SOLUTION OVERVIEW
Built in 1973, the Apartment Towers building consists of 88 low-income public housing units with residential rental income generating only $150,000 annually. The discovery of mold in the building in 2013 led to debilitating financial costs associated with relocating residents, mandatory mold testing, and engineers’ estimates for demolition and reconstruction. MHA found that these expenses were not allowable under the U.S. Department of Housing and Urban Development’s (HUD) pre-Emergency Capital Fund Program, forcing the PHA to deplete operating reserves to cover the unplanned expenses. MHA found innovative ways to raise additional funds: applying for a HUD waiver for alternative use of Replacement Housing Factor (RHF) funds; and securing a HUD-approved Recoverable Grant Agreement through $1 million in bond financing from the City of Manhattan, Kansas. MHA successfully navigated HUD’s rules to secure more than $8 million for the rehabilitation of Apartment Towers. The upgrades conserved energy, improved indoor air quality, and provided additional comfort to residents.

ORGANIZATION TYPE
Affordable Housing

BARRIER
Financing an extensive rehabilitation project while navigating the complex regulatory environment for raising such funds as a public housing authority.

SOLUTION
Working within HUD regulations, took an innovative approach to gap funding by applying for a HUD waiver for alternative use of Replacement Housing Factor (RHF) funds and securing a HUD-approved Recoverable Grant Agreement thru $1 million in local bond financing.

OUTCOME
MHA successfully navigated HUD’s rules to secure more than $8 million for the rehabilitation of Apartment Towers. Combined with the mold removal, the project improved both resident comfort and indoor air quality while reducing energy use.
POLICIES
After completing mold testing, relocating at-risk residents, and obtaining engineers’ cost estimates, in November 2013 MHA applied for $6.2 million from HUD’s Emergency Capital Fund Program (CFP) to cover the cost of a comprehensive rehabilitation, including demolition, HVAC upgrades, water efficiency improvements, mold and asbestos removal, reconstruction, tenant relocation, architect and engineering fees, and administrative expenses. HUD approved the application in June 2014, but only granted 87% of the request - $5.4 million.

Energy Performance Contract
To fill part of the funding gap, MHA used $719,000 in Energy Performance Contract (EPC) funds to cover the cost of upgrades to the building's HVAC system from a 2-pipe boiler system to in-unit heat pumps (the cost difference between the two systems), as well as materials for installation of water savings devices.

PROCESS
Even with the EPC funds, MHA did not have sufficient financial resources to complete the rehab of Apartment Towers. The Emergency CFP grant program disallowed certain needed improvements, including replacement of single pane windows in 88 apartments and the administrative offices, replacement of wood clad sliding patio doors on 11 floors plus common areas, partial roof replacement, waterproofing of the building envelope, and mechanical room expansion to accommodate an upgraded high-efficiency gas boiler HVAC system. MHA found innovative ways to navigate HUD’s regulations to secure additional funding.

- Replacement Housing Factor Grant
First, MHA submitted a waiver request to HUD's Office of Capital Improvements to use accumulated Replacement Housing Factor (RHF) grant funding for the Apartment Towers rehabilitation; this instead of using the funds to replace units removed from inventory, the traditional purpose of this grant. HUD approved the waiver request and, because MHA had submitted a Replacement Housing Plan to be eligible for another five years of RHF funding—called second increment funding—a waiver request for this funding was also approved. The RHF funds used in the project totaled $480,000+. MHA also received an extension for the obligation and expenditure of the Emergency CFP and RHF funds due to the complexity of the project.

- Recoverable Grant Agreement
With the windows and patio doors still in desperate need of replacement (they were a major part of the original problem), and the discovery near the end of the project that the below-grade sewer lines were severely deteriorated, MHA had to identify even more additional funding. HUD’s Public Housing, Office of Capital Improvements advised of another housing authority that had encountered similar issues and asked their city to “advance” future capital fund monies by issuing bonds to finance the remaining critical items. Per HUD requirements, such an agreement must not place a lien on the property. MHA started discussions with Manhattan city officials, HUD, the MHA Board of

https://betterbuildingssolutioncenter.energy.gov/implementation-models/manhattan-housing-authority-navigating-a-complex-regulatory-environment
For more information, visit https://betterbuildingssolutioncenter.energy.gov
Commissioners, and a consultant familiar with the process; the formal request was approved in October 2017. The agreement provides that the city issue $1 million in bonds; beginning in 2021 the housing authority will repay the city over a 30-year period (approximately $67,000 per year).

- After initially denying the replacement of waste, vent, and storm piping, HUD ultimately approved these as allowable expenses. MHA also used $209,000 in formula CFP grants and $197,000 of Operating Reserves on the project.
The city of Manhattan Kansas provided $1 million in bond financing through a Recoverable Grant Agreement approved by HUD. The Agreement contract is provided as a model here.

MHA measured its success based on (a) energy savings realized; (b) completion of the building rehabilitation; and (c) placing 88 affordable housing units back in service for low-income persons. The housing authority was able to meet all three metrics and continues to measure energy savings.

With the project finally completed, a Certificate of Occupancy was issued in September 2018, and residents began moving back into Apartment Towers in early 2019. The building now provides 88 units of healthy, safe, affordable and energy-efficient housing for low-income persons in the community. Initial energy results for 2019 show 28% savings over a 2016 baseline year, although the figure does not reflect full building occupancy.
MHA successfully navigated HUD’s rules to secure more than $8 million for the rehabilitation of Apartment Towers. In addition to receiving an Emergency Capital Fund grant and an Energy Performance Contract, MHA found innovative ways to raise gap funds: applying for a HUD waiver for alternative use of Replacement Housing Factor (RHF) funds; and securing a HUD-approved Recoverable Grant Agreement thru $1 million in local bond financing. MHA’s tenacity and strategic approach serves as a model for other public housing authorities seeking to undertake comprehensive energy and water rehabilitation projects.