

Capital Needs Assessments

Michel Mitias
Senior Architect
Technical Support Branch



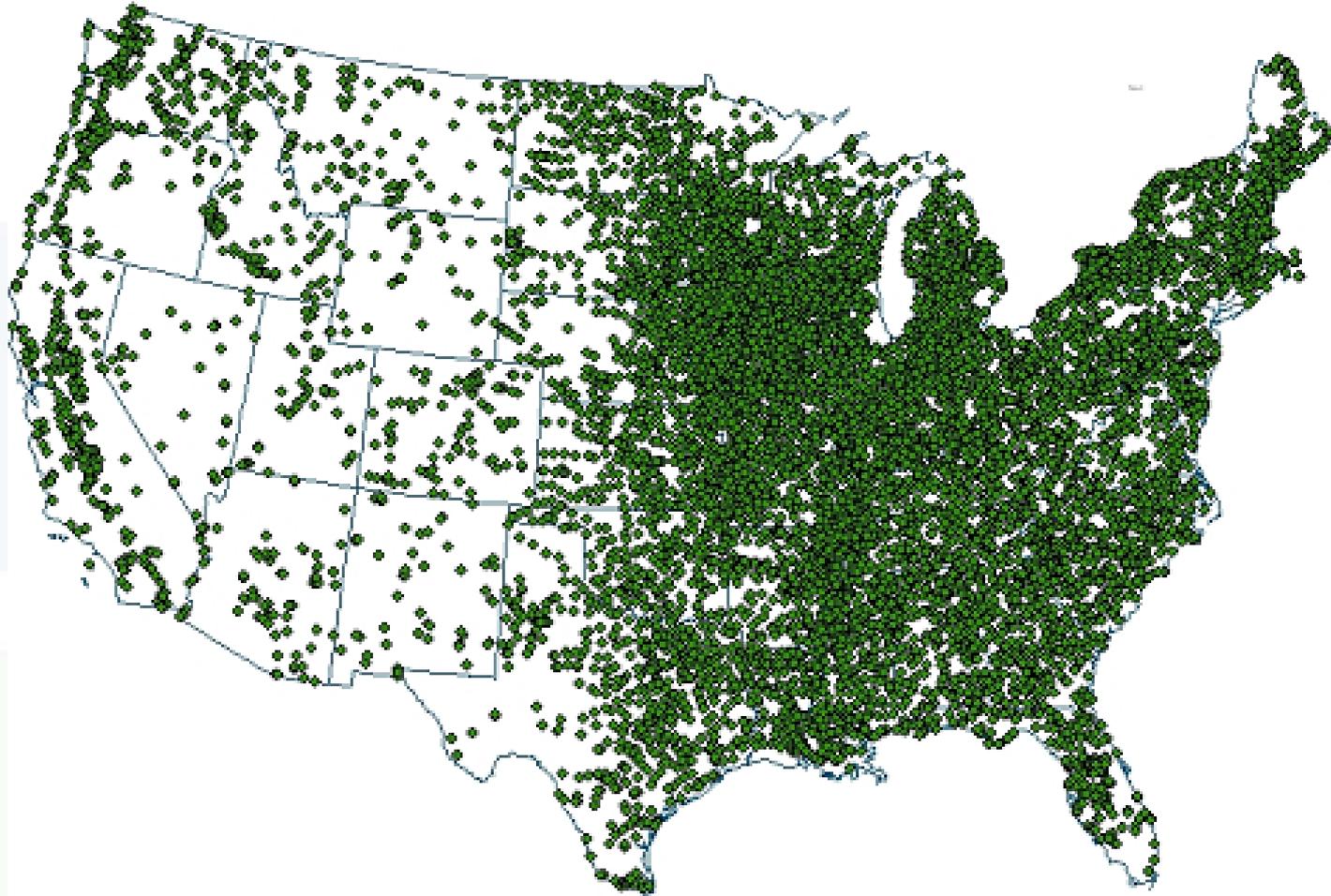
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Program Support Staff
USDA / Rural Housing
August 2010

Introduction

- Historical Context
- Costs of a CNA
- Changes in CNAs / “Hot Topics”
 - Those “Determined”, “Determining”, or just considering (“Indeterminate”)
 - Update of a CNA (age related)
 - Revisions of a CNA (funding decision related)

Multi Family Housing Property Locations



Existing MFH Portfolio

- Size of Portfolio:
 - 2003: 17,287 properties
 - 2008: 15,361 properties
 - (predominantly due to consolidations)
- Average Age of Property:
28 years

Capital Needs Assessments

When Are CNAs Required?

