

# Capital Needs Assessments Provider Training

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# Our Objectives Today

- Not intended as training on complete CNA process
- Focus on changes / differences from last year's CNA process
- Based on comments / suggestions
- Attempting to improve process by applying the "Lessons Learned" to the CNA process and SOW from previous years



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# Capital Needs Assessments

## What is a CNA ?

- A written report which identifies the repair, replacement, and improvement needs of a property over an extended period of time.
- For our purposes, these costs are associated by year over a 20 year period.
- Intention/Goal is to make the property financially “self sufficient”, to support itself.
- On-going process, evolving year to year



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# Capital Needs Assessments

## A BRIEF HISTORY:

<b>2003:</b>	<b>MFH CPA -</b>	<b>333 Properties</b>
<b>2004:</b>	<b>Planning -</b>	<b>0 Properties</b>
<b>2005:</b>	<b>MPR Demo -</b>	<b>12 Properties</b>
<b>2006:</b>	<b>MPR Demo -</b>	<b>78 Properties</b>
<b>2007:</b>	<b>MPR Demo -</b>	<b>86 Properties</b>
<b>2008:</b>	<b>MPR Demo -</b>	<b>Goal of 235 Properties</b>



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# Capital Needs Assessments

## CONSIDER THE FUTURE:

- **USDA/RD has over 15,000 Properties in its portfolio**
- **If all properties receive a CNA...**
- **Hope to review CNA every 10 years to see if “on track”**
- **Working toward 1000 properties / year**
- **Will RD State Offices have the resources available to accomplish this on-going workload (technical and program staff)?**



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# Capital Needs Assessments

## WHEN ARE THEY REQUIRED?

1. New Construction Loan.
2. Rehabilitation Loan.
3. Transfer of project ownership.
4. Loan Servicing:
  - a. Loan Reamortization.
  - b. Loan Write-down.
5. MultiFamily Housing Preservation and Revitalization program (MPR)



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# Capital Needs Assessments

## WHAT DO THEY INCLUDE ?

1. Description of the property.
2. Condition of ALL materials and systems.
3. Accessibility Issues.
4. Environmental Issues.
5. Estimated Repair / Replacement / Improvement Costs.
6. Estimated Repair / Replacement / Improvement Schedule.

( IMMEDIATE & LONG TERM )



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# Capital Needs Assessments

## WHAT IS THEIR PRIMARY PURPOSE ?

Provide important data for the Underwriting Process.

Assist in setting Reserve Accounts deposits.

Make property self sufficient over time.



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# Documents to Use

- Until replaced with new UL, use Unnumbered Letter from last year's MPR program as guidance

- Include Attachment B, the CNA Contract Addendum (minor revisions)

- Include Attachment C / SOW (minor revisions)

- Attachments on Accessibility (help for CNA Providers, Reviewers)

Accessibility Checklist

Accessibility Q&A document (minor revisions)

- Underwriter and CNA Review sign final report



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# The CNA Process

## 1. Owner selects a CNA Provider.

- OWNER MAY CONSULT W/RD.
- RD HAS DIRECTORY OF CNA PROVIDERS.
- RD PROVIDES OWNER COPY OF U.L., SOW, etc.



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# The CNA Process

## DIRECTORY OF PROVIDERS:

- Maintained by RD National Office.
- List of interested contractors.
- NOT a list of approved contractors.
- Contractors NOT required to be on the list.
- This Directory is NOT all-inclusive.
- Directory updated from time to time.



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# The CNA Process

1. Owner and CNA Provider execute a written agreement. (Most CNA Providers have a standard contract they use.)
2. Contract should be accompanied by the RD CNA Contract Addendum. (Contracts without the Addendum may be accepted, but will require further review by RD and possibly OGC concurrence.)
3. Owner sends draft agreement to RD.
4. Documents reviewed by RD designated CNA reviewer. (Use review checklist from UL dated 8/14/07 or current version available.)



