CNA Walkthrough and Updates for PHAs, 2-29-24

Julia Jones: Thank you for joining today's webinar, "CNA Walkthrough and Updates for PHAs." My name is Julia Jones and I am with Enterprise Community Partners, the host for this webinar. We are joined today by Ladrenna Figueroa, Branch Chief with HUD's Office of Recapitalization. Ladrenna will do the introduction and cover major new tools. Robert Robinson with Federal Practice Group, will cover new features around green decisions as well as summary information on the CNA tool. Following their walkthrough, we will open the floor to Q&A.

But before I pass it over to our presenters, I have a few housekeeping items for folks. Please enter questions you have throughout the presentation using the Q&A function shown on the bottom toolbar in the zoom window. The webinar is being recorded and will be posted on the RAD resource desk along with the presentation slides. To view closed captions during the webinar, you may click on the CC icon in the controls toolbar. And immediately following the webinar, you will receive an invitation to complete a survey on today's webinar. Now I'll turn it over to you, Ladrenna.

Ladrenna Figueroa: Thanks, Julia, and good morning, everyone. As Julia mentioned, my name is Ladrenna Figueroa, and I am a branch chief within the Office of Recapitalization, otherwise known as ReCap. I lead a team of transaction managers that underwrite the RAD conversions for public housing authorities across the country. One of the major components in underwriting is review of the CNA e-tool. And as a approver of these, I think it is important that we have these listening and training sessions after significant updates have been made to the tool, so you can understand what your responsibilities are.

So why are we here? Well, as I mentioned, we want you as the PHA to understand what your role is and how and when to interact with the needs assessor as they're completing the tool for your property. This will better prepare you to respond for the -- respond to the future inquiries from your RAD transaction team. We also want you to understand the new updates and features that have been launched within the latest version of the CAN e-tool including the focus on HUD's green initiative with making our projects more environmentally friendly. Okay. With that being said, I want to make sure that everyone has the understanding that today's session is not a CNA e-tool 101 training so that we won't be spending time on every aspect of the tool.

Ladrenna Figueroa: For more of that entry level training, there are several online webinars posted between the RAD Resource Desk and the HUD exchange that we've included on this slide for you. All right. So today's agenda -- so specifics. What will we be focusing on today. We'll begin with the updates on the flags area of the system. There are a ton of them. But the benefit is that a good portion of them are now program specific. So you'll now recognize flags that tie into the RAD requirements, which is extremely helpful in ensuring that you're meeting the program obligations. Then we'll have Robert walk us through the updated components and alternatives feature which is now categorized by the time of replacement, which is great. And then we'll shift our focus to the green areas where we discuss the inclusion of more utility data, as well as comparison tables that being available when you can analyze or where you can analyze the cost benefits of choosing one alternative over another.

All right. Okay. So I'll hop off camera here so we can focus on the CNA live demo here. Okay. All right. Thanks, Robert. Okay, so let's start with under the -- let's see. Oh, the first half, we're going to start with the first section that you see right now that Robert has on the screen is the flag section.

So these are notifications to you as well as the reviewer that something may be wrong with the data in the tool. All right. The flags are sorted by color which indicates the severity. So you know, severe flags are -- appear first in red. And as a note, there should never be any severe flags since you are not allowed to even submit the tool with severe flags to hood. Okay. Warning flags are in orange. Okay. These are generated for a lot of different reasons and are usually not a big deal, but something that will need to be explained by the owner or lender. We'll dive into these in a moment. And then lastly, the informational flags.

These are just -- there are a few instances where these come up. It allows owners to provide information on very unique situations that are recognized within the tool. But just as a note, we rarely see anything here. So um, getting to the warnings so we see a description of the flag and a cause note explaining what was flagged and why, right? Again, these warnings require an explanation from the lender or the owner. And there's a space in the second to last column for these notes. And there's also a space where the reviewer also -- a.k.a., HUD -- can comment to your response.

Okay. So let's take a look at some of these flags more in depth okay. So the first flag I see is the utility data report not attached. This is common. This is fine. Besides we'll be discussing utility data later. And you know where it should this data should be located. Flag two. It says the assessment submitted to HUD for review is more than six months old. Now, this is the great flag. Why is this a great flag? Well, this indicates that there's a possibility of some of the data and the report being stale. Specifically, I'm thinking about the remaining useful life of some of the components. Say your assessor stated that there were two years left on the roof. And by the time the CNA was submitted to HUD, a year has passed and now only one year remains. Well, updates will need to be made to that CNA replacement schedule. One thing I will note with this flag is that HUD's production team uses a six month CNA time frame in their PHA insured underwriting. While in recap, we do use a year, so a 12 month or an annual schedule. But either way, this flag causes us to look at the date of the inspection and make sure that the data we're reviewing is the most recent.