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



Costs of a CNA

- FY 2006: (no data collected)
 - “probably **\$3000 – 3500**”
- FY 2007: (602 CNAs reported)
 - **\$3080** / CNA average (32 units)
 - \$93 / unit (for a 25-48 unit project)
- FY 2008: (741 CNAs reported)
 - **\$3298** / CNA average (36 units)
 - \$89 / unit (for a 25-48 unit project)

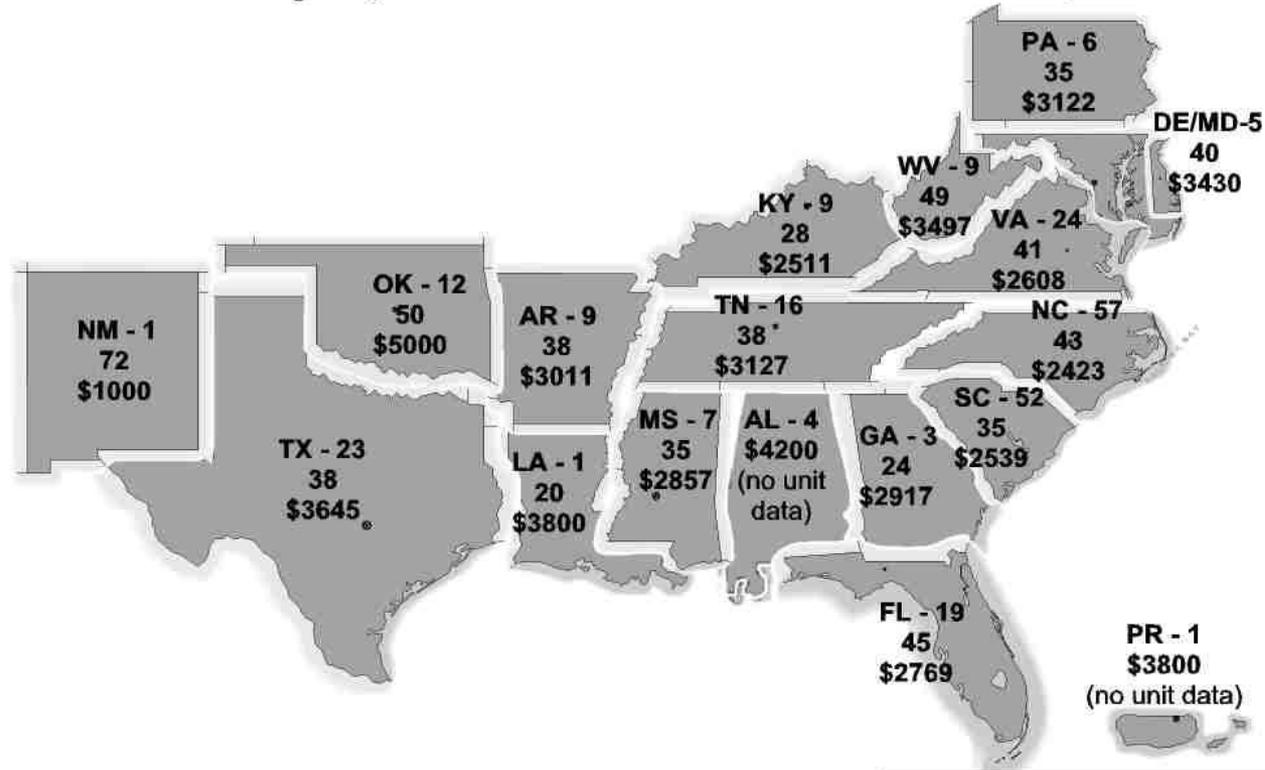
Costs of a CNA

- Why track?
 - CNA Reviewers asked to determine if costs “reasonable”
- Process:
 - End of Fiscal Year request data from all State Offices, analyze it.
 - Provide summary data to all State Offices before NOFA, so available for next FY.
 - Map for each Team, with number of CNAs, average number of units, and average cost per State for comparisons

Costs of a CNA

**Cost Data - Capital Needs Assessments
MFH Section 515 Projects, FY08**

**IREM Regions III, IV, and VI
Carlton Jarratt, Team Leader**



*For informational purposes only.
Not for setting costs for CNAs.*

AVERAGES:	Nat'l	Team
CNAs per state:	15	14
Units per project:	33	39
CNA Cost:	\$3194	\$3125

LEGEND:
ST - ? = State / CNAs Done
No. = Average Number of Units
\$0000 = Average CNA Cost



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Des Moines, IA
September 2010

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 in 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.

