

CHAPTER 1. INTRODUCTION

- 1-1. PURPOSE. Section 14 of the United States Housing Act of 1937, as amended by the Housing and Community Development (HCD) Act of 1980, substituted for the existing Public Housing Modernization Program a new Comprehensive Improvement Assistance Program (CIAP), beginning in Federal Fiscal Year (FFY) 1981. Under the CIAP, the Department of Housing and Urban Development (HUD) provides financial assistance to Public Housing Agencies (PHAs), including Indian Housing Authorities (IHAs), to improve the physical condition and upgrade the management and operation of existing public housing projects to assure that such projects continue to be available to serve lower income families. This Handbook provides instructions, guidelines and processing procedures for use by HUD Field and Regional Offices, PHAs and other participants involved in the comprehensive improvement of public housing projects. The CIAP Regulation, 24 CFR Part 968, is attached as Appendix 1.
- 1-2. APPLICABILITY.
- a. This Handbook applies to PHA-owned lower income public housing projects, including conveyed Lanham Act and Public Works Administration (PWA) projects, and to Section 23 Leased Housing Bond-Financed projects. All references in this Handbook shall apply to IHAs, as well as non-Indian PHAs, unless specifically stated. This Handbook also applies to the implementation of modernization programs which were approved before FFY 1981.
 - b. This Handbook does not apply to projects under the Section 23 Leased Housing Non Bond-Financed Program, the Section 10(c) Leased Housing Program, and the Section 23 and Section 8 Housing Assistance Payments Programs.
- 1-3. DEFINITIONS. The following definitions are used throughout this Handbook:
- a. Act means the United States Housing Act of 1937, as amended (42 U.S.C. 1437 et seq.).
 - b. Annual Contributions Contract (ACC) means a contract under the Act between HUD and the PHA, containing the terms and conditions under which, before FFY 1987, the Secretary made loans and annual contributions to assist PHAs in providing decent, safe and sanitary housing for

lower income families and provided modernization funds to PHAs to improve existing public housing projects. Beginning with FFY 1987, the Secretary provides modernization funds to PHAs through capital grants.

- * c. CIAP funds mean funds derived from an allocation of budget authority for the purpose of financing physical and managements improvements under an approved modernization program. *
- d. Comprehensive modernization means a modernization program for a project which provides for all needed physical and management improvements, including all energy conservation measures determined by HUD to be cost-effective.
- * e. Comprehensive Plan for Modernization (CPM) means a master plan developed by the PHA which identifies, on a PHA-wide and individual project basis, the current physical and management improvement needs of its entire public housing stock, sets forth strategies for addressing those needs, and discusses the results of the viability reviews conducted for every project. The CPM also includes the five-year funding request plan, which is updated annually (see subparagraph j). All PHAs, excluding IHAs, with 500 or more units in management are required to submit the CPM. *
- f. Emergency modernization means a modernization program for a project that is limited to physical work items of an emergency nature, posing an imminent threat to the life, health and safety of residents or related to fire safety. Such work items must be corrected within one year of funding approval. Under emergency modernization, management improvements are not eligible modernization costs.
- g. Field Office means the HUD Office with which the PHA normally transacts its lower income housing business.
- * h. Financial feasibility means that the physical improvement costs (hard costs) of a modernization program for a project do not exceed a certain percentage of the cost guidelines for a new project. See paragraph 2-2. *
- i. Financially distressed PHA means a PHA that has an operating reserve level of 20 percent or less of its authorized maximum or other level as determined by HUD, as shown on the latest year-end financial statement. See paragraph 2-6c.

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- * j. Five-year funding request plan means the PHA's plan for requesting CIAP funds which reasonably can be expected to be made available over the next five years to meet the needs identified in the CPM. Prioritized by project and type of modernization, the plan is submitted as part of the CIAP Application and is updated annually to cover a rolling five-year period. The plan provides for gross

estimates of the total needs of the projects for which comprehensive modernization is requested and for gross estimates of the specialized needs of the projects for which other types of modernization are requested. For small PHAs (under 500 units) and IHAs which were not required to develop a CPM, the five-year funding request plan is the only required planning document. See paragraph 3-6a.

