

CAPITAL NEEDS ASSESSMENT STATEMENT OF WORK

Nature of the Work -

A Capital Needs Assessment (CNA) is a systematic assessment to determine a property's physical capital needs over the next 20 years based upon the observed current physical conditions of a property. The CNA report provides a year-by-year estimate of capital replacement costs over this 20-year period for use by the property owner and USDA Rural Development (RD) personnel in planning the reserve account for replacements and other funding to cover these costs.

Note: RD will use the CNA report as a key source of information about expected capital needs at the property and the timing of these needs. However, the CNA report is only an estimate of these needs and their timing. It should not be viewed as the formal schedule for actual replacement of capital items. Replacement of capital items should occur when components reach the end of their actual useful life, which may occur earlier or later than estimated in the CNA report.

Payment -

The Owner shall pay the CNA Provider 50% of the negotiated contract amount for the base CNA contract amount once the contract for CNA Services has been executed. If the owner chooses to include and pay for additional services from the CNA Provider exceeding the negotiated base CNA contract amount, then these services must be listed and the payment method addressed in the contract between the Owner and CNA Provider. If funds for additional services will be withdrawn from the reserve account, then 50% of the base contract amount along with the additional services will be paid once the contract for CNA Services has been executed.. Upon concurrence by the CNA Reviewer of the CNA Provider's final Report (signature of Reviewer and Underwriter required), the Owner will promptly satisfy and pay the remaining 50% balance of the base contract amount and additional services if they are paid for out of the reserve account. Any remaining fees and/or dues owed to the CNA Provider pursuant to the terms of the Agreement will also be due upon the CNA Reviewer's concurrence of the CNA Provider's final report.. Other payments shall be subject to the schedule identified in the Agreement

Qualifications -

The CNA Provider must:

1. Possess valid and current licenses and certifications necessary to comply with the Statement of Work and as regulated by all applicable state, county and / or local laws and / or ordinances.
2. Have no identity of interest as defined in [7 CFR part 3560](#), with Owner or Owner's property. An architectural firm performing a CNA which is also involved in the rehabilitation of the property would be considered an Identity of Interest. For example: the architect that performs the CNA assessment could overstate the conditions of the property in order to inflate the rehabilitation scope,

resulting in an increase to the architect's compensation which is typically a percentage of the construction costs.

3. Be properly trained and experienced in evaluating site and building systems, health and safety conditions, physical and structural conditions, environmental and accessibility conditions, and estimating costs for repairing, replacing, and improving site and building components. (This applies to the CNA Provider or any Provider personnel who will have actual responsibility for the property inspection and preparation of the CNA)
4. Be professionally experienced in preparing and providing CNAs for multi-family housing properties that are similar in scope and operation to those typically financed in USDA RD's Section 515 Program. (This applies to the CNA Provider or any Provider personnel who will have actual responsibility for the property inspection and preparation of the CNA)
5. Be knowledgeable about applicable site and building standards and codes including federal, state and local requirements on environmental and accessibility issues. (This applies to the CNA Provider or any Provider personnel who will have actual responsibility for the property inspection and preparation of the CNA)
6. Not be debarred or suspended from participating in Federally assisted programs and will comply with the requirements of [7 CFR part 3017](#) and 2 CFR part 417 or any successor regulation, pertaining to debarment or suspension of a person from participating in a Federal program or activity.

Statement of Work -

The CNA Provider shall:

1. Perform a Capital Needs Assessment (CNA) in general conformance with the document: "Fannie Mae Physical Needs Assessment Guidance to the Property Evaluator," except as modified herein.
2. Inspect the property. A minimum of **50%** (45% if property includes 50 – 99 units, 40% if the property contains 100 or more units) of all dwelling units shall be inspected in a non-intrusive manner. Consideration shall be given to inspecting at least one unit per floor, per building, and per unit type (one-bedroom, two-bedroom, etc.) up to the threshold percentage. CNA Providers shall ultimately be responsible for appropriate unit sampling but are encouraged to consult with site representatives to gather adequate information. This will help ensure that unit samples represent a cross-section of unit types and current physical conditions at the property and are reflective of substantive immediate physical condition concerns. All site improvements, common facilities (every central mechanical room, every laundry etc.), and building exteriors shall be inspected. (ASTM guidelines, allowing for "representative observations" of major elements are not adequate in this regard. Although inspections are "non-intrusive", CNA Providers shall include an inspection of crawlspaces and attics (when these spaces can be reasonably and safely accessed) in a number sufficient to formulate an opinion of the condition of those spaces and any work necessary.) All units designated as fully accessible for the handicapped shall be inspected. The inspection shall include interviews with the property owner, management staff, and tenants as needed. It should also include consideration of all relevant property information provided by the owner, including –