Clarifications

- **Standardized wording between parts**
 - “Scope of Work” = rehab, “Statement of Work” = CNA
 - “CNA Provider”, not “contractor”

- **Accessibility example added**
 - If property has SE/TP, use it. Required for all properties not in compliance
 - If not, use Attachment F checklist from UL.

- **CNA Reviewer / Review**
 - CNA Reviewer shall consult with field office (if can't visit)
 - CNA Reviewer & Underwriter will “discuss” CNA
 - CNA Reviewer & Underwriter sign final CNA report



“Hot Topics” / Changes in CNAs

- **Come in flavors:**
 - **Determined**
 - Changes in FY10 Unnumbered Letter on CNAs
 - **Determining**
 - Could use your input (here or later)
 - Will appear in UL if / when decided
 - **Indeterminate**
 - Long term issues we’re considering
 - Probably won’t make this year’s UL

Changes in CNAs - Determined

- **NOFA issues**
 - Points awarded for having a CNA
 - Timing of the CNAs (if not selected...)
 - Extras (energy, “green”, etc.)

- **Selecting a CNA Provider**
 - *“Low bid” vs. “best qualified”*
 - *RD CNA Provider list phasing out*

“Updating” a CNA (by Provider)

- From “annual” UL on CNAs :
 - if CNA over one year old (from date of RD approval) at application, **OR** at underwriting, an “update” is required
 - May “update” the existing CNA
 - CNA Provider would review project with owner (“any changes made?”) and review costs
 - Reprint with new date, provide new electronic copy to Agency
 - *Include a statement in narrative that it is an update*
 - Should be less cost than a new CNA
 - If more than 2 years since site visit, must include a new site visit

“Revising” a CNA (by RD)

- Expanded policy explanation in FY10 CNA UL
- “Updating” a CNA = CNA Provider changes to CNA prior to RD approval / underwriting
- “Revising” a CNA = Agency changes to CNA during underwriting process (post RD approval)
 - As part of underwriting, the Agency may find it necessary to adjust timing, costs, or work to match the funds available
- Expect some confusion between the terms “updating” and “revising”
- *Some offices may wish to have Provider “revise”*
 - *would no longer be independent*

Changes in CNAs - Determined

- UL on CNAs to clarify who responsible to “**revise**” a CNA (RD)
 - Only says “by Rural Development” **once**
 - ***CNA Reviewer and Underwriter cooperate***
- CNA Contract
 - Include “RD Addendum”, please!!!
 - Indicate format will be “RD CNA Template in Excel format” on page B-5
 - ***May be reformatted*** for new UL
 - ***Include cost of CNA*** (for our tracking purposes)

Changes in CNAs - Determined

- RD Addendum (UL - Attachment B)
 - Page B-4 will be revised “soon”
 - Status of Proposed CNA
 - Owner has commitment for 3rd party funds:
 - *“as is” CNA to report present condition*
 - *Owner responsible for Scope of Work for rehab*
 - CNA Provider then create “post rehab” CNA
 - Owner *has / may request* 3rd party funds / rehab:
 - *“as is” CNA for sure*
 - *consult with RD about “post rehab” CNA*
 - Owner anticipates no 3rd party funds:
 - “as is” CNA



Changes in CNAs - Determined

- RD Addendum (continued)
 - Note: no “post rehab” CNA without RD approval language remains
- During Underwriting
 - “As is” CNA needed as “basis”
 - Actual Repair costs needed for funding analysis
 - not lines pulled from CNA
 - Owner (not CNA Provider) is responsible for repair list and cost estimates
 - From architect, cost estimator, or bids
 - Reported on 1924-13 (by trade line item)

Changes in CNAs - Determined

- Delete RD CNA Provider Directory list
 - *Ended 10/1/09 (this last FY)*
 - Established originally to inform owners of who can provide CNAs
 - Industry has become better known
 - No longer needed
 - Confusion of “must be on list?”
- “Information Package”
 - “*Include a completed questionnaire*” will be deleted from UL on CNAs

Changes in CNAs - Determined

- Statement of Work (UL - Attachment C)
 - *Clarify language on items to be included in spreadsheets*
 - SOW page C-4 says “All materials and systems in the major groups shall be assessed“
 - Not every item in project must be listed
 - If not being replaced during this 20 year CNA, not required in “Item” list on spreadsheets
 - Imagine the size of the spreadsheet to include every material (item) used in the construction of an apartment complex....
 - Other items will appear in future CNAs

