

## **2011 NCSHA Awards**

**HFA: Michigan State Housing Development Authority (MSHDA)**

**Category: Rental Housing - Preservation and Rehabilitation**

**Entry Name: Michigan Affordable Housing Reinvestment and Innovation Program**

### **The Reinvestment and Innovation Program (RIP)**

#### **Problem Definition**

Michigan economic and demographic realities during the past several years have included significant job loss, population loss and household income declines. Flat or declining LIHTC rent limits combined with operating cost increases have put incredible pressure on the low-income housing industry. Portions of the Michigan portfolio suffer thin and sometimes upside-down debt coverage ratios and increased economic vacancy, a serious deterrent to new private capital investment in housing production and preservation within the state.

#### **Program Solution**

Given the 2009 American Recovery and Reinvestment Act opportunity to receive Section 1602 cash grants from the Treasury in lieu of awarding Low Income Housing Tax Credits (LIHTC), MSHDA thought creatively about solutions to the housing issues of low-income individuals and families. Several weeks before HUD and Treasury released guidelines for ARRA's TCAP and Section 1602 funds, MSHDA determined that restructuring existing low income housing properties to account for today's economic realities was one of the most efficient uses of those funds. Fundamentally, MSHDA felt Michigan did not need more affordable housing; it needed housing that was more affordable and of higher quality. Moreover, MSHDA saw that the tax credit exchange presented by ARRA was both a one-time opportunity and a fundamentally different program than the LIHTC program states usually managed.

MSHDA devised a plan shaped by several key priorities, including efforts to maximize the value of the TCAP and exchange resources, spur economic activity, create jobs, improve the quality and sustainability (financially, environmentally and otherwise) of developments receiving Recovery Act investments and candidly address the problems we continue to face as a state and nation. The plan included predictable features to stimulate both 9 percent and 4 percent LIHTC production, while also laying out an ambitious framework to focus use of the exchange funds on the needs of Michigan's existing affordable housing portfolio. Dubbed the Michigan Affordable Housing Reinvestment and Innovation Program (RIP), one of its key features was a strategy to confront substantial increases in energy costs likely to increase even more dramatically in the near future due to regulatory changes shifting electric costs from the business sector of the Michigan economy.

## **Program Implementation**

The Reinvestment Program was formally announced in August of 2009. The program allowed affordable housing developments that have received a direct investment of MSHDA resources to apply for as much as \$20,000 per unit (later amended to allow up to \$30,000 per unit) in Section 1602 funding to pay for needed capital improvements, program-required energy upgrades, and other physical upgrades to extend the life of or improve the marketability of the property. The right mix of improvements should solidify operational performance by sustaining physical quality, reducing maintenance and utility costs, and lowering pressure on replacement reserve deposits.

Applicants had to complete a capital needs assessment (CNA) and an energy audit, both of which informed the scope of work. Each project's operations were re-underwritten using MSHDA's current underwriting standards, which include assumptions of no more than 1 percent rent trending for the next five years, utility cost increases of 6 percent annually during the same period, and vacancy rates of 8 percent. Properties had to demonstrate that replacement reserves were funded adequately, based on 15- to 20-year CNA projections. In addition, four- to six-month operating reserves had to be established or replenished. Owners were eligible for a developer's fee of 10 percent of aggregate basis costs being incurred, with a maximum of \$250,000.

MSHDA tentatively set aside \$78 million of its \$268 million in exchange program funds for the Reinvestment Program. 33 developments representing more than 3,800 residential units applied for more than \$74 million in funding. Ultimately, MSHDA awarded more than \$69 million in Section 1602 funding to 18 Reinvestment Program transactions representing 2,413 residential units.

## **Why Michigan's Reinvestment and Innovation Program (RIP) should be considered for an award:**

As it is taking effect in Michigan in 2010, RIP is already demonstrating the merit of making modest investments in existing affordable housing to extend its physical and economic lifespan rather than forcing every struggling project through a full-scale refinancing. MSHDA estimated that more than 1,200 jobs have been created or retained through the program; at the Detroit site Hidden Pines alone, Liberty Construction hired 12 subcontractors, providing a total of 94 new construction jobs.

The program impacts prove their value in changes on the ground. For example, another Detroit project, "8330 On The River," was awarded RIP funds in March 2010. This property is more than just an address: it is a 280-unit elderly housing development located between the Detroit River and Jefferson Avenue. Originally built in 1976 under the 236 program, the project was decoupled and refinanced in 2002 by Boston-based Preservation of Affordable Housing (POAH). Given both constraints at that time and latent defects discovered during rehabilitation that reduced the planned scope of work, nearly a decade later the property was beginning to suffer from water infiltration, high energy costs and other concerns.