Note: The term "**consolidation**" has been used since the inception of the CNA process. Rural Development would like to clarify the meaning of consolidation so that all parties involved are clear on the distinction and applicability of consolidation. This guidance focuses on situations in where two or more adjoining properties undergo a "consolidation", and appear to be one property due to normal physical observation or inspection. A clear distinction should be made by the Owner to the CNA Provider of what

the owner has “consolidated” a consolidation of “Bank Accounts” between two or more properties, or a consolidation of two or more separate “Loans”. In the former case, where two or more bank accounts have been consolidated, the two or more adjoining properties still have separate funding through the federal government and must be treated as two separate entities. CNAs, as well as 504 Self Evaluation/Transition Plans or other accessibility assessments, must be performed independently for each legal entity receiving federal funds. So, in a bank account consolidation the two or more properties will need to have independent 504’s and CNA reports. In the latter case, where two or more property loans have been consolidated, the two or more properties will now have a shared funding source through one loan, and treated as one legal entity. So, a loan consolidation with two or more loans will only require the need for a single CNA report or 504 Self Evaluation/Transition Plan.

A CNA Provider must be aware of this distinction because it can impact the calculations necessary to perform adequate accessibility assessments

- Contact information for the client’s representative at Rural Development (Name, address, telephone number, email address, etc.)
 - Building-by-building breakdown of units by bedroom count and type (i.e. garden, townhouse, handicap accessible) to aid in selection of units at time of inspection
 - Any available plans or blueprints of development (as-built drawings preferred)
 - Listing of capital expenditures for the property over the past three to five years and maintenance expenditures over the last 12 months
 - Maintenance logs to help identify any significant or systemic areas of concern
 - Copies of invoices for any recently completed capital improvements and/or copies of quotes for any pending/planned capital improvements
 - A valid/current Section 504 Accessibility Self-Evaluation/Transition Plan (No more than three years old).
 - Any available capital/physical needs assessments (CNAs/PNAs) that were previously completed
 - Any available structural or engineering studies that were previously completed
 - Any available reports related to lead-based paint testing or other environmental hazards (i.e. asbestos, mold, underground storage tanks, etc.) that were previously completed and/or related certifications if environmental remediation has been completed
 - Reports including but not limited to: local Health Department inspections, soils analysis, USDA’s last Civil Rights compliance review, USDA’s last security inspection.
 - If the Owner certifies that: (a) 3rd party funds have been committed for use in the transaction for which the CNA is required; and (b) USDA RD has communicated its acceptance or acknowledgement of the availability of these funds (whether by an award of points in a portfolio revitalization program or otherwise); and (c) these funds are to be used towards a rehabilitation program at the property, the Owner will provide the CNA Provider with a copy of the proposed rehabilitation scope and budget.
3. Prepare a report using forms developed by Rural Development or other similar documents. The report shall be on an electronic worksheet commonly used in the industry, or as prescribed elsewhere herein. The report shall contain the following components, as a minimum:

- a. Project Summary. Identification of the CNA Provider and property owner, and a brief description of the project, including the name, location, occupancy type (family/elderly) and unit mix.
- b. Narrative. A detailed narrative description of the property, including year the property was constructed or rehabilitated (of each phase if work completed in multiple phases), interior and exterior characteristics, conditions, materials and equipment, architectural and structural components, mechanical systems, etc. It shall also include:
 - i. Number, types, and identification of dwelling units inspected and used as a basis for the findings and conclusions in the report;
 - ii. An assessment of how the property meets the requirements for accessibility to persons with disabilities;
 - a) The report shall include any actions and estimated costs necessary to correct deficiencies in order for the property to comply with applicable federal, state, and local laws and requirements on accessibility. The report shall also include an opinion on the adequacy of any existing and approved transition plans for the property in accordance with USDA/Rural Development requirements. CNA Providers shall not assume that a property built in accordance with accessibility standards prevailing at the time of original construction is “grandfathered” on accessibility requirements.
 - b) Attached is a checklist (Attachment F) setting out those items that should be included in any accessibility evaluation. It is meant to provide guidance to CNA Providers, but is not represented to be all-inclusive (i.e., CNA Providers are expected to be familiar with applicable federal accessibility requirements and standards and are required to ensure that the accessibility evaluation is based on such requirements and standards). Also attached are some frequently asked questions and answers regarding Rural Development policies and expectations with respect to certain accessibility issues. Finally, CNA Providers are strongly encouraged to review Appendix 5 to USDA Rural Development [Handbook HB-2-3560](#).
 - iii. An assessment of observed or potential on-site environmental hazards (e.g., above or below ground fuel storage tanks, leaking electrical transformers);