And in RAD, again, if the review is done within the last year, we're okay, right? The next flag states that an accessible unit is not on an accessible path. Okay, so we see this from time to time. The owner response is usually we're addressing this within the rehab. That is completely acceptable. If there is no response here or we don't see a related work item within the scope. We are definitely asking questions about it. All right. The next two flags four and five annual ending balance falls below allowable minimum balance in years. Looks like years nine and ten. So the tool is built to notice that your project needs are not going to be met because your balance is going negative way too early in the schedule. In my experience there have been instances where these were just input errors by the assessor and they were an easy fix once we returned the tool. If this was not a typo, then you may need to consider increasing your initial deposits to your reserve for replacement account and or your annual deposits to the reserve account to get that negative balance out the way. The next flag -- the ending balance in the financial schedule does not meet the required balance amount.

So this flag gets a little technical with discussing that the deficit must be greater than the maximum allowable deficit amount, and to see year 17. This is related to an alternative underwriting model in which we use for certain transactions that may qualify as mixed finance. Again, that's more of a technical flag and something that we discuss on a different platform. Not this one. So let's kind of move to the next flag, which is remaining useful life less than 10 percent. So this is a great flag. So we understand that as owners, we want things to last as long as possible. But with the RAD conversion and a scope of work already being prepared and a rehab plan, this is a great time for us to think about early replacement of items.

Okay. The next flag states that this component may need to be replaced as a non-critical repair. So this is talking about a -- specifically a rolling gate. And it's expiring or the useful life is expiring in two years or less. So the tool recognizes, again, that it's scheduled to be replaced within the next few years. So why not place it in the scope of work within the RAD conversion? And it also ties to the next flag same statement that this component may need to be replaced as a non-critical repair.

But this time we're talking about refrigerators. So it follows the same logic as the previous flag about the gate. But here's a side note or a tip. ReCap does not like to see repairs listed in years one through three, okay? There may be an exception or two depending on the circumstance, but guiding policy is that if you have items slated to be replaced within the next three years, let's do the work now. And for the refrigerators, we are definitely requesting that you make that replacement now you know, think about why inconvenience your residents with a large rehab now just to come back to make replacements two years later? Additionally, the cost of items today may not be the same in a few years. I mean, if anything, COVID has taught us that for sure. So just think about that when you do see these flags that the tool is giving you and the recommendations about replacing items earlier than intended.

All right. I think that does it for the flag section. Robert, if I haven't missed anything –

Robert Robinson: That's great. No –

Ladrenna Figueroa: I think I'll turn it over to you.

Robert Robinson: Yeah. Good start, Ladrenna. Thank you very much. Yeah, as Ladrenna mentioned, these flags are really trying to guide you and your needs. Assessor. In the direction that the RAD requirements follow. So pay attention to these. You'll notice as Ladrenna was going through these and I was scrolling along, there is a submitter response and you're required -- you are the submitter as the PHA and you're required to do to provide a response. Many needs assessors will provide responses on your behalf. But at the end of the day, you, as the owner of the property are responsible for those various requests. So I just want to highlight a couple of ones that that Ladrenna was highlighting for you all to think about, because we see this -- as she said, we see this often, particularly the last item she talked about, all the refrigerators are within the two year window, ReCap really wants to see this done in rehab. Your response, which again, we all often see is refrigerators are functioning fine and we're going to replace them at unit turnover. So oftentimes refrigerators are not even seen in some in some people's minds as a capital item, or they want to spread them over longer periods of time. That's not really how the tool is designed. And we really like to see anything that's supposed to be replaced in the first couple of years, we want to see that in rehab and then on the 20 year schedule, we want to see it showing up within the year or -- you know, year before or year after, but not just spreading it across the whole life of the life of the property or the 20 years that the schedule is covering.

We know that that's the way a lot of housing authorities have been operating their properties and that's constrained by the funding that they're getting from HUD, one of the changes that you're making going through RAD, is to shift to a different model. And this is an example of that. A couple other things I wanted to point out were talking about accessibility. Lots of times accessibility requirements don't need to be done today. They can be done over time. And this is a perfect example of this, where they're going to -- in a future renovation, they're going to deal with this accessibility issue. It's identifying it and then figuring out how to address it. And that's perfectly fine. The reserve balances we're going to look at in just a second. But I wanted -- I did want to highlight those kind of few areas because those have been coming up pretty frequently recently. Reserve for replacement balances and those sorts of things. One of the beautiful changes – beautiful, things that I love about this tool are some of the changes that we've made.

And the first one that I'm going to show you is around this replacement reserve balance. So we've always had a financial schedule tab on this front page that's laid out what the reserve balances are going to be over the next 20 years. But what we have now added is an analysis of this reserve balance and the various program requirements, including the alternative underwriting that Ladrinna alluded to, which is unpaid -- the cumulative principal balance that's been repaid. And how much more you can fall under that balance based on how much debt you've already paid off. For transactions that don't have any debt or aren't going to put any debt on the transaction, this would not apply. So you would simply be dealing with the top page here, making sure that the balances don't go negative. But you'll notice in the example that I've that I've put together, we have in year ten the reserve balance goes negative. So that's not allowed. The reserve balances have to stay positive through year ten. If you went back to the warning flags, the explanation that was given was well we're going to refinance. That's fine. You can refinance, but your refinancing has to start a year 11. So the analysis has to start in year 11. So it's okay to go negative in year 11. But it's not okay to go negative in year ten.

