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August 26, 2020

TO: Interested Stakeholders

FROM: OHFA Office of Multifamily Housing, Development Office

RE: Guidance for 2021 Projects Proposing Substantial Rehabilitation

OHFA's Office of Multifamily Housing is proposing several changes to how it defines certain terminology as well as the terminology it uses. This terminology relates specifically to projects proposing a substantial rehabilitation. This memo outlines the changes for projects seeking funding in 2021, as well as general guidance for Physical Capital Needs Assessment (PCNA) providers when completing the PCNA for said projects. This memo contains the following sections:

- Definition of Substantial Rehabilitation
- Definitions of Major Building Systems and Components
- PCNA Guidance
- Summary of Threshold and Competitive Criteria for Rehabs
- Major Building Systems table

These changes will be reflected in 2021 program and policy documents (Multifamily Underwriting Guidelines and Design & Architectural Standards), but as there are other modifications still under consideration in those documents OHFA is providing this memo to assist owners, architects, and PCNA providers as they prepare projects for submission in the meantime.

Definition of Substantial Rehabilitation

Per the 2020 OHFA Multifamily Underwriting Guidelines, all rehabilitation projects shall include "substantial rehabilitation". **Substantial rehabilitation** is defined in the 2020 OHFA Design and Architectural Standards as follows:

Substantial Rehabilitation: Required repairs, replacements, and improvements that involve the replacement of two or more major building components. Total replacement is not required, but the greater part (at least 50 percent) must be replaced and that part must have used at least 75% of its EUL or have only 25% RUL.

OHFA's documents previously defined and referenced Major Building Components as the item(s) that would determine the scope of the rehab, eligibility for applicable competitive points, etc. OHFA is modifying the definition and terminology used for these purposes to be more consistent with those used in the industry and in the ASTM standard for PCAs. OHFA will still require all projects to meet the definition of "substantial rehabilitation", but the definition will be changed to the following:

Proposed Definition for 2021 OHFA Design & Architectural Standards

*Substantial Rehabilitation: Required repairs, replacements, and improvements that involve the replacement of two or more **major building systems** that have **demonstrated need for replacement**.*

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The need to replace items must be documented in the PCNA and accepted by OHFA. An item's EUL/RUL cannot be the sole factor in demonstrating need to repair or replace.

Total replacement is not required, but the greater part (at least 50 percent) of a system must be replaced and that part must have used at least 75% of its EUL or have only 25% RUL.

Definition of Major Building Systems and Components

References to major building components will be changed to major building systems. Other references to components will also be modified to reflect this change.

Definition in 2020 OHFA Design & Architectural Standards

Major Building Components: Components that are significant to the building and its use, normally expected to last the useful life of the structure, and not minor or cosmetic.

Examples of major building components are: roof structures, wall or floor structures, foundations, plumbing systems central heating systems, air conditioning systems and electrical systems.

Proposed Definition for 2021 OHFA Design & Architectural Standards

Major Building Systems (MBS): Interacting or independent components or assemblies, which form single integrated units that comprise a building and its site work, such as structural, thermal/moisture envelope, plumbing, HVAC, electrical, etc.

Major Building Systems (MBS) contain components and/or subcomponents. More than 50% of each SYSTEM'S components/subcomponents must need replacement before an MBS is eligible for replacement.

Component/Subcomponent: A portion of a building system, piece of equipment, or building element.

Examples of what OHFA considers to be Major Building Systems and components/ subcomponents thereof are outlined in the chart at the end of this document.

PCNA Guidance

The below are meant to provide helpful tips and clarification to owners and PCNA providers as they complete the PCNA.

- The PCNA should be a point-in-time observation of existing conditions at that time.
- The PCNA should not address or be catered to competitive scoring items.
- The PCNA should inform the project's scope of work and support the items being repaired or replaced as noted in the scope of work.
- For Adaptive Reuse/Historic projects, the PCNA should make a point-in-time observation of all aspects of the building but give substantial detail on structure, façade and items to remain.
- When the age of a component is unknown, it should be stated as such. However, the condition must still be evaluated even if the age is an estimate or unknown.
- The EUL/RUL of an item does not equate to need. Simply because an item is 75% or more of the OHFA EUL table in age, it does not mean the component or system needs to be replaced. Need is the second half of evaluation for replacement that must be documented by the PCNA.

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- Existing accessibility items should only be addressed in the PCNA if the owner requests it and the PCNA provider is adequately qualified to provide such an evaluation.
- The PCNA should not address any green building standards or certifications that the project may plan to seek. The purpose of the PCNA is to evaluate the current overall physical condition and identify significant deferred maintenance, existing deficiencies, and material building code violations that affect the property's use and its structural and mechanical integrity.
- When evaluating a system or component, the following questions must be clearly answered in the PCNA:
 - What is the current condition?
 - Does it need to be replaced?
 - How much of the component needs to be replaced (as a percentage)?
- Major systems and its components should be documented through clear color photographs, specifically highlighting areas of concern. This is especially critical while the ability to perform in-person site visits is limited.
- If information from the owner is being relied upon and included in the PCNA, please state it clearly. For example, "the owner reports the new windows were installed in....".
- Make sure details within the report are consistent. This includes dates as well as condition of components/systems and needs for replacement.
- Do not make a general statement that no critical repairs are needed but then identify major components/systems which need to be replaced immediately.

