

Section 8 Moderate Rehabilitation Program Eligible  
and Ineligible Work Items and Costs

1. Background. For the purposes of the Section 8 Moderate Rehabilitation Program, "moderate rehabilitation" is rehabilitation involving the expenditure of at least \$1,000 per housing unit to either: (1) upgrade substandard housing to a decent, safe and sanitary condition to comply with the Housing Quality Standards (HQS) or other standards (such as local codes) specified in the PHA's application and approved by HUD; or (2) repair or replace major building systems or components in danger of failure. This Appendix clarifies the rehabilitation work items and costs which are eligible under the Moderate Rehabilitation Program for amortization through the Contract Rents.
  
2. Work Items Eligible for Inclusion in the Minimum Expenditure of \$1,000 Per Unit. In order to be eligible for the Moderate Rehabilitation Program, a unit must require a rehabilitation expenditure of at least \$1,000 for improvements, other than routine maintenance or luxury items, necessary to bring the unit in compliance with the HQS or local standards approved by HUD. This \$1,000 minimum expenditure per unit includes the cost of materials and labor to perform the necessary and eligible work in accordance with paragraphs 3 and 4, prorated costs of improvements to common systems or areas affecting the unit such as central heating systems and roofs, and the cost of caulking and weatherstripping. When prorating costs of work to be done to common systems or areas, the total number of units in the structure, including unassisted units, must be used to determine the cost attributable to each assisted unit. (For example, if a ten-unit building requires common improvements costing \$10,000 and only five units are to be assisted, the amount attributable to each assisted unit is \$1,000.)

There are two exceptions to the requirement that a unit be substandard in order to qualify for the Moderate Rehabilitation Program:

- a. Standard units which require repair or replacement of major building systems or components in danger of failing within two years are eligible. Work qualifying as a major building system or component is limited to:

- (1) The complete electrical rewiring of a unit;
- 

- (2) The installation of new plumbing supply or waste pipes in a

unit;

(3) The installation of a new heating distribution system, including piping and ductwork, or the installation of a new boiler or furnace;

(4) The installation of a new roof; or

(5) Replacement or major repair of exterior structural elements which are essential to achieve a stable general condition with no threat of further deterioration (for example, removal and replacement of rotted materials, repointing of a large area of exterior walls to eliminate water seepage, major repair of unstable or deteriorated foundation walls, or painting wood which has never been painted, stained or treated).

b. For up to five percent of the units in a PHA's Moderate Rehabilitation Program (total number of units in the Annual Contributions Contract), costs to make units physically accessible for handicapped or disabled tenants may be counted toward the \$1,1000 per unit minimum rehabilitation expenditure. The rehabilitation must make the unit, including access to and egress from that unit, barrier-free with respect to the handicap or disability of the current tenant or individual expected to occupy the unit.

In both exceptions specified above, the \$1,000 minimum rehabilitation expenditure per unit is still applicable and must not include routine maintenance or luxury items, but may include prorated costs of common improvements.

3. Work Items and Costs Eligible for Inclusion After the \$1,000 per Unit Minimum Expenditure Has Been Met. Once the PHA has determined that a unit requires at least \$1,000 of rehabilitation in accordance with paragraph 2 of this Appendix, an analysis must be made to determine whether other necessary work items are feasible and whether the unit can be assisted under the Moderate Rehabilitation Program. The following expense items are eligible for amortization through the Contract Rents, but may not be counted toward the minimum per unit expenditure of \$1,000:

a. Exterior painting; interior painting directly related to an eligible rehabilitation work item and not prohibited by paragraph 4; and air conditioning systems or equipment provided the PHA has determined that air conditioning is typically provided in unassisted, modestly designed housing for lower income families in the locality.

b.Rehabilitation financing costs and fees which are reasonable, directly connected to financing the project, and required by the lender. In order to be considered reasonable, these costs and fees must be less than 2 percent of the rehabilitation loan or new mortgage amount. (Escrows for taxes or other operating expenses are excluded.)

