



MEMORANDUM

TO: Multifamily Housing Committee

FROM: Ignatius MacLellan and Natasha Dube

DATE: January 20, 2023

RE: General Waiver: Total Development Cost Limits

BACKGROUND:

To respond to increased development costs, this memorandum seeks the Committee's approval to increase the following limits in the March 2, 2022, Qualified Allocation Plan (QAP)

1. The development costs limits; and
2. The NH Housing investment limit.

Cost Limits in the QAP. The QAP establishes the rules and priorities for allocating Low Income Housing Tax Credits (LIHTCs). The QAP is updated every two years and becomes effective once: 1) approved by the Board of Directors; and 2) signed by the Governor. When NH Housing allocates LIHTCs to a project, that project is governed by the QAP in effect when the allocation is made. The action requested here, if granted, only applies to projects governed by the March 2, 2022, QAP.

QAP Section HFA 109.04.C has limits for projects, including limits on: 1) the amount of LIHTCs (project basis); 2) the amount of NH Housing funds (per-unit basis); and 3) the overall costs (per-unit basis). This memorandum will first address overall costs, which is referred to as "TDC" (total development costs). Later, this memorandum will address the investment limit.

To evaluate cost reasonableness, the QAP, HFA 109.04,C, includes two TDC limits.

Method	TDC Limit in QAP (per unit)
TDC weighted average This method accounts for the number of bedrooms per unit.	\$280,000
TDC non-weighted average	\$330,000

In this memorandum, "TDC" limits will mean both the weighted and non-weighted limits.

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Construction Costs. Staff monitors cost information and data, including developer’s estimated costs and contractual costs to balance two factors:

- 1) Prudently allocate scarce public resources based on the QAP limits; and
- 2) Recognize the realities that developers are dealing with in this market.

Based on early information, staff were hopeful that project costs would be within the QAP TDC limits. Recent information demonstrates that costs continue to increase. For example, one staff analysis shows a 16% cost increase since last year. Staff want to respond to the market realities, reduce developer uncertainties and reduce waivers that staff, the Committee and the Board would have to address.

Approach to Provide Relief. Staff is seeking authorization to quickly respond to construction cost challenges that might arise within the 9% and 4% LIHTC allocations, and connected capital subsidy, under the March 2, 2022 QAP. A recent [NCSHA report](#) on HFAs responding to escalating costs stated: “It is essential to find solutions and keep deals moving toward closing and completion, especially given rising interest rates. The longer a deal is delayed while HFAs, developers, and others look for the resources to close remaining gaps, the more likely it is that problems will compound and become even more difficult to solve.”

When confronted with a similar cost challenge in 2021, the Committee and the Board acted and provided a blanket waiver that increased the TDC limits. (See Board May 27, 2021, meeting minutes.) The QAP, HFA 109.11 A, states: “NHHFA reserves the right to waive any of these Rules (HFA 109) within the constraints of IRC §42. ... A waiver of the rules can be initiated by the Board....” Similar to the 2021 Board action, staff seeks a general waiver.

Staff considered several approaches to the current cost challenge. In the end, staff decided that a simple approach would be the best approach for developers and for NH Housing. Therefore, staff recommends that the QAP TDC limits be increased 25%.

Method	TDC Limit in QAP (per unit)	New TDC Limit +25%
TDC weighted average	\$280,000	\$350,000
TDC weighted average high cost category	\$300,000	\$375,000
TDC non-weighted average	\$330,000	\$412,500

Developers with TDCs per unit above the 25% increase would file a waiver request under HFA 109.11.A. In considering such a waiver request, the Committee and the Board would review that waiver in light of the general waiver addressed in this memorandum.

Total Investment Limits in the QAP. The QAP also limits NH Housing investment in projects by stating: “The investment limit for all projects of combined NHHFA capital subsidy funds and LIHTC equity is \$230,000 per unit with the exception of projects targeting households earning at or below 30% of Area Median Income (AMI), which will be evaluated on a case-by-case basis.”

Staff understands that the market is driving much of the cost increases. Nonetheless, NH Housing is committed to financing as many new housing units as possible with the limited resources. Therefore, to assist developers while also ensuring that developers seek non-NH Housing sources, staff recommend that the QAP-stated investment limit be increased 15% to \$264,500.

RECOMMENDATION:

As authorized by HFA 109.11.A Waiver Authority (“A waiver of the rules can be initiated by the Board...”), staff asks the Committee to approve and then recommend Board approval of the following for the March 2, 2022, QAP:

1. The TDC per unit limits in the QAP are increased by 25% TDC; and
2. The investment limit in the QAP is increased to \$264,500.