8330 On the River was aging. The physical needs of the development were now far greater than the available reserves, and POAH had been unable to secure funding to complete the necessary rehabilitation of the development which is still in both its LIHTC compliance period resulting from the 2002 decoupling transaction and within the lockout period on its first mortgage.

Unfortunately, initial triage reviews of the application suggested a substantial gap even after POAH agreed to contribute additional capital and permanently reduce related-party management fees by more than \$1 million over a 20-year period. Processing continued, however, as POAH sought other ways to close the gap, and MSHDA ordered a Green Capital Needs Assessment (GCNA) from On-Site Insight.

**SCOPE OF WORK:** On-Site Insight's GCNA combines a traditional capital needs analysis with an energy audit and recommendations on other green construction alternatives. In consultation with the owner, this informed the scope of work, including replacement or repair of windows, drywall, roofing, doors, carpeting, kitchen and bathroom flooring, ranges, refrigerators, countertops, bathtubs and surrounds and toilets. Perhaps most importantly, work also includes repairs to exterior masonry and recladding of the entire building to both prevent further water infiltration and provide sidewall insulation. The GCNA estimated the development will save nearly \$55,000 annually by implementing the recommended energy efficiency and water conservation measures.

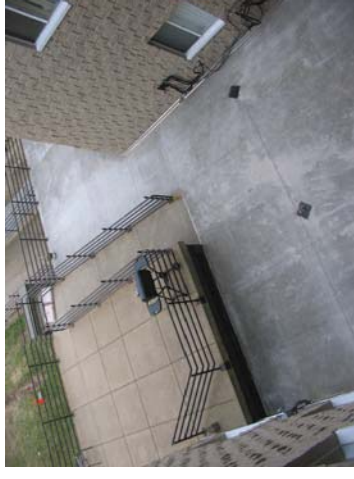
MSHDA underwrote these reductions in utility costs, and even after conservatively assuming that only about 60 percent of the estimated utility savings would materialize, the impact of these operating cost reductions closed the gap on the project. With the recapitalization of both replacement and operating reserves and the rigor of the underwriting, 8330 On the River's financial health has been secured for another generation.

“When looking to make improvements in properties such as this, Michigan has stood out,” said Patricia Beldon, POAH Manager of Development. “MSHDA's program encouraged housing nonprofits including ours to make necessary and significant capital improvements while making green retrofits that not only decrease operating costs but elevate quality of life.”

Through such collaborative efforts inspired by the Reinvestment and Innovation Program, an attractive, inner city, low-income housing development is achieving new life, and 280 residents will have comfortable, affordable, high-quality housing in their later years. 8

8330 On the River is only one success story on the Detroit landscape and one of 18 to be realized throughout Michigan, thanks to the Reinvestment Program.

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# POAH greens its portfolio

As the owner of a large and growing portfolio, POAH believes that “greening” our properties is both a good business practice and consistent with our mission goals. Supported by a combination of public and private grants, as well as loans we anticipate repaying from the proceeds of energy savings, POAH’s energy initiatives continue to bear fruit. They include successful energy investments in solar power generation, building envelope improvements, water fixture and lighting retrofits, equipment upgrades and comprehensive green retrofits that include all of these components.



**8330 On The River,  
Detroit, MI**

## Building Envelope Upgrades

**8330 On The River**, a 280-unit high rise building on the river in Detroit, MI is being re clad with a new skin, including a thermal layer that will significantly improve the building’s insulating qualities. **Cromwell Court Apartments** in Hyannis, MA has received energy efficiency improvements from the Massachusetts Weatherization Assistance Program that include insulation, air sealing, and 14 new high efficiency gas furnaces. **Cherry Hill Apartments** in Johnstown, RI will have insulation and air sealing work projected to save more than 4,000 therms of natural gas annually. At all of these properties, the building envelope upgrades will reduce natural gas consumption and improve resident comfort.



**Colony Plaza, Excelsior  
Springs, MO**

## Water Conservation

Water/sewer conservation measures at the Detroit and Troy, Michigan properties - **920 on the Park** and **8330 on the River** - will pay for themselves within a year. These efforts include installation of low flow showerheads, faucet aerators, and water efficient toilet mechanisms.



**Fairweather Apartments,  
Salem, Massachusetts**

## Solar Power

Following our successful installation of photovoltaic panels at **Bridle Path Apartments** in Randolph, MA, POAH has now activated our second solar installation at the **Fairweather Apartments** in Salem, MA. Fairweather received a grant from the Massachusetts Clean Energy Center, acting through MassHousing, to install a 27.6 kilowatt solar photovoltaic system on the site. The panels came online on January 29, 2011 and as of March 11<sup>th</sup> had generated 3,410 kilowatt hours of clean, free electricity for the site. These panels will generate more than 35,000 kWh a year in free electricity. Solar thermal panels, which capture the sun’s energy to generate hot water, will soon be installed at **Colony Plaza** in Excelsior Springs, MO, at **Woodlawn Center South** in Chicago, IL, and at **Sugar River Mills** in Claremont, NH. The **Sugar River Mills** effort is funded through a grant from TD Bank.