Robert Robinson: All right. But then when I go negative in year 11 what happens. You're allowed to be negative in year 11, but only to the extent that you're within 50 percent of the, of the cumulative principal balance. So we've added this chart here to provide the information around that so you don't have to go do the math, hunt and peck, figure that out. And furthermore, we've added another column to tell you whether or not you're in violation. You'll notice these two violations, whether it's past or whether it's allowed. What's the difference between past and allowed? Past means that the ending balance is above the required minimum balance. So there's always a required minimum balance across the board here. And for RAD transactions, that's simply to not go negative at any period of time or particularly not in the first ten years. All right. But in starting in year 11 you can go negative. It doesn't pass the initial screen, but it is allowed. So that's why we have these two distinctions. So when you're putting this together with your needs assessor you need to think about how you're addressing the reserve for replacement balances, how much you're putting in annually, how much you're putting in initially, and what combination allows you to come through this without any violations. If you do have violations, those aren't severe flags. They are warning flags, giving you the opportunity to explain what you're going to do.

But in point of fact, most of the time, particularly in these first two years -- these first ten years, any violation more than likely your transaction manager is going to send the needs assessment back and say, nope, we need to fix that. But that is a nice change that we've added for these. You, as the PHA, control this entry I'm going to show you where you do that in just a minute. The last piece I wanted to show you is just a little bit more information around what the specifics are for that, so you can kind of see exactly what's been entered. So in this case, we've entered $250,000 as an initial deposit and then $260 per unit per annum in an annual deposit. So that's how we're getting to those numbers that we looked at. So again, on the main page here, this kind of front summary page I like to call it, you're seeing exactly what you need to do okay. Now I want to walk through kind of the assessment itself. Now I've logged in as a PHA so I'm seeing exactly what you all see when you log in. You'll remember that for all PHAs you have to start the assessment. So you'll notice that there are a couple of check boxes that allow you to make edits. Okay. The other check -- the other areas you can't edit. So those are done by the needs assessment.

But when you set it up you have to put in the initial information. So you need to complete all of this information before you send it to your needs assessor. So before you hire the needs assessor you're filling this information out. Not too much has changed here, but we've added a few areas that you're just going to want to think about as you're doing this. Because they're going to they roll through. We've always had the elderly designation because that changes some of the requirements for remaining useful life. If you're doing FHA financing, we're going to want to know if you're going for the green MIP. So if you are you're going to select this. Yes. None of you will be able to do GRP because you're not eligible for that. But that flag again this tool is used across platforms. And so this this flag shows up for everybody. But I do want to point out that if you're doing FHA insurance, you can get a discount to your mortgage insurance premium for green items. And I'm not sure that a lot of PHAs out there have been aware of that. So it's a nice benefit. FHA is a great product anyway, but allowing for this green MIP is fabulous. So what does this flag do? This. This checkbox changes some of the requirements. And we're going to look at those in a minute.

And it also resets some of the flags. So this is a nice change for you here on this page, okay? Another place that I wanted to point out that's critical. Now that's not been critical before are the utility types and rates tables. This must be filled out. So your needs assessors need to do this. The messaging from FHA and from ReCap have been -- this must be completed because there is a much more robust, and we're going to look at in a minute, much more robust analysis of various utility consuming items and your determination on which alternative you want to use. So not only the recommendation that the needs assessor is making it for you to do, but also your ability to say whether or not you actually want to take advantage of that. So you need to see those alternatives. And we're going to look at that in a minute. But in order for the calculations to work, we need this table filled out. So in the past this table has been incomplete. This is going to be another area that the ReCap office will be pushing back to make sure that these are complete. Okay. So let's jump into something that you all are mostly familiar with. Again, all of these other -- these other areas haven't changed that much. There are a couple of nuances here or there, but they're less impactful than these ones that I'm showing you.

When we go to the component's, alts and recs table. This used to be one long list, so when you open this, there was just one list of all the components at the property that the needs assessor had put in that you're analyzing with them, that you're considering for replacement. Things that are going to fail, that sort of thing. It was just one long list. What now you'll see is there are three separate lists separated by the tabs. And the tabs are driven based on when the item is going to be replaced. So these future replacement components are items that are not getting replaced today but are going to show up in the 20 year schedule. Okay. Critical repairs are what have always been considered critical repairs, things that are going to be done prior to closing. So something that the needs assessor saw when they went out to the site that needs to be fixed now. The example here -- the easy one is concrete sidewalk trip hazards. So the needs assessor saw that as a need. That's going to be a critical repair. You're going to need to do that prior to closing. Okay. We also then have the non-critical repair. So the non-critical repairs have always been confusing to folks. But this is rehab. So these are items that are going to be replaced in rehab at conversion. So these are the items that are going to be replaced now.