c.Necessary rehabilitation related costs and fees which are reasonable, directly connected with the eligible work items approved by the PHA, and do not include costs for services the PHA is required to provide owners or services available locally at no expense. Eligible expenses could include the cost of building permits required by the local government and expenses for necessary architectural and engineering services not provided by the PHA. Preparation of drawings by an architect is not required in the Moderate Rehabilitation Program and would usually be inappropriate considering the scope of rehabilitation to be accomplished. However, an architectural fee could be an eligible expense if a substantial amount of rehabilitation will be accomplished and drawings are necessary to accomplish the eligible rehabilitation work items.

d.Energy conserving improvements which are practicable, cost-effective and financially feasible. The PHA must review each owner proposal to determine compliance with the attached Cost-Effective Energy Conservation Standards (Attachment 1). If the owner's proposal is found feasible at a gross rent lower than the applicable Fair Market Rent, the PHA must analyze whether additional energy conserving improvements are appropriate. Although PHAs are encouraged to include energy conservation items (including solar energy systems which are cost-effective and economically feasible), these improvements generally will be required only in connection with other rehabilitation work items (e.g., installation of insulation in an exterior wall if that wall will be made accessible or become exposed during the rehabilitation).

e.Actual temporary relocation costs in accordance with 24 CFR Section 882.407. (PHA administrative expenses associated with temporary relocation are reimbursed through administrative fees and are not eligible for amortization through the Contract Rents.)

f.Removal of architectural barriers to make a unit physically accessible to a handicapped or disabled tenant or prospective tenant. Accessibility renovations may be included for any unit which requires at least \$1,000 to correct substandard conditions, in addition to the five percent exception specified in paragraph 2(b) of this Appendix.

4. Ineligible Work Items and Costs. Since PHAs will usually receive proposals from owners of substandard units, such units will have deficiencies ranging from deferred maintenance to structural problems. In order to reimburse owners only for necessary improvements and thus allow the most rehabilitation to be accomplished within the Fair Market Rent constraints, the following work items are never eligible for amortization through the Contract Rents:

a. Cleaning and janitorial services, or landscaping (such as reseeded of lawns or planting of trees and shrubbery) not directly related to an eligible rehabilitation work item. (Landscaping would be eligible if associated with the correction of a severe erosion or drainage problem which affects the structural integrity of the unit.)

b. Repair, replacement or installation of laundry equipment, furniture, nondwelling equipment, and other amenities (e.g., play equipment, recreational items and swimming pools), or drapes, shades and other items subject to normal wear and tear.

c. Interior painting not directly related to an eligible rehabilitation work item or necessary to correct lead based paint deficiencies. (The cost of painting an entire interior room is eligible if a substantial portion of the wall surface needs painting as a result of other eligible rehabilitation activities.)

d. Costs attributable to owner labor (i.e., direct work or supervision of the work), whether or not the owner is a licensed contractor.

It is noted that the routine maintenance items listed above may be required by the PHA to bring units up to full compliance with the HQS or local standards, and that repair or installation of ineligible amenities may be voluntarily performed by the owner in connection with the Moderate Rehabilitation Program. However, such work cannot be included in the rehabilitation costs amortized through the Contract Rents. If routine maintenance items are required by the PHA, the owner must agree to complete the work at the owner's expense.

5. PHA Determination of Eligible Work Items in Compliance with the HQS. In order to maximize the amount of upgrading possible within the financial constraints of the Moderate Rehabilitation Program, it is essential that PHAs carefully develop standards for determining eligible work items, especially if the HQS are being used. For example, the HQS require that the stove and refrigerator be "in proper operating condition" and that this equipment be free of hazardous conditions that endanger the tenants, such as gas or water leakage

that could result in fires or electrical shock. The HQS do not specify standards for the age or appearance of appliances; stoves and refrigerators should not be replaced if they currently work and are adequate for cooking and refrigeration purposes. It is noted that a reserve for replacement can be included when calculating the Contract Rent under the cost approach and this reserve should be sufficient to replace or repair unit equipment during the 15-year contract term.