**Woodlawn Center South,  
Chicago, IL**



**Bridle Path Apartments,  
Randolph, MA**

## Electricity Conservation

In March of 2010, **Cherry Hill** received new energy efficient lighting in the common areas and the units through a program offered by the electric utility. Through similar programs funded by the local utilities, **Torrington West** in Torrington, CT will also receive new energy efficient lighting in the common areas and the units. These improvements should reduce electric consumption by around 100,000 kWh a year.



**Garfield Hill Apartments,  
Washington, D.C.**

## Green Retrofits

POAH has closed two comprehensive green retrofits under HUD’s multifamily housing Green Retrofit Program funded by the American Reinvestment and Recovery Act. **Garfield Hill Apartment** in Washington, DC was one of the first four sites in the country to be awarded funds under this program. POAH has renovated the heating systems, installed high-efficiency property lighting, improved air quality through unit ventilation, upgraded the water runoff filtration effects of the landscaping, and instituted green operating and maintenance principles. Similarly, POAH closed a GRP loan for **Colony Plaza**, in Excelsior Springs, MO. This loan will fund a high efficiency HVAC system to replace the one original to the property. In addition, POAH is installing new water savings fixtures, energy efficient lighting and a solar thermal domestic hot water system.



**Sugar River Mills,  
Claremont, NH**



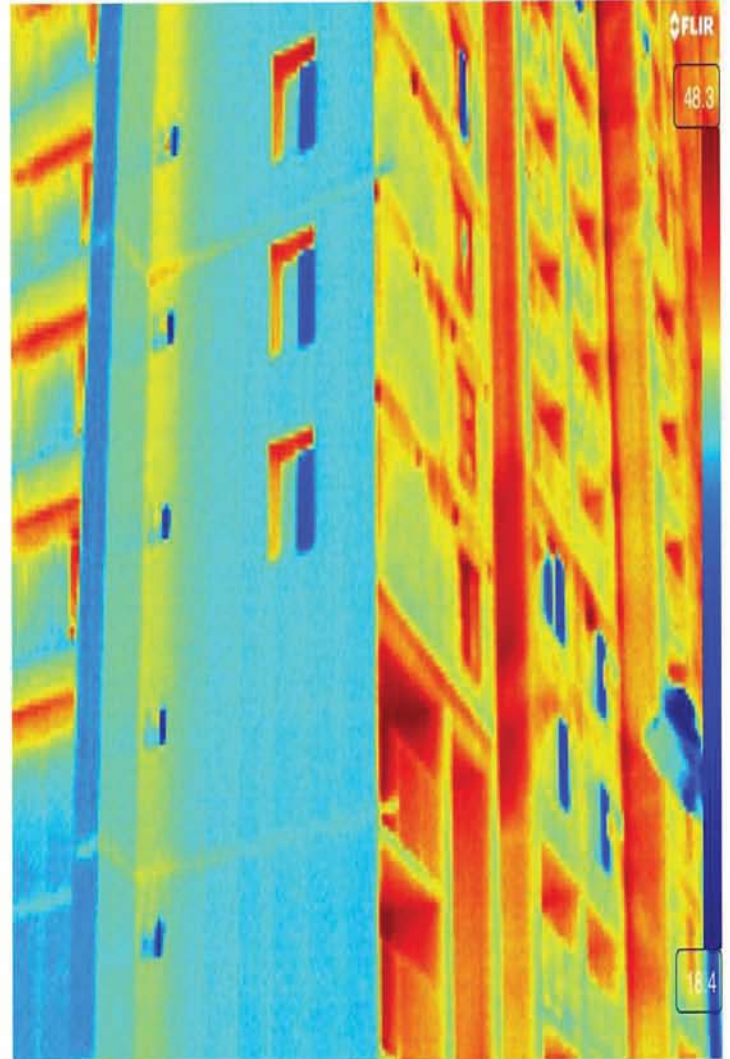
**Cherry Hill Apartments,  
Johnstown, RI**

View real time energy savings of Fairweather and Bridle Path on the Leadership and Advocacy page of the POAH Web site [www.poah.org](http://www.poah.org)



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8330 On The River Apartments, Detroit Michigan



This photo was taken during the winter of 2011.

Before and After: The image on the right, taken with an infrared camera, highlights the effectiveness of weatherization. The area of blue on the left hand side shows where the metal panels have been installed; the “blue” is cold air that is kept outside the building and blocked from coming inside. The area of reds and yellows - where the plates have not yet been installed on the right hand side - show the great amount of heat and energy escaping from the building.