Note: The narrative portion of the report must address and include any existing testing results for the presence of radon, lead in water, lead based paint, and other environmental concerns. CNA Providers are not expected to conduct or commission any testing themselves. However, where test results provided by the owner affirmatively point to hazards, the CNA Provider should inquire about subsequent remediation steps and include cost allowances for any identified hazards not yet remediated.
 - iv. Recommendations for any additional professional reports as deemed necessary by the CNA Provider, such as additional investigations on potential structural defects or environmental hazards;

Note: The narrative portion of the report must address each study or report necessary, why, and what expertise is needed so that the owner can alleviate that issue, including estimates for repairs, prior to underwriting. It is not the CNA Provider’s responsibility to estimate the cost of the study or repairs / remediation necessary.
 - v. Needs of the property funded or to be funded from a third party (if any), such as tax credits, including a brief description of the work, the source of funding, the year(s) the work is planned to be completed, and the total estimated costs in current dollars; and

*Note: For projects where the property owner advises the CNA Provider that third party funding for rehabilitation is committed and the work will begin within 12 months, the CNA should address the existing conditions at the property, **and** the post-rehabilitation needs at the property. An example would be a property owner who has submitted a pre-application to Rural Development for the Multi-family Portfolio Revitalization (MPR) Demonstration where Rural Development has awarded points to the application for third party funding, and it has committed third party funding. Under the MPR, an owner who has applied for third party funding for rehabilitation but does not have a commitment for this funding should have the CNA prepared based on conditions at the property “as is,” not post rehabilitation. In these cases, consult with Rural Development as to whether a “post rehab” CNA should be done. When a property owner receives the funding commitment, and rehabilitation is planned within the next 12 months, the CNA contract must be renegotiated to indicate that rehabilitation is planned and specify that a post-rehabilitation CNA should be prepared.*

In preparing CNAs for these properties, the CNA Provider should undertake the CNA on the basis that the third party funded rehabilitation will occur as described in the scope of work for the rehabilitation project provided by the property owner and determine the property’s post-rehabilitation capital needs over the next 20 years. In these cases, the CNA Provider is expected to review and understand the scope of work for planned rehabilitation funded from third party sources, but aside from apparent substantive omissions is not required to comment on the planned rehabilitation.

If there is no evidence that third party funding for rehabilitation has been committed (e.g., if rehabilitation is not indicated in the Rural Development MPR pre-application and/or Rural Development has not awarded points for it), then the CNA Provider should verify with the Rural Development contact prior to performing an “as improved” / post rehabilitation CNA. If no funds are committed, and Rural Development does not agree to a “as improved” CNA, the CNA Provider may note the owner’s rehabilitation proposal in the CNA but the report should be undertaken as though there will be no immediate rehabilitation. In these cases, the CNA should be based on the CNA Provider’s independent professional opinion of current and future needs at the property. (For example, if the owner wishes for a rehabilitation, but has no funds allocated to perform one.)

- vi. Acknowledgments (names and addresses of persons who: performed the inspection, prepared the report, and were interviewed during or as part of the inspection).
- c. **Materials and Conditions.** This component shall be reported on a Microsoft Office Excel © worksheet. The following major system groups shall be assessed in the report: Site; Architectural; Mechanical and Electrical; and Dwelling Units. ALL materials and systems in the major groups shall be assessed (not every specific material used in the construction of the property), including the following items:
 - i. Item Description;
 - ii. Expected Useful Life (EUL). Data entries must be based on the Expected Useful Life Table included in the “Fannie Mae Physical Needs Assessment Guidance to the Property Evaluator”, unless otherwise explained in the report. Any EUL entry that varies from the table must include explanation in a “Comments” column. Any EUL that varies from the

table by 25% or more must be adequately supported separately from spreadsheet (for example, provide the documentation or explanation in the Narrative section);

