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June 2, 2017

Donna Duarte
Tennessee Housing Development Agency
502 Deaderick Street, Third Floor
Nashville, TN 37243

Dear Ms. Duarte:

On behalf of the Tennessee Developers Council (TDC), I am writing to recommend a cost-containment strategy for the 2018 QAP. These comments build on prior discussions, most recently at the May 22 TDC Strategic Planning Session as well as the May 22 THDA Tax Credit Committee Meeting.

As TDC stated in our May 1, 2017, comment letter, we find the per unit cost limits initially proposed by THDA for the 2018 QAP highly problematic and not in the interest of THDA's goals and objectives per the QAP. Specifically, these limits:

- Do not adequately recognize recent increases in the cost of construction.
- Do not adequately recognize the increase in costs associated with land and building acquisition.
- Do not adequately address additional costs associated with other THDA policies and priorities such as Enterprise Green Community Certification.
- Disparately impact 4% tax-exempt bond transactions due to their greater cost of issuance and soft costs not associated with 9% transactions.
- Incentivize developers to use lower quality building products that are less durable in the long-run.
- Incentivize developers to develop in areas of low economic opportunity, where land and building acquisition costs are lower.
- Disincentivize the development of family units with multiple bedrooms, as single bedroom units are more cost-effective.

We understand and appreciate the need for cost-containment within the QAP and support an approach that strikes a balance between fiscal responsibility and stewardship of federal resources while promoting high-quality, durable housing in areas that promote opportunity for low-income persons.

TDC suggests that HUD's published Total Development Cost limits are a better starting point for designing cost-containment policies. They have several advantages over the methodology presented in THDA's initial proposal. Specifically, HUD's Total Development Cost data:

- Is geographically specific, allowing for greater cost in areas of high opportunity and hot markets, and recognizes lower cost limits in more affordable areas.

- Recognizes cost striations amongst different unit sizes, acknowledging the legitimate cost differences from one to six-bedroom units.
- Recognizes differing costs for building type, from rowhome type structures to buildings with elevators.
- Contains yearly updated data, and uses averaging of construction cost data from both “average” and “good” quality projects.

TDC strongly recommends that THDA incorporate an additional enhancement for certain high-cost projects. There are certain types of projects and locations that the federal government has acknowledged are priorities but have higher than average costs and, as such, has created additional incentives to make those projects successful. These include projects located in QCTs and DDAs (the LIHTC provides for a basis boost), certified historic preservation projects (Section 42 requires HFAs to incentivize these projects in their QAPs, and the Federal Historic Tax Credit provides an additional financing source) and neighborhood revitalization projects (funded through the HOPE VI or Choice Neighborhoods Initiative).

In all four examples cited above, additional sources of funding are provided to address the additional costs associated with the location or program. As such, we believe it is appropriate to raise the cost limits for these projects as well and suggest that an appropriate metric would be to allow for total developments costs of up to 30% in excess of the HUD published data.

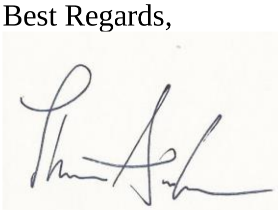
Without incorporating these changes to THDA’s proposed total development cost limits, we believe that many high-priority projects, particularly those funded using TEBs, will not be viable.

We recommend adding language similar to the following under Part VII-A-4-a of the QAP:

“Developments must conform to HUD’s most recently published Unit Total Development Cost Limits. Up to 30% beyond these per unit cost limits are permitted for projects located in QCTs and DDAs, as well as historic rehabilitation projects and projects developed under the CNI, HOPE VI, or similar program. For developments not located in a Metropolitan Statistical Area associated with one of the listed cities in the HUD TDC Limits, data from the city with the lowest published costs will be used.”

Once again, TDC appreciates the opportunity to provide THDA with this feedback. We would be very happy to discuss any specifics you might have regarding these comments or other subjects of concern. Please feel free to contact me directly with any questions at 202-939-1753 or tamdur@housingonline.com.

Best Regards,



Thom Amdur
Executive Director