Another area requiring PHA judgment will be remodeling of kitchens and bathrooms and installation of air conditioning equipment or carpeting. Although remodeling will most likely increase the value of the property and improve its desirability, PHAs should be satisfied that remodeling is necessary to improve functional use (for example, by providing adequate kitchen counter and storage space) and that the resulting increase in Contract Rents is warranted. Units requiring only cosmetic kitchen or bathroom remodeling (or, likewise, only new carpeting or air conditioning) should not be approved by PHAs, and consideration should be given to the feasibility of leasing these units under the Section 8 Existing Housing Program.

Owner applications which propose changing the present unit size configuration (converting existing rooms into bedrooms or dividing an existing room into two rooms to add a bedroom) must be reviewed carefully. Converting an existing room into a bedroom is an eligible work item if the room being converted is not otherwise used for living purposes. For example, a basement or porch can be converted into a bedroom; conversion of a dining room or den is ineligible and an inappropriate way to qualify the unit for a higher rent. Dividing an existing room into two rooms to add a bedroom is likewise not acceptable. These alterations do not substantially improve the family's living conditions by increasing the living space in the unit and are not eligible work items for the Moderate Rehabilitation Program. In limited circumstances (e.g., units with especially large rooms), the ineligible alterations listed above may be considered appropriate. In such cases, PHAs must request written HUD Field Office approval to deviate from the stated policy.

Although the HQS do not specify minimum room sizes, the PHA will need to determine that existing rooms are of adequate size and arrangement for their intended function (i.e., the available space does not hinder furniture placement and the normal use of space). If it is desirable to increase the unit's size by adding one or more bedrooms, the rehabilitation must conform with the minimum room size standards contained in HUD Handbook 4940.4, Minimum Design Standards (MDS) for Rehabilitation of Residential Properties, or with other local standards approved by the HUD Field Office.

PHAs are encouraged to use the MDS for additional guidance in interpreting whether units currently meet the HQS or local standards,

the necessary extent of rehabilitation, and appropriate work specifications. In addition, Chapter 5 of the PHA Existing Housing Administrative Practices Handbook 7420.7, provides clarification of the HQS and PHA standards for determining unit compliance. The HQS tenant preference standards are applicable only to the Existing Housing Program; the PHA will be responsible for making all determinations of HQS acceptability for the Moderate Rehabilitation Program. Guidance in providing accessibility to the handicapped is contained in "Specifications for Making Buildings and Facilities Accessible to, and Useable by, the Physically Handicapped" (ANSI A117.1). This publication is available from the American National Standards Institute, Inc., 1430 Broadway, New York, New York 10018.

---

12/81

Page 6

7420.3 REV-2 CHG-7

ATTACHMENT 1

---

HOUSING AND URBAN  
DEVELOPMENT

Office of the Secretary

24 CFR Part 39

Cost-Effective Energy Conservation  
Standards

AGENCY: Office of the Secretary, (HUD).

ACTION: Interim rule.

---

SUMMARY: The Secretary is prescribing cost-effective energy conservation and efficiency standards for certain HUD programs and is inviting public comment on these standards before they become effective. With the exception of one program in which the Secretary has determined that these standards are needed as a matter of policy, adoption and implementation of the standards are required by recently enacted legislation.

COMMENT DUE: June 11, 1979.

EFFECTIVE DATE: July 9, 1979.

FOR FURTHER INFORMATION CONTACT:

Joseph Shermen, Director, Division of Energy, Building Technology and Standards Research, Office of Policy Development and Research, (202) 755-6443 or Duane Keplinger, Acting Director, Office of Architecture and Engineering Standards, Office of Housing, (202) 755-5718, Department of Housing and Urban Development, 451 Seventh Street, S.W., Washington, D.C. 20410.

SUPPLEMENTARY INFORMATION: The Housing and Community Development Amendments of 1978, 42 U.S.C. 1425(b) et seq., Pub. L. 95-557 (1978 Amendments) require the Secretary to

---

Page 1 (1 of 5)12/81

HUD-Wash., D.C.