And these are the items that are going to be replaced in the future. Items that are replaced now that are then falling inside the 20 year schedule and will need to be replaced again, will also show up in the future needs on the table, but they won't show up in this tab. So if I'm looking to see all of the components that have been entered at the property, I have to look at all three of these tabs to make sure that I have all the components of the property. Okay, so that's a slight change. We are giving up a little bit by having them spread into the different components. But I think at the end of the day, it's going to make it a lot clearer for you as a PHA in reviewing what your needs assessors are recommending, as well as for what the ReCap office and the transaction managers are taking a look at to see what your rehab schedule looks like versus your 20 year schedule. Okay, so let's take a look at what this particular CNA is flagging for rehab. And I want to kind of kind of scroll through this and take a look at it. And I'm going to show you another feature that we've added. So all of these items are things that have been recommended to you.

So this was done by a needs assessor. They recommended to you that these be done as rehab. You'll notice that we've changed some of the column headers a little bit. We've added this slash. So we now have the assessed versus standard remaining useful life. And we also have the age and the estimated use useful life. So in this case, the concrete pavement repair item that's being recommended is a repair item. Concrete typically lasts 50 years. So that's why it's showing up here. There's no assessed age because we're doing a repair and the costs are showing up right here. So we see immediately what the cost is what the component is. And if there were any utility information that would show up here. So if you -- if I scroll down, you'll see that one of the items that we've added does have a utility cost. So the ranges -- so any utility cost is going to show up here. Okay. If I dig more deeply into this and I open this up, you'll notice a couple of things that we've added. First, you'll notice that we now have this little leaf -- hand holding a leaf that indicates that this is a green item. Okay. So that some, some items are green, some items aren't green. But when I open this up, and we see the green -- the green has been selected, that means that, generally speaking, we need to see two alternatives.

I think you all will remember if you've been in RAD for a while, you'll remember that energy star components -- if an energy star component is recommended, then only one alternative is required. Okay, but this flag is to remind the needs assessors as well as you, as the PHA and the owner that if you've selected the green alternative, you have some additional requirements. You need to do some analysis. Okay. Which I think is super helpful for everybody. You also can see if I hit as I hit this. Plus you can also see any other recommendations alternatives that are there. So in this case, despite the fact that we have an energy star component we did enter another alternative. But you'll also see this little thumbs up that tells you which one was selected. So in this case, you see that the energy star component was the one that was selected. You'll also note that the energy star component is the one that has a lower utility cost. So I can quickly see here that yep, I went with the more -- you know, again we're doing it off of cost. So I can't really use the terms efficient. But in essence you're picking the more efficient one because the annual costs are lower. Okay. So this nice summary information gives me that here.

But as I scroll down I'm going to notice. All of my information is very similar, except we've added another utility type. So in cases where you have a gas range that we're going to then potentially convert to electric, we can do that analysis here. So I can enter in a gas range, and one of my recommendations might be to convert to electric. And so I can compare both the gas versus the electric and have a easy comparison for you to look at and see which one makes the most sense. Okay, a lot of this is going to be driven by decarbonization and more efficient utility usage, whether that's gas, electric or water as well. That all of that is flowed through here and you'll see that some of these things that have been being used before, they're just showing up a little bit more concisely for you. Okay. Other thing that we've added is an additional analysis on repair replacement. So I'm going to go down all the way to the bottom. So we've added a nice feature at the bottom here that compares the current components against the alternatives that have been entered. So this is a nice little chart that says here's what my original component -- you know, here's what it cost. Here's the utility usage right here. And here's my greenhouse gas emissions. Okay. And then it also provides it for the other two alternatives that have been shown.

So I can quickly see which one is saving me more from a utility perspective energy usage. But also if I'm focusing attentions on greenhouse gas emission and I'm trying to lower those, I can see which one from that perspective is lower. Okay. So it's a nice snapshot, a nice place for me to go. So as the owner, I'm making the decision. The recommendation might have come through from the needs assessor that they wanted to just go ahead and do a standard range because it was more -- it was a -- it was more efficient enough. But no, I want to -- you know, I as the owner, I is the PHA, I really want to be more moving towards carbon neutral. And so I'm going to select the more carbon neutral option. I've got a better example of that when we look at some of the other ones and I'll show you that. But this chart here I think is game changing in determining which component owners PHAs will want to select. Not much has changed in the alternatives. You can quickly jump to alternative one or alternative two. You'll notice those. We'll get a quick snapshot of the same the same information here. So it's not that much different for you. Unfortunately, one of the things that I don't like about the new tool is you'll notice as I'm expanding this, I'm getting deeper and deeper down the page.

And while we've added these little bars that let me know what alternative I'm looking at, it is a little bit kind of confusing to see where I am, and it's also difficult to get back to the top. So it'd be nice if we could add a button or something. We've been looking at looking at that and kind of exploring a way to have a floating button that takes you back to the top or something like that. Right now you can either scroll as I'm doing or click along the bar or kind of drop and drag this, this thing to take you back to the top. So that's something I wanted. I wanted to show you. So again, I'm in the repair section. This is all stuff that's going to be in rehab. Okay, so I haven't moved over to the other components yet. This is all around this feature here. So as I go through this and I've got my recommendations from the needs assessor, I'm thinking about what I want to do. New feature that's added is this new repair needs analysis. So when working with my needs assessor. I wanted to have them show me a couple of different scenarios. So I was interested in the most green, all of the green alternatives, and I wanted to also take a look at the energy efficient alternatives as opposed to what they have proposed.

