



TAB Z

Tax Credit Capital Needs Assessment Requirements



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June 20, 2008

Overview

A Capital Need Assessment (CNA), is a detailed outline of the current and future physical and related financial needs of a multifamily development. A current (dated within one year of the application due date) CNA, prepared by a third party, must be submitted with all acquisition/rehabilitation projects, including preservation projects and must include:

Physical Inspection

A comprehensive building and site review must be completed. This will include a complete inspection of exterior building components including siding, roofing, gutters, windows, masonry, foundations, etc. At a minimum, 10% of the units will be individually inspected on developments with 150 or more units and 15% of the units will be inspected on developments with 149 or less units. Each type of unit must be included in the inspection process. Depending on the size and condition of the development, additional units may need to be inspected to assure accurate information and statistical sampling.

Interior unit inspections must include all building components and fixtures, e.g. doors, ceiling, walls, windows, insulation, kitchen and bath fixtures, cabinets, counter tops, paint, floor coverings, appliances, balconies, fire and emergency systems, HVAC, plumbing and electrical fixtures.

Where they exist, all common areas such as; lobbies, hallways, stairways, community rooms, laundry rooms, elevators, mechanical and storage rooms must be inspected. A licensed expert must provide an evaluation of the life cycle and condition of highly technical building components including:

- Central HVAC
- Plumbing and electrical systems
- Structural integrity of buildings over 3 stories
- Elevators
- Roofs

Site components must be inspected including all concrete/asphalt walks, driveways, parking areas and play areas. Building exterior and site lighting must be reviewed along with plantings, lawn areas, grading for soil erosion and trash dumpster areas.

Building modifications necessary to meet 504 Accessible requirements or ADA requirements must be included in the CNA.

Life Expectancy Analysis

Life expectancy of building components, fixtures, appliances and equipment, should at a minimum be projected as listed by the manufacturer. However, if actual development life cycle experience is less (which often is the case in rental properties) the cycle must be adjusted accordingly.

Financial Analysis

Review and analysis of the financial history, current financial status, and projected annual financial needs related to all building components, fixtures, appliances and equipment, must be completed. For financial needs projections, contractor is to assume \$-0- is currently available for repairs and replacement. You must also assume all eligible replacement reserve items will be funded from the replacement reserve and not paid for out of available cash flow. Eligible replacement reserve items include interior building components, exterior building components, site components, common areas, appliances and equipment, and fixtures. Project annual financial needs, based on the CNA inspection, assuming funding through the 15-year tax credit compliance period.

Format

Each CNA must at a minimum contain the following:

- Title Sheet noting date of the report, development name, address, phone number, management agent, and CNA contractor's name, address and phone number.
- Table of Contents
- A narrative of relevant historical facts and summary information must be provided.
- In spreadsheet format, a recommended plan of action noting work that the owner/agent should anticipate being completed in the first year and each year thereafter. Projections must be listed annually for the first 5 years then may be grouped to provide physical and financial needs through years 8, 12 and 15. Projected costs for each phase of work must be provided. All financial projections must be trended to reflect projected future costs. A simple checklist showing the items that need replacing, without any costs included will not be accepted.
- Each report shall contain at least 6 labeled photographs showing typical building elevations. Areas discovered during the inspection which pose a hazard or require immediate attention must be included.
- A replacement reserve analysis, showing that the amount of reserves deposited is sufficient to cover the needs of the project over the 15-year term.

NOTE: It is no longer necessary to send two copies of the CNA – one report submitted with each tax credit application is sufficient.