7420.3 REV-2 CHG-7

ATTACHMENT 1

---

prescribe cost-effective energy conservation and efficiency standards governing improvements and rehabilitation in four HUD programs. In addition, the Secretary has determined as a matter of policy that the standards are needed in a fifth program to assure conservation of energy resources. Thus, the standards, which are set forth as an Appendix to this rule, will apply to (1) rehabilitation loans under Section 312 of the Housing Act of 1964 (see Section 101(a)(7) of the 1978 Amendments); (2) rehabilitation loans under Section 203(k) of the National Housing Act (see Section 101(c)(1) of the 1978 Amendments); (3) Federal financial assistance for troubled multifamily housing projects (see Section 201(d)(6) of the 1978 Amendments); (4) Federal financial assistance for substantial rehabilitation projects under Section 8 of the United States Housing Act of 1937 (see Section 206(d)(1) of the 1978 Amendments); and (5) Federal financial assistance for moderate rehabilitation projects under

Section 8 of the United States Housing Act of 1937 (Secretary's policy determination).

The Secretary has determined that the standards are urgently needed and must be adopted 60 days after publication since the 1978 Amendments prohibit Section 312 Rehabilitation loans after July 27, 1979, covering work which does not conform to the standards. Hence, the Section 312 program cannot continue unless these standards have been adopted in sufficient time to acquaint participants adequately with the cost-effective energy provisions by that date. Furthermore, the program under Section 203(k) of the National Housing Act cannot be effectively implemented until the standards have been adopted. The

---

Page 1 (2 of 5)12/81

HUD-Wash., D.C.

7420.3 REV-2 CHG-7

ATTACHMENT 1

---

1978 Amendments also require expedited implementation of the Standards for the Section 8 Substantial Rehabilitation Program and Troubled Multifamily Housing Assistance Program.

Before adopting the standards, the Secretary is providing 30 days for submittal of public comments. If as a result of comment, the Secretary determines that change in the standards is appropriate, their effectiveness will be deferred by publication in the Federal Register. Otherwise, unless deferred by such publication, the standards will become effective without notification by the Secretary 30 days after the close of the period allowed for public comment, that is 60 days after publication of this document. Interested parties are invited to participate in this rulemaking proceeding by submitting relevant comments and suggestions to the Rules Docket Clerk, Office of the General



Counsel, Department of Housing and Urban Development, 431 Seventh Street, S.W., Washington, D.C. 20410. A substantive response will be provided as to each comment received through a notice published in the Federal Register or by mail.

The Secretary has determined that this amendment does not affect the quality of environment and a statement to that effect has been prepared. This statement is available for inspection and copying in the Office of the Rules Docket Clerk at the above address.

The legislative review provisions of Section 7(o) of the Department of HUD Act, 42 U.S.C. 3535(o) have been met.

Accordingly Subtitle A is amended by adding a new Part 39 to read as follows:

---

Page 1 (3 of 5)12/81

HUD-Wash., D.C.

7420.3 REV-2 CHG-7

ATTACHMENT 1

---

PART 39--COST-EFFECTIVE ENERGY  
CONSERVATION AND  
EFFECTIVENESS STANDARDS

Sec.

39.1 Title and purpose.

39.3 Authority.

39.5 Scope.

39.7 Standards.

Appendix I Cost-Effective Energy Efficiency  
(Conservation) Standards for  
Rehabilitation of Residential Properties

39.1 Title and purpose.

The purpose of this Part is to set forth cost-effective energy conservation and efficiency standards applicable to HUD programs.

39.3 Authority.

This Part implements the provisions of the Housing and Community Development Amendments of 1978, 42 U.S.C. 1425(b). et seq., Pub. L. 95-557.

### 39.5 Scope.

The standards apply to the following programs:

- (a) Rehabilitation loans under Section 312 of the Housing Act of 1964.
- (b) Rehabilitation loans under Section 203(k) of the National Housing Act.
- (c) Operating assistance for troubled multifamily housing projects under Section 201 of the Housing and Community Development Amendments of 1978.
- (d) Financial assistance for substantial rehabilitation projects under Section 8 of the United States Housing Act of 1937.
- (e) Financial assistance for moderate rehabilitation projects under Section 8 of the United States Housing Act of 1937.