Summary of Threshold and Competitive Criteria for Rehabs

Minimum requirement for all OHFA rehabilitation projects:

Substantial Rehabilitation (2021)

"Required repairs, replacements, and improvements that involve the replacement of two or more major building systems that have demonstrated need for replacement. The need to replace items must be documented in the PCNA and accepted by OHFA. An item's EUL/RUL cannot be the sole factor in demonstrating need to repair or replace.

Total replacement is not required, but the greater part (at least 50 percent) of a system must be replaced and that part must have used at least 75% of its EUL or have only 25% RUL."

Explanation: At least 50% of two Major Building Systems are past OHFA's EUL and NEED replacement. Any rehabilitation projects seeking HTC (competitive or non-competitive) must meet this definition.

Competitive Criteria (9% HTC and Bond Gap Financing) related to rehabilitation:

Rehab Scope (2021)

"Development needs the replacement of at least 50% of two Major Building Systems AND The hard construction dollars of rehabilitation per unit equals \$40,000 (\$38,000 for BGF) or more."

Explanation: This item is intended to create a higher threshold above the minimum requirement of substantial rehabilitation by adding a minimum dollar amount. This helps ensure OHFA is awarding its limited competitive HTC or Bond Gap Financing to projects demonstrating a more extensive level of rehabilitation.

Good Management (2021)

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“Developments that have been maintained through good management but contain no more than three major building systems that are past their effective useful life, need immediate* replacement, and will be replaced as part of the Scope of Work.

The replacement of other major building systems which are beyond 75% of their EUL may be included in the Scope of Work, but the PCNA does not evidence a need for immediate replacement.”

*Immediate in this context is interpreted to mean having a high probability of significant investment in the next 12-24 months. OHFA’s interpretation is intended to be consistent with the definition of *immediate costs* found in ASTM-E-2018-15, 2.3.17: “...as a result of any of the following: (1) material existing or potentially unsafe conditions, (2) material building or fire code violations, or (3) physical deficiencies that if left uncorrected would be expected to result in or contribute to critical element or system failure within one year or will result most probably in a significant escalation of its remedial cost.”

Explanation: This item is intended to award points for owners that have maintained their properties to a high standard but still have a need for rehabilitation as indicated by a limited number of building systems that need replacement.

OHFA has received feedback that this criterion contradicts with the Rehab Scope criterion and therefore should be modified or removed. While OHFA understands the two could potentially be in conflict in certain situations, our goal is to provide an incentive for both/either scenario- those owners who have responsibly maintained their properties as well as projects doing a rehabilitation above and beyond a moderate level for the property. It is not OHFA’s intent to incentivize owners who have not demonstrated a responsible level of maintenance over the life of the property, nor does OHFA intend to incentivize minor or moderate rehabilitations. It is important to note that those types of projects are still permitted to apply for non-competitive HTC without gap financing as long as they meet the minimum requirement of “substantial rehabilitation”. They are merely not incentivized for use of OHFA’s limited competitive resources.

Major Building Systems Table

EXAMPLES OF COMPONENTS/SUBCOMPONENTS (INCLUDING BUT NOT LIMITED TO)

MAJOR BUILDING SYSTEMS

- **To meet the definition of Substantial Rehabilitation, the components/subcomponents needing replacement must constitute at least 50% of a MBS.**
- **Please note that each component listed is not necessarily equal in weight in terms of achieving at least 50% of the MBS. The MBS percentage will be determined by a comprehensive scope of work.**

Site

Site grading
Landscape
Site lighting
Storm water
Paving

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Site accessibility
Dumpsters
Play equipment

Structural

Roof framing
Wall structure
Foundation
Lintels
Posts

Thermal/Moisture Envelope

Siding
Windows
Doors
Roofs (shingles, membrane)
Downspouts

Plumbing

Fixtures (toilets, sinks, tubs/showers)
Site sanitary
Site water supply
Building sanitary pipes
Building supply pipes (including shutoff valves)
Water heaters
Greywater

Heating & Cooling (HVAC)

Heating components (furnace, boiler, heat pump, PTAC)
Cooling components (window units, heat pump, PTAC, cooling towers, etc.)
Heat exchanger/ Condensers
Steam systems
Water heater code upgrades (pans, expansion tanks)

Electrical

Smoke detectors not part of a life safety system
Light fixtures
Switches
Outlets/receptacles/GFI
Unit panels

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Sub panels
Main service meters/ disconnects
Transformers (while owned by power company, the project can incur related fees)
Solar

Elevators

Hoist way
Cab
Hoist way safety equipment (pit springs and stops)
Controls
Electrical safety (shunt trip)
Motor (hydraulic or traction)
Hydraulic cylinder/ traction cables

Life Safety

Fire alarm system (addressable smoke detectors)
Sprinkler systems (flow alarms, pumps, heads, pipes)

ADDITIONAL SYSTEMS

These systems do not count toward the threshold requirement of Substantial Rehabilitation or any competitive criteria, but are examples of other systems and components that should be addressed in the PCNA and Scope of Work.

Interiors

Finishes- floors, walls, ceilings
Cabinets and countertops
Appliances

Accessibility

Parking spaces
Path (including 5' wide sidewalks)
Common area features/alterations
Units/ alterations