So this proposed list is what the needs assessor proposed for my rehab. Again, I'm focusing just on rehab. So this is what the original focus was on rehab. And then I have two lists that have been created okay. When I click on those lists, and I go over to the non-critical repairs component, I see what they've selected. So for this first one, I mentioned that this is the alternative with the most green. So regardless of whether or not it's a utility or save or not, this is kind of the most green alternatives. So in this case, we went with a glass, highly insulated glass entry doors. We went with programable thermostats. We went with the Energy Star range. We went with a greener soundproofing ceiling tiles that needed to be done. And we went with Hardiplank, again, a green alternatives for fascia. So that's what I asked for my needs assessor to show me what would that look like if I went as green as I could, as opposed to what you, the needs assessor, had recommended? Okay, so that's what the list first – show, look -- that's what this $200,000 list looks like. That's compared to the original component cost. I can also see what the utility savings would be.

The greenhouse gas reduction. Okay. And then to the extent that there's a total cost to operate change, which is a fancy way of saying the original cost of the item divided by its useful life, plus any utility cost. That's what I get to as far as total cost to operate. Okay, so that's what this looks like -- list looks like. How does that compare to what the needs assessor came up with? Well, they're at 165,000. So for another $35,000 I could have the greener of less. Okay. Now, I said I only am focused on utility savings, so I don't really care about the greening of things. I care about the utility savings. So in this case, programable thermostats are going to help my utility savings. The Energy Star range is going to help my utility savings. Debatable about the entry doors okay, so I didn't select that one. Definitely not. This is the – soundproofing the ceiling's not going to change anything. And more than likely a hardy plank versus a regular fascia board is not going to change. My green performance now it might. And so I don't want to get into the nuances of arguing about that with folks because I can make arguments either way. But for this example, I -- that's what I went with. So the more defined term utility savings. So those are the recommendations that were made.

I can see those here. The choices -- again I see what my savings are. I see what my greenhouse gas reduction is. And again more expensive than my original components. But that's going to be the case in all of these. But then I look at what the needs assessor submitted, and then I look at this cost and I'm like, whoa. So for $2,000 more, I can save more on my utilities. Okay. I'm happy to do that. That's what I'm thinking I'm going to do. So that's a quick way for you to do that. There can be up to four lists. So for a more complicated transaction, if you wanted to focus on envelope items on one list or just unit upgrades on one list, lots of different flexibility for you to ask your needs assessors to put that together for you. So when you're working with the needs assessors, this is a new way of exchanging information back and forth so that you don't have to rerun scenarios all the time. Okay, another way that this could be used when you get comments back from the transaction managers, when you come in for your -- with your financing plan, you can see what the needs assessor proposed. And then you can have them create the list that the transaction manager is now asking you to put together. And you can see what that comparison looks like.

Okay, so we've got a couple of different opportunities for analysis here. All right. But again this is focusing on just rehab. So this has nothing to do with the 20 year schedule. This is just rehab items. So if I didn't include it in rehab it's not going to show up on these lists. And if I didn't include it in rehab it wouldn't be on this tab. So anything in this tab is going to show up on this repair needs analysis okay. So now let's jump over to the future needs. And let's take a look at some of those examples that I wanted to give for you. Okay. So let's take a look at this. Now let's look at the AC units. So like all of the needs assessments, we've got the original component that's been added to the top. We've got the analysis that the needs assessor did. So in this case the standard remaining useful life is seven years. The assessor remaining useful life from this particular needs assessor was eight years. So they think it's going to last a year longer than standard okay. So that means that this is going to get moved into year eight of my replacement schedule. How much did the original item cost? Again, this is for comparison purposes. So one of the questions that we often get from needs assessors, not necessarily from PHAs, from needs assessors who are completing these is how much information do we really need to have on this? How accurate does this need to be? This just needs to be an estimate.

It's okay for you not to get down to the penny. Don't have to verify it through invoices and that sort of thing. Unless, of course, it's a newer component. And you're trying to get a benefit to be able to stretch this out a little bit longer. Okay. So that's an area that you need to think about. We do want to have relatively accurate utility information because again that's going to make it make a determination on which component is the better alternative for us to look at. Okay we've added this greenhouse gas emission section. So this is going to be new for everybody. So it's not something that is required at the moment. It's not something that I imagine transaction managers are going to be pushing back on if it's not complete. However, we are encouraging needs assessors, we're encouraging you as the PHA to consider that to make sure that you're asking for those to be included, because sooner rather than later it is going to become a requirement. And it's a good thing for us to be thinking about. And there's some nice alternatives to look at. If you've got natural gas components and you want to reduce carbon gas carbon emissions.