- k. Force account labor means labor employed directly by the PHA on either a permanent or a temporary basis. Under Section 107(D) of the ACC, use of force account labor requires prior HUD (Field Office) approval.
- l. Hard costs mean the physical improvement costs in development accounts 1450 through 1475. *
- m. Homebuyer Agreement means a Mutual Help and Occupancy Agreement or a Turnkey III Homebuyer's Ownership Opportunity Agreement.
- n. Homeownership modernization means a modernization program for a project that is under the Turnkey III Homeownership Opportunities Program or the Mutual Help Homeownership Opportunities Program. Under homeownership modernization, limited physical improvements are eligible modernization costs, but management improvements are not eligible modernization costs. See paragraph 2-11.
- o. Lack of management capability means that the PHA has inadequate management practices, as determined by the Field Office on the basis of regular monitoring and performance of on-site reviews, audits and surveys, as well as the Annual Performance Review, in accordance with the Field Office Monitoring of PHAs Handbook 7460.7 REV-1, and that the PHA has not taken appropriate corrective action. Management practices which are to be considered include, but are not limited to: management, financial and accounting controls; tenant selection and eviction; occupancy levels; rent collection; maintenance; and administration of equal opportunity requirements. See paragraph 2-3. *

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- p. Lack of modernization capability means that the PHA has previously approved, but unobligated modernization funds that are past the fund obligation deadline date set forth in the HUD-approved Project Implementation Schedule, and that the Regional Office has determined that the failure to obligate such funds is due to reasons within the PHA's control. "Unobligated" means the PHA has not awarded contracts or started force account work for use of the funds. *

"Reasons within the PHA's control" means that the PHA did not take every feasible action toward completion and excludes lengthy delays outside of the PHA's control, such as litigation, environmental reviews, strikes, HUD delay and other reasons determined to be valid by the Field or Regional Office. *

q. Modernization program means a PHA's program for carrying out modernization, as set forth in the proposed or approved CIAP Application.

r. Modernization Project means the improvement of one or more existing public housing projects. This is in contrast to the term "project" which means an individual development project with a unique project number.

* s. Nondiscrimination funding preference means a priority for funding is given to correct physical disparities between minority and non-minority buildings where the non-Indian PHA has a HUD-approved nondiscrimination plan. *

t. Nonroutine maintenance means work items that ordinarily would be performed on a regular basis in the course of upkeep of a property, but have become substantial in scope because they have been put off and that involve expenditures that would otherwise materially distort the level trend of maintenance expenses. Nonroutine maintenance may include replacement of equipment and materials rendered unsatisfactory because of normal wear and tear by items of substantially the same kind. Work that constitutes reconstruction, a substantial improvement in the quality and kind of original equipment and materials, or remodeling that alters the nature or type of housing units is not nonroutine maintenance.

u. Simple payback period means the number of years required to accumulate net annual savings equal to the cost of the work item. It is calculated by dividing

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the cost of the work item by the estimated net annual savings resulting from the work item, taking into account changes in operating and maintenance costs, but not interest and inflation. It is used to determine the eligibility of energy conservation work items which must have a 15-year or less simple payback and a useful life equal to or greater than the payback term to be eligible for funding.

* v. Soft costs mean the non-physical improvement costs and exclude any costs in development accounts 1450 through 1475.

w. Special purpose modernization means a modernization program for a project that is limited to any one or more of the following types of physical improvements otherwise eligible for CIAP funding, subject to a HUD determination that the physical improvements are necessary and sufficient to extend substantially the useful life of the project, beyond that which it would have if such improvements were not made. Examples cited in each category are for illustration only. See paragraph 3-21 for limitations on special purpose modernization. Under special purpose modernization, management improvements are not eligible costs.

- (1) Physical improvements to replace or repair major equipment systems (such as elevators and heating, cooling, electrical, electrical call, fire protection, and water and sewer systems) or structural elements (such as roofs, walls and foundations).
 - (a) Major equipment systems mean building/project mechanical and operating units with individual elements that are so interconnected that discrete components within these elements are not readily adaptable for repair or replacement without affecting the entire unit. Ineligible for funding are kitchens (cabinets, ranges, refrigerators, sinks) and bathrooms (bathtubs, showers, sinks, toilets).
 - (b) Structural elements mean components which are necessary to protect the structural integrity of the building. Siding is eligible for funding under structural elements only if it is currently part of the building envelope and its replacement is *

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* necessary to protect the building's structural integrity.

- (2) Physical improvements to upgrade security, such as installation of additional lighting, security screens on windows, better locks, or design changes to enhance security. Ineligible for funding are non-physical improvements, such as security staffing and services, automobiles, scooters, and walkie-talkies;
- (3) Physical improvements to increase accessibility for elderly and handicapped families, according to the applicable standards of 24 CFR Part 8;

- (4) Physical improvements to reduce the number of units which are vacant and substandard and which are limited to improvements necessary to meet local code requirements and return the units to a condition that is comparable to that of occupied units in the same project. Eligible work includes kitchens, bathrooms and components of such, as well as work outside of the vacant units, such as hallways and common areas which contain code violations affecting the occupancy of the units; and
- (5) Cost-effective physical improvements to increase the energy efficiency of the project. *

- x. Type of modernization means one of the following: comprehensive; emergency; special purpose; or homeownership.
- y. Work item means any separately identifiable unit of work constituting a part of a modernization program.