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# Updating a CNA

- **If cost data is more than 1 year old when the Agency reviews it (CNA done well in advance), a CNA update will be required**
- **Complete new CNA is not necessary**
- **Provider can revise the CNA based on a review of property changes with the owner**
  - **Consult with owner on changes, replacements or repairs made since initial site visit**
  - **Review and, if necessary, revise cost information**
  - **Revise and reprint RD Template as necessary**



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# Updating a CNA

- **Hope that additional cost to owner/property would be minimal**
- **If date of the CNA site visit is more than 2 years old (at time of Agency approval), a new site visit to revise the CNA is required**



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# The CNA Contract Addendum

- Definitions
  - reworted "Owner" to present or future owner
- Additions to the Agreement
  - Owner's Certifications
  - CNA Provider's Obligations
  - CNA Provider's Certifications
  - Owner's Obligations
- Miscellaneous
  - Agency provisions (provide CNA Provider with Agency reports)



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# The CNA Contract Addendum

- Blanks to be filled in on Addendum
  - Page B-1
    - Name of CNA Provider
    - Name of Property Owner
    - Date
    - Property
  - Page B-2
    - Property
    - Date of CNA Contract
    - Property



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# The CNA Contract Addendum

- Blanks to be filled in on form
  - Page B-3
    - Number of days prior to inspection Owner will provide property information
  - Page B-4
    - Status of CNA:
      - committed 3<sup>rd</sup> party funds,
      - requested 3<sup>rd</sup> party funds, or
      - no 3<sup>rd</sup> party funds
    - **Note: Owner will not instruct CNA Provider to “as improved” / post rehab CNA without RD approval**



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# The CNA Contract Addendum

- Blanks to be filled in on form
  - Page B-5
    - Format for CNA report (our CNA Template best choice for RD)
  - Page B-7
    - State property located (governing laws)
    - Owner's Signature
    - CNA Provider's Signature
    - USDA Concurrence



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# The CNA Contract Addendum

## Owner's Obligations

- Submit Contract to USDA for Concurrence
- Notify Provider of USDA Concurrence
- Allow Access to the Property
- Furnish Property Information
  1. RD contact information
  2. Breakdown of units (bedrooms / apartment type)
  3. Plans or blueprints
  4. Capital Expenditures for 3-5 years, and maintenance expenditures for last 12 months



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# The CNA Contract Addendum

## Owner's Obligations –

- Property Information cont.
  5. Maintenance logs
  6. Invoices for recent repairs / work
  7. Section 504 Self Evaluation / Transition Plan
  8. Any other reports / studies (previous CNAs/PNAs, environmental, structural, Agency, Health Department, etc.)
  9. Committed 3<sup>rd</sup> party funds?



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# The CNA Contract Addendum

## CNA Provider's Obligations

- Furnish all labor, materials to produce report
- Comply with Statement of Work
- Deliver Preliminary CNA Report for review
- Available to discuss findings on Preliminary Report
- Submit Final CNA Report
- *Maybe asked to update the CNA at a later date*



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# The CNA Contract Addendum

## Certifications

### Owner:

- Third Party Funding committed?
- Has a rehab scope and budget?
- Available to discuss report (s)
- Will promptly furnish RD Findings to CNA Provider
- Will make payment for work

### CNA Provider:

- Meet state / local requirements
- No conflict of interest
- Properly trained (Provider and inspector)
- Professionally experienced (Provider and inspector)
- Knowledgeable of Codes (Provider and inspector)
- Not debarred / suspended



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# The CNA Contract Addendum

## Miscellaneous

- **Agency Provisions**
- Assignment of Contract
  - Provider shall not assign or transfer any interest or performance w/o written authorization
- Entire Agreement
  - Addendum shall govern provisions if inconsistencies exist
- Governing Law
- Headings
  - Addendum interpreted as part of the Agreement and its general terms and conditions
- Terms and Conditions



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# The CNA Statement of Work

- Nature of Work

- assessment to determine a property's physical capital needs over the next 20 years based upon the observed current physical conditions of a property
- year-by-year estimate of capital replacement costs over a 20-year period used for planning the reserve account for replacements
- CNA report is only an estimate and should not be used as a formal schedule for actual replacement of components
- Capital items should only be replaced at the end of their useful life



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# The CNA Statement of Work

## Provider Shall:

- Perform a Capital Needs Assessment
- Inspect the property
  - Minimum of 25% of all dwelling units
  - 20% if 50-99 units; **15% if 100 or more units**
    - All accessible units to be inspected
  - Responsible for consulting with property manager for appropriate unit sampling
- Site improvements, common facilities, and building exteriors to be inspected
- Interviews with property owner, management, staff, and tenants as needed



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# The CNA Statement of Work

## Consider / incorporate:

1. RD contract information
2. Breakdown of units (bedrooms / apartment type)
3. Plans or blueprints
4. Capital Expenditures for 3-5 years, and maintenance expenditures for last 12 months
5. Maintenance logs
6. Invoices for recent repairs / work
7. Section 504 Self Evaluation / Transition Plan
8. Any other reports / studies (previous CNAs/PNAs, environmental, structural, Agency, Health Department, etc.)
9. Committed 3rd party funds / requested – RD approval required / no 3<sup>rd</sup> party funds or rehab?