And one of the easiest way to do that is to move to electrification. And there are some opportunities there, some other government funding items. You know, Department of Energy has got some stuff that's come out recently to decarbonize and to electrify things. And so it's things for you all to consider. And this is a good place for that analysis to happen. Okay. None of this has changed. We still have the same sort of items. The one thing that we have taken away from here is there used to be the green alternative selection was here. We've moved it to the top. So this selection is done at the very beginning. So we set the stage. This is an item that is green able. You know all of the utility consuming items are going to be selected as green items. Anything that's that maybe is not a utility consumer, but could be, could be green sustainable sourced wood flooring. Things that you might want to consider as green alternatives. Those are options for you or the successor to select. But from a ReCap perspective and from a review perspective, the transaction managers are going to make sure that this box is checked for any utility user. If it's not, it's going to come back to you. That's going to be a deficiency. We need to see this analysis.

The analysis has always been required. But now we have an actual flag and actual way to make sure that this has happened. Okay. So once I've got all the information entered for the original component, now I've got the alternatives and I can add multiple alternatives here as a needs assessor, but in this case I've only added two. So I want to take a look at the first one. The first one was not selected. So if that box was checked and a little thumb was there, we would have selected this. Okay, this is the 15 year condensing unit. The usage has been put in. Okay. My carbon reduction, all of those sorts of things have been added in here. Okay. The second green alternative that was entered. This was the one that was selected, 18 year. So a more efficient component. And we have all of the information that we have here. Okay. Then I have the nice comparison at the bottom. So I can quickly see between these two the 15 seer and the 18 seer, okay? The 18 seer are more efficient, okay, saving me a bunch of money against the alternatives. Okay, so virtually cutting in half my utility costs based on what's currently at the site. Okay. If I go with the 15, seer would have been a much, much, much smaller choice.

Okay, but this is a great way for you to take a look at this and see, huh? Which one does it make sense for me to look at? Okay, again, I've talked about the greenhouse gas reduction. This is another area to take a look at. Again, not going to be required, but something for you all to consider. Okay. I want to show you one more, because there's another piece of this as we're looking at these. There's another piece of this analysis that would be that we're taking a look at. And that is early replacement analysis. So you notice in this particular case these are asterisked and highlighted. So one of the things that this is telling you is that despite the fact that I have two years left remaining useful life, I really should think about early replacing needs, because the payback is such that the cost of making the change will be made up in the selections that I'm making. Okay, so this is an area that is going to be something that's going to be pretty interesting for older -- some older items. Items that have 6 or 7 years left in and the remaining useful life. But maybe you should consider taking a look at this. One of the things that I think was on the flags page were the refrigerators. So refrigerators are flagged to be replaced. So where does that flag come from? That flag comes from right here.

Okay. We should be taking a look at doing this. Not only are they within the two year window, but they're going to save you money if you go ahead and do this replacement today. Okay. So we've added this nice feature here where you've got a little asterisk and a little highlight to say, hey, look at me. Take a look at me. This is something you might want to consider doing now. Again, not a requirement in a lot of cases, but certainly if they fall within that first three years of rehab, more than likely your transaction managers are going to be pushing back and encouraging you to make those replacements as part of the rehab that you're currently doing. Okay. All right. So, financial factors. This gets to what I showed at the very beginning about our reserve for replacement analysis. So this is where you as the PHA, as the owner, put in information about the reserve for replacement account. The needs assessors can't do this for you okay. This is an area where you are the exclusive provider of this information. So one of the things that we have encouraged PHAs to do is before they make the assignment to the needs assessor, regardless of what they think is going to happen, put in their own minds what they think they're going to want to do on a reserve for replacement situation.

If you have an existing reserve account that you're thinking you're going to move over or if you have in mind things that you want to base on your operating expenses, what you think you want to do, enter that information in here. You don't have to, okay. But you will before you submit it. And it will actually make it easier for you and the needs assessor to go through and figure out how much you want to put in and how much you're required to put in. This has always been -- this has always been the case. If you wanted to make changes to the interest that you've earned, typically we don't like to see changes to the deposit amount. There are certain circumstances where this would be allowed. But if you started making changes here, highly unlikely that your transaction manager is going to let you do that. Making some changes to the cap, the needs, your inflation rate again, there's a standard number for that. But you can make those manipulations here. Not typically fooled with that much, but we've now added this section below this. So all of this was already there. But now we've added this information. So, if you have an existing mortgage, you would enter the information here. If you're planning on putting a mortgage on the property, you're taking out a loan.

You would put that information here. This then makes the test that we did on the first page where the cumulative paid principal balance is analyzed in those last -- last years, 11 through 20. That makes all of that work to make sure that you're inside of the required items. So this is where this gets put in. So the alternative underwriting criteria that Ladrenna mentioned is now captured directly in CNA e-tool. So you don't have to use an -- a worksheet. More importantly, transaction managers don't have to do that on their own. They can actually have a conversation with you because you put the information in and you've seen the results. So there's no more kind of black box discussion around that. Okay. So this is a very interesting piece that we've added. If you don't have any debt, that's fine. Don't add any information in there. But know that if you don't you can't go negative at all in the 20 year schedule. There's no opportunity to go negative in the 20 year schedule. So you're going to have to make sure that these numbers up here keep you positive throughout the 20 year schedule. All right. On the repair replace decisions. This hasn't changed. This will go through. And with all of the various components at the site. You've had this before. It will go through and let you make a change. So, for example, if I wanted to move the site lighting into now, I could make that change here.