---

Page 1 (4 of 5)12/81

HUD-Wash., D.C.

7420.3 REV-2 CHG-7

ATTACHMENT 1

---

### 39.7 Standards.

The standards are set forth in detail in the Appendix to this Part.

#### Appendix

Cost-Effective Energy Efficiency (conservation) Standards for Rehabilitation of Residential Properties

A-1. General. (a) These standards provide the mandatory levels of various energy-efficiency features that are considered as cost-effective in the rehabilitation of residential properties. The material is arranged to give consideration to local climatic conditions and fuel prices in determining the measures to be used.

(b) It is realized that not all of the requirements can be followed in all situations due to existing building conditions and funds available.

A-2. Application. (a) It is the intent of these standards to apply only to those improvements proposed as part of the

---

Page 1 (5 of 5)12/81

HUD-Wash., D.C.

7420.3 REV-2 CHG-7

ATTACHMENT 1

---

rehabilitation, except those listed in A-3 below. If new material or construction is contemplated, conformance to these standards is mandatory for these features.

(b) It is not the intent to require thermal improvement of construction elements which would not ordinarily be made accessible or become exposed during the rehabilitation.

(c) The requirements contained herein must be applied judiciously. Any one or more of the requirements may be eliminated to the extent they are not practical in rehabilitation situations, considering economic feasibility, program needs and the materials and type of construction involved. (Example: The use of the following Tables for a structure of 1500 square feet located in an area of 4200 degree days with a fuel cost of 4 cents per Kwh for electricity, would require R-30 ceiling insulation for certain programs. If the structure presently had no ceiling insulation, the savings in fuel cost would be approximately \$1000 per year after adding the R-30 insulation. However, if the present ceiling contained R-19 insulation, improvement to R-30 would result in an annual reduction in fuel cost of only \$170.) The reduced operating cost must be weighed against the amortization cost for the improvements to determine cost-effectiveness for the specific program terms. (The energy estimating methods contained in

Chapter 43 of the 1976 Systems Handbook of the American Society of Heating, Refrigerating and Air Conditioning Engineers, Inc. were used in preparing the above comparison.)

A-3. Additional Criteria. (a) In addition to the measures shown in the Tables, the following shall apply to those structures which are not subjected

---

12/81

Page 2 ( 1 of 4)

HUD-Wash., D.C.

7420.3 REV-2 CHG-7

ATTACHMENT 1

---

to the energy audit procedures described in (b) below: (1) Doors and windows shall be weatherstripped to reduce infiltration of air when weatherstripping is inadequate or nonexistent.

(2) Caulk, gasket, or otherwise seal all openings, cracks, or joints in the building envelope when existing materials are inadequate. Replace all loose or brittle caulking with new elastomeric material. Leave bottom edge of siding uncaulked to allow moisture drainage.

(3) Replacement heating, ventilating and airconditioning (HVAC) system supply and return pipes and ducts shall be insulated whenever they run through unconditioned spaces. Pipe insulation shall be R-2 or greater, and duct insulation shall be R-4 or greater. Duct seams shall be tightly sealed to reduce air leakage.

(4) Replacement heating systems, burners and airconditioning systems shall be of high-efficiency design, and should be carefully sized to be no greater than 15% oversize for the critical design, bearing or cooling, except to satisfy the manufacturers' next closest nominal size.

(b) For mid-rise and high-rise structures and for many low-rise multifamily projects an energy audit must be carried out to identify and specify the energy and cost savings

which are estimated to result from installing or accomplishing an energy conservation measure. All measures determined to be cost-effective, given the loan time and rate and in accordance with paragraph A-2 shall be accomplished. Amortization cost of improvements must be offset by reduced operating costs attributable to the improvements. Generally, assistance in conducting energy audits is available through local supplies, energy officials

---

12/81

Page 2 ( 2 of 4)

HUD-Wash., D.C.