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# The CNA Statement of Work

Prepare a report using forms developed by USDA or other similar documents (RD template is preferred)

- Project Summary
  - Identification of provider, owner, and brief description of project.
- Narrative
  - Description of property: year constructed, rehabilitated, interior and exterior elements.
  - Architectural and structural elements, mechanical systems, etc.
  - Number and types of units inspected as basis for report



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# The CNA Statement of Work

- Narrative cont.
  - Compliance with accessibility requirements
  - Actions and estimated costs to correct accessibility deficiencies in order to meet federal, state, and local laws
  - Include opinion for any existing self evaluation/transition plans
  - Inclusion of data from the Accessibility Checklist (as appropriate) (primarily used as a guide and not all-inclusive)
  - Inclusion of any data from the “Frequently Asked Questions” document (as appropriate)



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# The CNA Statement of Work

- Narrative cont.
  - Assessment of observed or potential on-site environmental hazards (mold, LBP, etc.)
  - Any professional reports deemed necessary?
    - structural, mold, or environmental hazards?
  - If 3<sup>rd</sup> party funds involved and have been committed:
    - Description of work, funding source, completion year, and total estimated costs
    - CNA based on “post rehab” needs if work will begin within 12 months
    - Remember to include rehab items in 20 year CNA if appropriate
  - Verify “rehab” with RD (use contact info)
  - If no 3<sup>rd</sup> party funds or no rehab, “as is” CNA



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# The CNA Statement of Work

- Materials and Conditions
  - Item description
  - Expected Useful Life (EUL)
    - Based on Fannie Mae Physical Needs Assess. Guide
  - Age of material or system
  - Remaining Useful Life (RUL)
    - $(RUL = EUL \text{ minus Age})$
  - Condition – (excellent, good, fair, or poor)
  - Needed action (repair, replace, maintain, construct, or none)
  - Comments or field notes relevant to report



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# The CNA Statement of Work

- Capital Needs

- Reported on RD CNA Template, or Microsoft Excel spreadsheet

- Identifies all materials and systems of the four major systems groups to be repaired, replaced, or maintained.

- Items to be included for materials and systems:

- Year or years when action needed

- Number of years to complete the needed action

- Quantity and unit of measure

- Estimated repair, replacement, or any special maintenance cost and total cost in dollars for each line item. Estimated costs for entries include materials, labor, O&P.



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# The CNA Statement of Work

- Capital Needs (cont.)
  - Use R.S. Means cost, or document why (actual costs from property for past work?)
  - Generally “in kind” replacements (“more appropriate” or “more efficient” may recommended for Agency for review)
- Immediate Capital Needs (H & S): (“year 0”)  
All critical health and safety deficiencies requiring corrective action in calendar year 2008 (e.g. Fire alarm, egress, railings, infestation) (Current condition and RUL should be noted for affected systems before CNA is finalized for immediate rehab proposed by the owner.)



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# The CNA Statement of Work

- Capital Needs (cont.)
  - Capital Needs Over the Term:
    - Capital needs include significant maintenance, repairs, and replacement items during the calendar years 2009 through 2028
    - Does not include minor items with annual aggregate costs for a line item less than \$1,000 (unless property small)
    - Based on the actual RUL of components and systems (can “overwrite” with different RUL)
    - Capital activities should not be “front-loaded”
    - New components addressed in the Immediate Needs with an EUL of less than 20 years (e.g. air conditioners), will need to be included in 20 years of CNA



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# The CNA Statement of Work

- Capital Needs (cont.)

- Executive Summary

- Use RD CNA Template, or Microsoft Excel format (.xls)
- Summary of Immediate Capital Needs (grand total of major system groups)
- Summary of Capital Needs Over the Term (annual costs and grand total of major system groups)
- Summary of all Capital Needs (grand total costs for Immediate and Over the Term capital needs)



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# The CNA Statement of Work

- Capital Needs (cont.)

