kansas)
- Cost Reduction and Cost Balancing Points (Delaware)
- Points for limiting use of agency funds (South Dakota)
- Points for limiting soft costs (South Dakota)

<u>Other Cost Containment Approaches</u>

- Cost reasonableness evaluated using an index, which is the weighted average of the TDC per unit and the TDC per bedroom. The weighted average is calculated as follows: ([2 X TDC/unit] + [TDC/bedroom]) divided by 3. (The TDC weighted average cannot exceed $245,000.) (NH)
- Established standards/caps on soft costs and/or fees (Alabama, Arizona) Set at 5% of TDC (Puerto Rico)
- A more rigorous level of scrutiny is applied to the top 20% of developments based on cost/unit (Idaho)
- A handful of states when asked if they make exceptions to their cost containment policies noted that they allow exceptions for:
    - 4% deals,
    - By waiver (some noted as Board approval required), approved only when well-documented (some with a fee included for that waiver), or
    - Waiver prompts reduction of points
    - Limit exceptions to target populations or historic tax credits deals

1. Based on the research above, if TDHCA were to institute a cost containment measure in 2023 this year – <u>separate from and in addition to the scoring item for costs/SF</u> (which as previously noted are always earned) – select those approaches you would find most preferable. Once feedback is received on this item, further development of the details will follow in subsequent surveys/discussions including whether there should be distinctions for property types, geographic areas, whether the item varies for At-Risk or USDA, ability to request waivers, etc.
    a. Cost/SF – Lowest Cost as Tie Breaker
    b. Eligible Basis per Unit – Cap Put in Place
    c. Eligible Basis per Unit – Scoring Item with Lower Basis Having More Points
    d. Eligible Basis per Unit – Lowest Basis as Tie Breaker
    e. Credits per Unit – Cap Put in Place
    f. Credits per Unit - Scoring Item with Lower Credits Having More Points
    g. Credits per Unit – Lowest Credits as Tie Breaker
    h. Total Development Cost per Unit – Cap Put in Place

i. Total Development Cost per Unit - Scoring Item with Lower TDC Having More Points
j. Total Development Cost per Unit – Lowest TDC/unit as Tie Breaker
k. Average Credits per LI Unit Calculated for all 9% Apps Submitted – Negative Points to Those with Highest Credits from the Average (Most Expensive Outliers)
l. Average Credits per LI Unit Calculated for all 9% Apps Submitted – Closest to Average as Tie Breaker
m. Reduction of Soft Costs – Scoring Item for Soft Costs Below a Standard
n. Reduction of Soft Costs – Scoring Item for the percentage that Hard Costs are of the Total Development Costs
o. Reduction of Soft Costs – Lowest Soft Costs as Tie Breaker
p. Total Credit Request of the Application – Lowest Credit Request Tie Breaker
q. Total Development Cost of the Application – Lowest TDC as Tie Breaker

2. The Department is concerned that by having raised the per development cap, developments will utilize that added credit without adding more LI units, thereby reducing in total the number of LI units achieved each allocation round. To strive to mitigate this and to gain the most benefit for Texans from credits allocated, the Department is considering one of the following. Please indicate the one item you would most like to see to address this issue.

   1. Applications are limited to a per development limit of $1.5M, and can only go up to the $2M cap, if additional 30% AMI units are provided
   2. Applications are limited to a per development limit of $1.5M, and can only go up to the #2M cap, if leasing criteria are reduced
   3. Tie Breaker in which the tie goes to the Development with the Most LI Units.
   4. Other: [Fill In]