- iii. Age. The actual age of the material or system;
 - iv. Remaining Useful Life (RUL). Any RUL entry that varies from the difference between the EUL and Age must be explained in the “Comments” column. Any RUL entry that varies 2 years or more must be adequately supported separately from the spreadsheet (for example, provide the documentation or explanation in the Narrative section). Variances of more than 25% will not be accepted;
 - v. Condition. The current physical condition (excellent – good – fair – poor) of the material or system;
 - vi. Description of action needed (repair – replace – maintain construct – none); and,
 - vii. Comments or field notes that are relevant to the report.
- d. Capital Needs. This component shall be reported on a Microsoft Office Excel © worksheet. This component identifies all materials and systems for each of the four major system groups to be repaired, replaced, or specially maintained. It shall include the following items for such materials or systems:
- i. Year or years when action is needed;
 - ii. Number of years to complete the needed action (duration of the repair work);
 - iii. Quantity and Unit of Measure. Any data entry that is not from a physical property measurement or observation during the inspection shall be explained in the report (contrary to ASTM guidance, lump sum allowances shall be used only for capital projects, such as landscaping, that cannot readily be quantified); and,
 - iv. Estimated repair, replacement, or special maintenance unit cost and total cost in current (un-inflated) dollars for each line item. The report shall identify the source(s) used for the cost data. Entries shall include estimated costs for materials, labor (union or non-union wages, as appropriate), overhead & profit. Consultant fees, and other associated costs may be incurred by the property owner when repair or replacement work involves extensive capital activities (e.g., a major landscaping or site drainage project). These activities are likely to include design costs, or the involvement of general contractors, with associated overhead and profit considerations. If the CNA Provider anticipates work will be affected by these cost factors, notes should be added to the CNA spread sheet/report to explain the cost logic. Discussions with the owner and the Agency will be necessary to confirm the proposed cost of these capital activities. CNA Providers using such standard cost sources shall use cost allocations that include overhead and profit.

Note: An estimated unit cost that is significantly different from an industry standard cost, such as R.S. Means or equivalent, must be adequately supported.

Generally, replacement actions shall involve “in-kind” materials, unless a different material is more appropriate, approved by the State Historic Preservation Office, if applicable, and explained in the report. Exceptions shall be made for components that are seen as inadequate (e.g. twenty gallon water heaters, prompting resident complaints) or below contemporary design/construction standards (e.g. single-glazed windows in temperate climates). Rural Development also encourages the consideration of alternative technology and materials that offer the promise of reduced future capital and/or operating

costs (more durable and or less expensive to maintain over time, reduce utility expenses, etc.). CNA Providers are not expected to conduct quantitative cost-benefit analyses but shall use sound professional judgment in this regard.

In addition to the exceptions described in the paragraph above, Rural Development may consider the inclusion of market-comparable amenities/upgrades (e.g. air conditioning in warm climates) proposed by the owner when such features are essential to the successful operational and financial performance of the property. Such items should be identified specifically in the CNA report as “owner-recommended upgrades” and include an explanation of why these upgrades are necessary in supporting the financial and operational performance of the property. Where included, CNA Provider comments on the feasibility and appropriateness of the upgrade are required.

v. The capital needs shall be presented in two time frames:

a) Immediate Capital Needs. All critical health and safety deficiencies (e.g. inoperative elevator or central fire alarm system, missing/unsecured railings, blocked/inadequate fire egress, property-wide pest infestation) requiring corrective action in the immediate calendar year. Separately, the owner shall provide any repairs, replacements, and improvements currently being accomplished in a rehabilitation project, regardless of funding source, and anticipated to be completed within 12 months. The owner will include the budget for any planned rehabilitation (e.g., rehabilitation proposed in the property owner’s pre-application to the MPR). CNA Provider can, but is not required, to offer comments about the rehabilitation budget. The CNA shall not include minor, inexpensive repairs or replacements that are part of a prudent property owner’s operating budget. (If the aggregate cost for a material line item is less than \$1000, then the line item shall not be included in the CNA. An aggregate cost for a line item is an item which needs to be replaced in any given year, the cost exceeds the \$1000, and the item should be replaced in the one year duration. Applying a duration that exceeds one year may decrease the aggregate amount below the \$1000 threshold, thus circumventing the intent of the threshold to include a particular item in the CNA.