- Appendices

- 10 to 25 digital photographs describing property buildings (interior and exterior) facilities, material or system deficiencies, and bathrooms & kitchens in the accessible units
- Include a property location map.

- Delivery

- 1 electronic copy (e-mail or CD) to Owner and Agency within 15 days
- Provider shall make changes per Agency review
- Revised copy (e-mail or CD) to the Owner and RD for review/final acceptance within 5 days



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# The CNA Statement of Work

- Capital Needs (cont.)
  - Provider shall NOT analyze the adequacy of the property's existing or proposed replacement reserve account nor its deposits as a result of the capital needs described in the report
    - This will be addressed in the underwriting portion of the CNA process



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# Accessibility Information

## Accessibility - Attachments F and G

- If available, Owner to provide copy of Self Evaluation / Transition Plan to CNA Provider
- CNA Provider uses information from SE/TP
- If none available, CNA Provider to use the Checklist in U.L Attachment F



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# Accessibility Information

## Accessibility Checklist (Att. F)

- Understand that older projects are not “grandfathered”
- Includes significant accessibility items
- Bring all CNAs up to a minimum level of acceptance for accessibility
- Clarify some “over zealous” items provided / required in CNAs (by Owner, Provider, or Agency)
- Provide a more level playing field, tempered to “be reasonable”



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# Accessibility Information

## Accessibility Checklist (Att. F)

- Includes a “Disclaimer” that does not cover all accessibility items (limited to 3 pages)
- Hits the “highlights”
- Includes 75 items most often missing / confused in reviewing existing MFH properties for accessibility



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# Accessibility Information

## Accessibility FAQs (Att. G)

- References HB - 2 - 3560, Appendix 5 for additional information on accessibility
- Cites 5% rule from 7 CFR 15b (Departmental Regs)
- Explains that accessible route to all ground floor units not required for properties built prior to Fair Housing Amendments Act (3/13/91)
- Clarifies “accessibility” for MFH playgrounds (route to playground, not equipment)
- Discusses hilly sites and accessible routes
- **In rehab, include audio and visual alarms in common areas**



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# Minor Changes

## Attachment A – References to CNA

- Minor formatting changes only

## Attachment B – Contract Addendum

- Noted in presentation
- Minor formatting changes

## Attachment C – Statement of Work

- Noted in presentation
- Substituted “CNA Provider” for “contractor”
- Reworded training / professional / knowledgeable paragraphs to match Addendum
- Minor formatting changes



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# Minor Changes

## Attachment D – Fannie Mae Guidance

- Minor formatting changes only

## Attachment E – Accessibility Requirements

- Minor formatting changes only

## Attachment F – Accessibility Checklist

- Minor formatting changes only

## Attachment G – Accessibility FAQs

- Added new question #19 (common area alarm systems)
- Minor formatting changes



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# Minor Changes

## Attachment H – CNA Guidance to Reviewer

- Substituted “CNA Provider” for “contractor”
- Minor formatting changes
- Added “Comment” space

## Attachment I – Sample CNA Review Report

- Signature spaces for CNA Reviewer, Underwriter



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# Capital Needs Assessment

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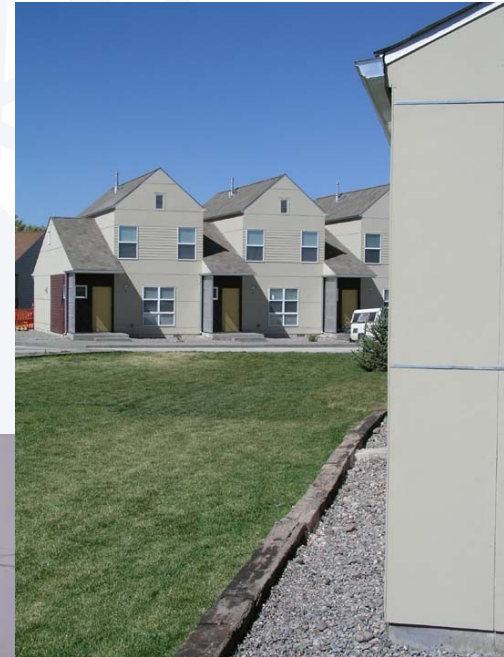


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# Capital Needs Assessment

## Q & A



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