1-4. GENERAL LEGISLATIVE AND FINANCIAL PROVISIONS.

- a. Legislative Provisions. The Act was amended in 1974 to provide that a low-income project, for which HUD may enter into an ACC, may include "the improvement" of low-income housing. Therefore, HUD may enter into a separate commitment to finance the cost of improvement, which includes modernization, over a separate ACC term, without regard to the number of years elapsed under the maximum ACC term for payment of the original development debt.
- b. Before FFY 1987. Beginning on July 1, 1978, each

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separate Modernization Project included all of the PHA's projects that were approved for modernization at the same time and that were under the same consolidated ACC, and had a maximum contribution period of twenty years, regardless of the number of years that had elapsed under the original ACC terms of the projects involved. Each project included under the Modernization Project was subject to the ACC and HUD requirements for public housing operation for a period of twenty years from the time the first annual contribution was payable on the modernization debt (subject to sale of homeownership units in accordance with the terms of the ACC). The period of amortization of the modernization debt of the Modernization Project did not affect the term for payment of annual contributions to amortize the original development debt. Where a project was under ACC after

expiration of the original term because of its inclusion in a Modernization Project, HUD approved payment of operating subsidy for the project under the applicable regulation.

- c. FFY 1987 and Subsequent FFYs. Beginning with FFY 1987, CIAP funds are provided through grants not loans. Each project included under the Modernization Project shall be subject to the ACC and HUD requirements for a period of twenty years from the date the ACC is amended.

1-5. USE OF COMMUNITY DEVELOPMENT BLOCK GRANTS.

- a. Rehabilitation as an Eligible Activity. The eligible uses of Community Development Block Grant (CDBG) funds under Title I of the Housing and Community Development (HCD) Act of 1974, as amended, are set forth in 24 CFR Part 570, Subpart C, and include, but are not limited to, the physical rehabilitation of publicly-owned, low-income housing.
- b. Use of CDBG Funds. Interested PHAs should contact the unit of general local government submitting a final statement or application, regarding the possibility of including modernization activities in the CDBG program. PHAs shall inform the Field Office Assisted Housing Management Branch (AHMB) of proposed modernization for which CDBG funds have been requested. The AHMB shall consult periodically with the Field Office Community Planning and Development (CPD) Division so that it is informed of when modernization activities have been specified in annual CDBG final statements. Such information may not be available for units of general local government receiving CDBG funds from the States.

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- c. Coordination of Funds. PHAs that are receiving modernization funds and CDBG funds for the same project shall enter the CDBG funds on Form HUD-52825, Comprehensive Assessment/Program Budget, as "Operating Funds Provided by PHA" - CDBG, to ensure appropriate coordination of funds and avoid duplication of work items.

- * d. Application of CDBG Requirements. If CDBG funds are used to pay any of the costs of the rehabilitation work under CIAP, the project also is subject to the requirements of section 104(d) of the HCD Act of 1974, as amended, and implementing regulations at 24 CFR 570.606(b) for the Entitlement Program and HUD-administered Small Cities Program or 24 CFR 570.496a(b) for the State CDBG Program. These regulations require that certain additional relocation assistance be provided to any lower income tenant displaced by the conversion of a lower income dwelling

unit to non-dwelling use or by demolition and that such demolished or converted unit be replaced. *

1-6. INAPPLICABILITY OF SECTION 213 OF HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1974. The requirements of Section 213 of the HCD Act of 1974, as amended (24 U.S.C. 1439), for review of applications by units of general local government do not apply to CIAP Applications for modernization of existing public housing projects. See paragraph 3-4c for required PHA consultation with local officials.

1-7. APPLICABILITY OF EXECUTIVE ORDER 12372. The requirements of Executive Order (E.O.) 12372 on Intergovernmental Review of Federal Programs apply to certain CIAP Applications for modernization of existing public housing projects, excluding Indian projects. If a State selects the CIAP to review and the application meets the other qualifying criteria, the Field Office must provide the State with an opportunity to comment on the CIAP Application under HUD's implementing regulation, 24 CFR Part 52. See paragraph 3-13.

* 1-8. UNIFORM ADMINISTRATIVE REQUIREMENTS. The Uniform Administrative Requirements for Grants and Cooperative Agreements to States and Local Governments, as set forth in 24 CFR Part 85, applies to CIAP funds, except as specified in 24 CFR Part 968. See Chapters 8 and 9. *