



Tennessee Housing Development Agency

Andrew Jackson Building, Third Floor
502 Deaderick Street, Nashville, TN 37243

Bill Lee
Governor

Ralph M. Perrey
Executive Director

MEMORANDUM

TO: Ralph M. Perrey, Executive Director

FROM: Cynthia Peraza, Director of Community Programs through Don Wald 

DATE: September 22, 2020

RE: HOME Program Per Unit Subsidy Limit Increase

The impact of COVID 19 has increased the cost of construction for HOME-funded projects due primarily to a rise in material costs. Our grantees have indicated that shortages have led to increased costs across many categories of materials. In addition to the increased material costs, these shortages are also causing increases in costs to the general contractors due to delays related to the pandemic.

Cost increases are causing overruns with projects currently under construction as well as some contractors declining the contracts after the bidding process due to reduced or negative margins. We are also hearing a reluctance of contractors to bid future projects due to the current subsidy limitations, making it unprofitable to spend time preparing bids that will be summarily cast aside as ineligible due to exceeding the allowable subsidy limits.

THDA's current HOME Per Unit Subsidy Limit is set using the Section 234 basic mortgage limits for elevator-type projects (the "base rate"). However, HUD permits PJs to adjust these values by a High Cost Percentage (HCP) multiplier of the base rate, currently capped at 240% for Tennessee. Historically, THDA had not exceeded the base limits in order to cap the total HOME investment per unit. Applying this multiplier will give us the needed flexibility to solve the current COVID related situation going forward.

Additionally, THDA's HOME Program Descriptions provide staff with flexibility to increase the HOME Subsidy Limits as HUD increases the Section 234 base rates each year. While we do not believe that increasing the limit to 240% is appropriate at this time, we are proposing immediately to increase the limits by 130% of the base rate to reflect the cost increases occurring during the pandemic. The table below reflects the increases proposed based on Section 234 base rates published on June 4, 2020:

Bedrooms	Per Unit Subsidy Limit Using Only Section 234 Base Rate for Elevator Housing	Per Unit Subsidy Limit Using Base Rate Multiplier of 130%
0	\$63,881	\$83,045
1	\$73,230	\$95,199
2	\$89,049	\$115,763
3	\$115,201	\$149,761
4+	\$126,454	\$164,390

The 2016-2020 HOME program descriptions restrict the updated limits only to projects where the HOME agreement is entered into on or after the effective date of the new limits. However, in order to maximize its applicability given the COVID-19 impact on projects underway, we propose to apply the subsidy limit increase universally across all open 2016-2020 grants with uncompleted or un-bid projects. This modification will allow us to approve change orders due to increased material costs on projects underway and allow future projects associated with these grants to use the higher limits to qualify future procurements.

If you concur with these recommendations, please sign the Memorandum below.

Approved by: _____



Date: 9/22/2020