Where immediate rehabilitation is proposed by the owner using 3rd party funds, the CNA Provider shall note the current condition and remaining effective useful lives of affected systems and components in an “as is” CNA.

b) Capital Needs Over the Term. Such capital needs include significant maintenance, repairs, and replacement items required during subsequent twenty calendar years to maintain the property’s physical integrity and long term marketability. It shall include repairs, replacements, and significant deferred maintenance items currently being planned and anticipated to be completed after the immediate calendar year and corrections for violations of applicable standards on environmental and accessibility issues. It shall also include the needs described in paragraph 3.b.v. above in the appropriate year(s), if any, if these will not be completed within 12 months from the closing of the program revitalization transaction. The CNA shall not include minor, inexpensive repairs or replacements that are part of a prudent property owner’s operating budget. (If the aggregate cost for a material line item is less than \$1000, then the line item shall not be included in the CNA. An aggregate cost for a line item is an item which needs to be replaced in any given year, the cost exceeds the \$1000, and the item should be replaced in the one year duration. Applying a duration that exceeds one year may decrease the aggregate

amount below the \$1000 threshold, thus circumventing the intent of the threshold to include a particular item in the CNA.

Exceptions to these exclusions may be appropriate for very small properties, and/or for low cost items that may affect resident health and safety (e.g., a damaged or misaligned boiler flue). For example, in small projects (total of 12 units or less), items exempted would be for material line items less than \$250, not \$1,000. The report shall be realistic and based on due diligence and consideration of the property's condition, welfare of the tenants, and logical construction methods and techniques. The estimated unit costs and total costs to remedy the detailed needs shall be provided in current (un-inflated) dollars.

Capital Needs Over the Term shall be based on the actual remaining useful lives of the components and systems at hand. Aside from formal work that is accounted for in the Immediate Capital Needs section, capital activities shall not be "front-loaded."

Note: New components or upgrades addressed in a property's rehabilitation may have long-term capital needs implications as well. Those items with expected useful lives of less than twenty years (e.g. air conditioners) also will need to be accounted for in Capital Needs Over the Term.

- e. Executive Summary. This component shall be reported on a Microsoft Office Excel © worksheet. It shall include:
 - i. Summary of Immediate Capital Needs – the grand total cost of all major system groups (in current dollars);
 - ii. Summary of Capital Needs Over the Term – the annual costs and grand total cost of all major system groups (in current and inflated dollars). The inflation rate shall be 3 percent; and,
 - iii. Summary of All Capital Needs – the grand total costs for the immediate and over the term capital needs (in current and inflated dollars). The grand total costs (in current and inflated dollars) per dwelling unit shall also be included.
 - f. Appendices. This component shall include a minimum 25 color digital photographs that describe: the property's buildings (interior and exterior) and other facilities, specific material or system deficiencies, and the bathrooms and kitchens in the units accessible for the handicapped. Include a property location map and other documents as appropriate to describe the property and support the findings and summaries in the report. The CNA Provider should provide some sort of visual documentation for each line item that cannot be clearly identified by a written description alone. For instance, if an entrance needs to become handicap accessible, a picture of the entrance will help the owner understand where the construction should take place. The Owner needs to be able to associate reserve account funds with the correct line items during the life of the CNA during the underwriting process.
4. Deliver the following:
- a. A minimum of one electronic copy of the report shall be delivered on a compact disk, or other acceptable electronic media, e.g. e-mail, to both property owner and USDA Rural Development for their review and written acceptance. To the greatest extent possible, delivery should be made within 15 business days of execution of the agreement with the property owner.

- b. If the report is not acceptable, the CNA Provider shall make the appropriate changes in accordance with the review comments. A minimum of one electronic copy of the revised report shall be delivered on a compact disk or via e-mail to both property owner and USDA Rural Development for their review and written acceptance. The delivery should be made within 5 business days of receiving the review comments.
 - c. If the revised report is still not acceptable, additional revisions will be made and electronic copies delivered on compact disks or via e-mail to the property owner and USDA Rural Development until the report is acceptable to both property owner and USDA Rural Development.
5. Be available for consultation with the property owner or USDA Rural Development after written acceptance of the report on any of its contents.
 6. The CNA 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.