Okay. That would then move it through that would then roll it through to the components table. So let's go ahead and do that. So when I do that -- my lighting is now moved from the future replacement components into my non-critical repair schedule. Okay. And you'll notice. Just like all the rest. It's been added through here. I put the LED lighting in so all of those items rolls through. Okay. So you have the ability to make that change. So if the needs assessor isn't recommending something that you want to do, you don't have to follow their directions. You can change that if you want to. Okay. I don't know that enough. Owners and housing authorities are aware of that. It doesn't -- that doesn't change the recommendation from the needs assessor, but it does move it into the repair schedule. And so when you're looking at what you're doing the repair analysis is all now changed. Okay. So this has now been updated to my new list, okay? So that's going to have my new my new numbers. So everything rolls through for you. If you do that. Okay. A couple other things I wanted to point out. We're asking for, needs assessors, when they fill out the assessment scope, they're asked a series of additional questions.

So the National Risk Index is a site that FEMA has come up with that you that everyone can go to. You put in the property address, then it comes up with high -- a variety of risks at the site. Those risks are then supposed to be entered in here. And you can choose more than one. And generally speaking, what ReCap wants to see are how those risks are being addressed in the rehab -- in the 20 year schedule, if at all. It's an area that I think is going to start being focused on in more detail in years to come. But right now, what we're hoping to see is gathering this information, seeing what the risks are. And then to the extent they're being mitigated, how they're being mitigated and what recommendations the needs assessors are making to you as the owner of the property to address these. Then the other piece, and I'm sure many of you have already seen this happening recently, but there's a huge push on floods and flood information. So we're now asking for all transactions for the FEMA firm to be uploaded and for what zone it is to be populated here. Okay. So in this particular case, the example that we did, there's no flood risk. But if this was in zone A, we would want to see that.

One of the things that's changed on the RAD resource desk and in a lot of the financing plan submission information, is that to the extent that properties are in the 500 year flood floodplain, and they're doing rehab to particularly substantial rehab or new construction, there's a requirement now for the architect that's going to be working on the property to certify that the flood information -- the anti-flood requirements have been fulfilled. So that would mean that the mechanicals would be raised above base floor elevation, that there are no residential units below the base flood elevation. So this is a change. This is a data gathering exercise, mostly. But this is going to roll into recommendations and that sort of thing in the coming years. So this is something that's new here. Your needs assessors will be completing it. But it's something for you to take a look at and understand at your property. I mean, what is your NRI score? And are you. Is the property at risk? And if so, are there easy things that you might be able to do to mitigate some of that, some of that risk? In particular off the top of my head people that are properties that are in kind of hurricane areas and the roof is needed to be replaced. Consider a metal roof, consider a fortified roof.

The costs of these items are not so great that they don't make sense, particularly given the fact that you may get a break on your property insurance, or certainly the likelihood that you will -- won't lose your roof in a hurricane event go down dramatically. It's something that the ReCap office is, is seeing in some of their other programs that are rolling through. So this is something for you to consider. The last piece that we've added that I wanted to show you are owner notes. So unfortunately I have not assigned this. You have to assign an owner, which I did not do for this one. We were having some back and forth with the -- with my -- with the folks who helped me put this together, and we didn't get that done in time. But if I was assigned as the owner, which I should be, then I can add owner notes here. And these owner notes can be added during the needs -- and the needs assessments work. So if I want to go in and take a look at a needs assessment. So let me go back to the home page. So you'll notice that these have been submitted to me. So they're on my desk. But notice that this one is on my partner's desk. So that means that the needs assessor is still working on this.

Well, if I go to this one and I see that they're doing some things uh, and I look at some, some recommendations, for example, or if I look at some components that are being pulled in there, and I once want to send them some comments, I can go to this owner's notes page and I can add, actually add comments in and have a correspondence with the needs assessor inside of the tool. So if I wanted to make some notes saying please take a look at 4 to 5, I noticed that you didn't include any roof alternatives. Please consider a fortified roof and get and get a get an estimate for that. In my analysis, you could do that here. So that's something that we've added for a little bit more back and forth, because we really do want the needs assessors and the owners you as a PHA, as the owner to have that back and forth potentially in the system itself. So that's something that we're, we're trying very hard to work through. So I spoke probably five minutes more than I wanted to but had a bunch of stuff I wanted to cover and hopefully got you guys through a lot, but I did want to have some time at the end for questions. So I see Julia has rejoined and Ladrenna has rejoined. So, do you all have any questions? Any questions, any questions? Comments? Thoughts have come through?

Julia Jones: Great. Thanks, Robert. Not quite. We don't have very many questions in the Q&A, so if you do have questions, please do enter them in the Q&A. You can find it at the bottom of your screen in the zoom toolbar. We did have a suggestion that there's a keyboard shortcut you could maybe use to get back to the top of a page if you're working on windows, and that is using the control and home keys on your keyboard. I don't know what that is on a Mac, but you could give that a try, Robert. Maybe that'll help.