7420.3 REV-2 CHG-7

ATTACHMENT 1

---

and utility companies. The energy audit shall cover all of the following energy conservation measures, to the degree feasible, except those that are not appropriate for the building types or equipment:

- Installation of individual utility meters or checkmeters
- Ceiling insulation
- Insulation of hot water end steam pipes
- Insulation of heating and cooling ducts in unheated spaces
- Caulking and sealants in building joints
- Weatherstripping doors and windows
- Clock thermostats for units with individual heating units
- Storm windows or replacement of single glazed windows with double glazed windows
- Flow restrictors for hot water lines to shower heads or faucets
- Thermostatic radiator valves
- Replacement of incandescent fixtures in public spaces with higher efficiency lighting
- Exterior insulation for water heaters located in unheated spaces
- Improved burners, controls, capacitors and other improvements to mechanical systems which will lower fuel consumption or energy costs

A-4. Use of Table 1. In order to use the recommendations shown in Table 3, the Heating Index must be determined from Table 2. If the structure is mechanically cooled, the Cooling Index must also be selected from Table 2. In order to choose a Heating Index and a Cooling Index from Table 2, it is necessary to identify the appropriate reference column number. Table 1 presents those column reference numbers. At the top of Table 1 are unit prices for oil, gas, and electricity (electricity prices apply to resistance electric heating and air conditioning

---

12/81

Page 2 ( 3 of 4)

HUD-Wash., D.C.

7420.3 REV-2 CHG-7

ATTACHMENT 1

---

only) expressed in cents per gallon, per therm, and per Kwh, respectively. The costs used in choosing the proper reference column number should be the marginal cost--the cost of the last unit of fuel purchased in the heating or cooling season--and should include all taxes and fuel adjustment charges. Choose reference column numbers for the Heating Index by selecting the reference number directly below the fuel costs in the row representing the financing terms to be used. Similarly select a Cooling Index reference column by noting the number in the row of the applicable financing terms that is directly below the unit price of cooling energy. When fuel costs exceed those shown in the Table, use the last column on the right of the Table.

A-5. Table 2--Selection of Heating and Cooling Indices. At the top of Table 2 are column reference numbers. Along the left side of Table 2 are Degree Days for heating and Cooling Hours for cooling. The Heating Index is derived by reading down the correct reference column and across for the applicable Degree Day entry. The point of



\* \*  
\* \*

\*\*\*\*\*

HUD-Wash., D.C.

7420.3 REV-2 CHG-7

ATTACHMENT 1

---

Table 2

HEATING AND COOLING INDICES

\*\*\*\*\*

\* \*  
\* \*  
\* \*  
\* \*  
\* \*  
\* \*  
\* \*  
\* \*  
\* \*  
\* \*  
\* \*  
\* \*  
\* \*  
\* \*  
\* \*  
\* \*  
\* \*  
\* \*  
\* \*  
\* \*  
\* \*  
\* \*  
\* \*  
\* \*  
\* \*  
\* \*  
\* \*  
\* \*  
\* \*  
\* \*  
\* \*  
\* \*

GRAPHICS MATERIAL IN ORIGINAL DOCUMENT OMITTED

\*

\*\*\*\*\*

---

HUD-Wash., D.C.

7420.3 REV-2 CHG-7

ATTACHMENT 1

---





amount of insulation, additional insulation applied by blowing or pouring is not recommended.)

(4) Extra insulation, up to R-19, is recommended where practicable under the conditions of Note (3) above.

(5) Three layers of glass not typically cost-effective unless existing windows are double glazed or complete replacement of sash is contemplated. If replacing sash, should have insulating frames.

(6) Storm doors or thermal doors recommended if primary door is hollow-core or is over 25 percent glass.

(7) Applicable only to individual living unit doors opening directly to the exterior.

(Section 7(d) of the Department of Housing and Urban Development Act 42 U.S.C. 3535(d))

Issued at Washington, D.C. April 6, 1979.

Patricia Roberts Harris.

Secretary of Housing and Urban Development.

[Docket No. R-79-642]

[FR Doc.79-14582 Filed 5-9-79 8:45 am.]