Changes in CNAs - Determined

- The “Term” of CNA versus RUL
 - USDA / RD: 20 year Term (per SOW)
 - Fannie Mae: Term = mortgage + 2 years
 - What about items beyond the Term?
 - *Future “big ticket” items may “loom” in year 21*
 - *If major rehab in year 1, many items EUL = 20 years*
 - *Beyond 20 year items not caught / covered in this CNA*
 - *Reserve Account balance in year 20 will mitigate*
 - *Anticipate another CNA in year 6-10, those items will appear then, revise reserve deposits then*

Changes in CNAs - Determined

- Varying the CNA Template
 - CNA Provider may make changes based on experience, just note it in “Comments”
 - Line item may not appear in drop down menu
 - Revise “Estimated Useful Life” based on your / project experience
 - Revise “Remaining Useful Life”
 - Based on condition / experience
 - Based on setting “Duration” correctly

Changes in CNAs - Determined

- Setting a “Duration”
 - “Duration” BEGINS in year set
 - That means all items would last RUL, or more than RUL
 - RD wants “Duration” to “center”
 - Realistically, some items last $< RUL$, $= RUL$, $> RUL$
 - Will require adjusting “Age” to force centering
 - Note that adjustment under “Comments”
- 20 Year Durations – typically unrealistic
 - Do NOT spread costs of all items over 20 years
 - Only use if project very old, short EULs, or appropriate

Changes in CNAs - Determined

- Using “lump sum” costs in a CNA
 - For example, bathroom rehab = \$3000
 - *Only when “appropriate”, “one time” fee*
 - Examples:
 - *conversion of a unit for accessibility*
 - *installing landscaping*
 - *Innumerate, explain in “Comments” or “Narrative” what will be done / included*
 - *May be used for kitchen / bath rehab only with RD concurrence, and explanation of what included (problem is replacing those items later)*

Changes in CNAs - Determining

- Changes in RD CNA Items
 - Some new items will be added to template
 - *Present RD CNA Template does not include concrete for parking / paving, fiber cement siding, septic systems (tanks, field lines, prepackaged), etc.*
 - Some items may be removed
 - *Items based on HUD urban properties may not be used in RD properties in rural areas*
 - Some EULs will be revised
 - *Based on Agency experience*

Changes in CNAs - Determining

- On site sewage treatment
 - Septic systems and small package treatment plants
 - What is appropriate Estimated Useful Life?
 - How to estimate replacement costs?
 - With septic:
 - Replace field lines only?
 - Replace tanks and field lines?
 - With package systems:
 - Replace whole unit, or components?

Changes in CNAs - Indeterminate

- Working with CNA Reviewers / Providers
 - Many of the “issues” between CNA Reviewers and Providers are personalities
 - Base CNA Reviewer comments on “content”, not “style”
 - *Hints for CNA Providers:*
 - *ask Owner if they’ve talked to RD....*
 - *Make introductory call to CNA Reviewer, discuss CNAs, and this property*
 - State law differences may be justified
 - RD Review of contract, draft CNA, and final CNA required

Changes in CNAs - Indeterminate

- Some Agency training issues:
 - CNA Provider selection:
 - Number of bids required (2 if > \$3500 and paid by reserves), more than 1 bid “recommended”
 - “Low bidder” not required
 - “Probable costs” vs. “rehab cost estimates”
 - CNA costs are for replacements, not a rehab!
 - CNA not an official repair schedule
 - An estimate of when repairs likely to occur
 - An estimate of costs for those repairs
 - A way to fund estimate reserves funding, not actual spending

Changes in CNAs - Indeterminate

- Inspecting crawlspaces and attics
 - *UL on CNAs refers to ASTM standard*
- *Policy on items requiring additional testing / research and how to address those not clear at present*
 - Mold, structural issues, asbestos removal, LBP issues, site grading, etc.

Contact Information

MPR Public Website:

- **Contact location for general public**
- **Information on MPR Program**
 - includes CNA Provider List and application
 - Unnumbered Letter on CNAs
 - Latest RD CNA Template
 - 2008 data / information will be replaced with 2009 as it becomes available

<http://www.rurdev.usda.gov/rhs/mfh/MPR/MPRHome.htm>



Contact Information

National Office Contact:

Michel Mitias, Senior Architect, PSS

601-965-4318, x142

michel.mitias@wdc.usda.gov



Questions, Answers, Open Discussion

Thanks!



Committed to the future of rural communities.

Program Support Staff
Des Moines, IA
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