Robert Robinson: I will. Great idea. Let's try that. Let's definitely do that.

Julia Jones: And while we wait to see if any other questions do come in, what are some of the common errors you see in the tool? If you could share some of those?

Robert Robinson: Ladrenna, you want to give that --

Ladrenna Figueroa: Yeah. So, I feel as though a common one, which shouldn't be very common, is sometimes we see excluding components out of the tool completely. So as we were talking about like refrigerators, for instance, we've seen appliances not being put in the replacement schedule. And we figured out that we understand that as public housing authorities, we're used to replacing these items at turnover through your operating budget. But the whole purpose of a RAD conversion is to us making the reserve account or saving for those type of replacements in the reserve account. So we've had to send the tool back and say, hey, we still need to budget to replace refrigerators and they're respectful year. So that's one that that comes to mind. And then as I mentioned earlier, for one of the flags, if we had an inspection date older than a year, we need an update from the assessor to that CNA because again, we will have old information. So we have sent back CNAs for that reason.

Robert Robinson: But typically, Ladrenna -- so typically I think that's, that's an important point. So typically what I think you all have asked for is a year to maybe 16 months, you get a desk update, 17 months. But anything older than that, you're going to want a whole new assessment. So if you've got a needs assessment that's 18 months old when you submit your financing plan, yeah, you're going to need to do a needs assessment.

Ladrenna Figueroa: Yeah. And then as Robert mentioned, too, now, with the new utility data that we're that we're gathering, we will need to make sure that we are filling out that information, because that will be a you know, a reason to send the tools back as well, if we don't have that utility data input.

Robert Robinson: Yes. Because we want not only do we want you as a PHA to be able to make the best decision for your property and for yourselves based on those alternatives, but we, the transaction managers, want to see that you have done that. Or if you haven't done that, that you've given some rationale for why you haven't done that. So it is -- it's always been a requirement. Again, I want to stress that the whole RAD program, it's always been a requirement to have two alternatives, unless an Energy Star component was selected or FEMP [ph] or Water Saver, or for water users. So this is not a new requirement, but it's just an easier way now for people to one remember it and to see it from a transaction perspective.

Julia Jones: All right. We do have a few questions. We might have time for one or two in financial factors. Is there a spot to enter both existing debt and new debt?

Robert Robinson: There's not. No. So you would have to you would. So you typically -- so just to be clear this is your first mortgage. So if you have existing debt that's getting paid off and replaced with a new first mortgage, you would put the new first mortgage in here. But there would be no real reason to have multiple debt sources here because you really can only have one first mortgage. I know some housing authorities try and find a way to have multiple first mortgages, and that's just typically that's not allowed. So you would put in the permanent whatever permanent mortgage you're doing. So if you have existing debt that you're paying off with the new first mortgage, put that in there.

Julia Jones: Okay. And then I just want to squeeze in one more. How long does this whole process take to complete the CNA review?

Robert Robinson: Haha, that's a great question. Ladrenna?

Ladrenna Figueroa: It depends on the assessor.

Robert Robinson: I would say – in fairness, I would say it so -- the quote-unquote whole process. So if I -- you know, if I'm in your shoes, I'm a housing authority, I come into the RAD program, I order a needs assessment. It's going to take the needs assessor 30 to 60 days minimum to complete a first draft, probably 90 days. Right. Then I'm going to go back and forth with them for 30 days.

So I'm at 120 days then I'm going to figure out how I'm going to pay for everything. I'm going to go put my financing together, and that takes me another 60 to 90 days. So I would say that that's a typical how long it's going to take. Then once you submit it in for a transaction manager review, I would say most transaction managers review these within a couple of weeks. Ladrenna I don't think that's anybody takes much longer than that; three weeks at most. That may start the back and forth. And one of the things that that ReCap has been trying to advise for is don't pay your needs assessor 100 percent of their fee until you're done, because they're going to be changes. You're going to need to go back. So make sure that contract is open ended enough to where they're not. They're incented to stick around and help you go through the changes. And so that might mean a little bit of a lag time.

But yeah, I would say that if I'm a PHA reviewing it, I think easily within 30 days I can get the needs assessor's report and I can come to grips with what I want to do, and we can come to a conclusion. So I don't think that's a problem. So that would be my answer to the two reviews. The PHA review is probably going to take about 30 days. And I would say that a transaction manager review of what's submitted is going to probably take between two and three weeks.

Julia Jones: Great. Well, thank you so much, everyone, for being here and your participation, Ladrenna and Robert for your presentation. A few reminders this session today was recorded, and we will be posting it on the RAD resource desk, along with the presentation slides in the next few weeks. Immediately following the webinar, you'll receive an invitation to complete a survey. On today's webinar, we ask that you please complete this with any feedback you might have for us.

And I just want to thank you all again. Enjoy the rest of your day. We hope to see you next time.

Ladrenna Figueroa: Thank you, everyone.

(END)