REAC Physical Inspections – Updates, News, Q&A

by Michael Gantt of REACSolutions

REAC Changes Rule on Inspection of Units with Utilities Turned Off

In "Inspector Notice 2007-1," with an effective date of February 1, 2007, Robert Garrett of REAC Inspector Administration, REAC changed its rule on units with one or more utilities turned off. As of the effective date, units chosen in the random sample which have a utility turned off will remain "inspectable" rather than being exempt from inspection.

The Inspector Notice characterizes this as a "clarification," although REAC's clear position for nine years has been that a unit with either no gas or no electricity was to be declared uninspectable, and that the inspector was to substitute an alternate unit.

This could have a severe scoring impact on properties with separately metered apartments due to the fact that the Notice also instructs inspectors to record a deficiency for each appliance or element of the dwelling that is affected. Such units will have a "zero score" due to the number of unavoidable Level 3 deficiencies which result.

For example, in a unit with no electricity, an inspector will record Level 3 deficiencies for all inoperable appliances like range, refrigerator, kitchen exhaust, bathroom exhaust, GFI outlets, lighting, electric water heater, and HVAC system. This will also generate a "Life Threatening" or "Exigent Fire and Safety Hazard" for inoperable smoke detectors. The average unit in a REAC inspection has a scoring value from 1.8 to 2.4 points. If three of the sample units lacked electrical service, the scoring impact could be between 5.4 and 7.2 points.

REACSolutions suggests that owners and managers take decisive action to monitor the status of utilities in units, to communicate with utility companies to determine which day of the month utility services are typically terminated, and to negotiate inspection dates that do not fall a day or two behind typical utility shut-off dates.

Utility companies in some areas will provide temporary service in the name of the property management company when a resident's non-payment. When a REAC inspection does occur at a time when utility shut-offs may have occurred, a few phone calls to the utility company may significantly affect the property's REAC score.

REAC Reminds Inspectors to "Negotiate Mutually Agreeable" Inspection Dates

In a more recent email memo to all REAC inspectors, Inspector Administration reminded inspectors that they are to negotiate mutually agreeable dates for inspections. The memo stated that REAC had received an increasing number of complaints about inspectors dictating inflexible inspection dates, and further reminds inspectors that this violates the UPCS protocol upon which the REAC inspection is based, and that such complaints may result in investigation and disciplinary action.

Owners and Managers should be aware that they are entitled to reasonable flexibility in scheduling, and that demanding or coercive behavior on the part of anyone calling to schedule a REAC inspection should be referred to the HUD Technical Assistance Center at 888-245-4860.

Simplified Self-Scoring Calculation Process Allows Prediction of Deficiency Values

Owners and Managers have frequently asked if there is a chart or document listing the scoring values of the various deficiencies that make up the REAC inspection. The obvious value of such a list would be that it would aid in prioritizing efforts to maintain conscientious compliance with the UPCS, the set of standards that define the inspection. It would allow Owners and Managers to make sound decisions about which deficiencies receive repair priority, and to consider the scoring impact of deficiencies versus the costs of making certain repairs when doing long term planning or short term preparations for an inspection.

The answer has always been "No," that it is impossible to make a list of scoring values due to the fact that the deficiencies score differently on every inspection. The value of a Trip Hazard on the Site, for example, varies from about 3.6 to 6 points on the typical inspection, and

the value of an inoperable GFI device varies between about 0.8 and 1.2. These variations are due to the variation in the base scoring value of each of the 5 Inspectable Areas of the inspection, which is in turn dependent upon which Inspectable Items are recorded as "NA" (Not Applicable,) or which do not exist within the 5 Inspectable Areas. The Area Values of Inspectable Areas related to Building Exteriors, Building Systems, and Common Areas is then modified according to the number of buildings that exist, and the number of Units within each. The value of individual Units is modified according to the number of Units inspected.

Once an Area Value is determined, the value of any given deficiency is the result of an additional calculation which takes into account three additional factors. Each Inspectable Area is assigned a "weight." Each Inspectable Item is assigned a "Criticality." Each Deficiency is determined by the inspector to have a "Level of Severity," represented by the well known Level 1, 2 and 3 of the REAC inspection.

The Weight, Criticality, and Level of Severity each correspond to a decimal value. These are multiplied, along with the Area Value in which a deficiency is identified, in the following formula: "Weight X Criticality X Severity X Area Value = Deficiency Scoring Deduction."

For many, the complexity of the overall calculations, especially the determination of the Area Values, has had a "mystifying effect." It has not been widely recognized or published that the only real obstacle to creating a list of scoring values is the single variable of Area Values. The Weights, Criticalities, and Severity ratings are predictable, published constants, while the Area Values vary.

Acting on this fact, REAC/UPCS Consultant Michael Gantt has developed and copyrighted a list of scoring value multipliers for each of the possible UPCS/REAC inspection deficiencies. This chart is available in a pocket sized coil bound laminated flip chart called The Gantt Factors. It includes a color coding system for quick identification of which deficiencies produce the highest and lowest scoring deductions and Health and Safety concerns.

Owners and Managers can now quickly identify the scoring impact of every potential REAC deficiency, at each Level of Severity, by using the multipliers in the charts and known Area Values specific to any given property. Area Values can be derived from previous REAC inspection Scoring Summary Reports, if available, and the compact book includes instructions on how to determine approximate Area Values if a prior Summary Report is unavailable.

The Gantt Factors Flip Chart also describes his concept of how to compare scoring values to costs of repair when setting priorities for preparation for REAC inspections.

The Flip Chart is available in its first "beta version 1.0 printing" at this conference. The author warns that minor errors may exist in the beta version, but adds that corrections will also be available, along with future revisions for purchase on the internet, at <u>http://www.ganttfactors.com</u>.

State Housing Finance Agencies and Compliance Professionals Look for Guidance on How to Implement UPCS Inspections for Evaluation of LIHTC - IRS Tax Credit Properties

The IRS's January 2007 <u>Guide for Completing Form 8823 Low-Income Housing Credit</u> <u>Agencies Report of Non-Compliance or Building Disposition</u> informs agencies that the physical inspection of tax credit properties may be done according to inspection standards or according to HUD's UPCS inspection protocol. Many state agencies are poised to convert to the use of the UPCS, but are unsure of how to implement this inspection, or what it might mean in terms of documenting an increasing number of 8823 category 11c violations for physical condition.

According to the Guide, all UPCS deficiencies - even Level 1 deficiencies like a cracked outlet cover or the failure of a closet door to latch - will be considered "violations" of the UPCS, and will represent an 8823 11c non-compliance situation. These "violations" will be documented on Form 8823, and Owners/Managers will in turn be required to document remediation.

Due to the lack of specific guidance from the IRS on questions like what paper forms or software to use, and how to score the inspection to determine whether a property is truly out of compliance, many State Agencies are exploring how these changes will be implemented, and are in the process of developing their own de facto policies and procedures.

The Inspection Group, a firm which specializes in UPCS and HQS inspections and training, will be conducting a UPCS Physical Inspection Training class for the Texas Department of Housing and Community Affairs in Austin, TX, on November 7 and 8, 2007. Compliance

officials from Texas and Oklahoma will be in attendance, and will also participate in a round table discussion on appropriate ways of implementing the UPCS inspections, with Saul Himelstein of The Inspection Group, and Michael Gantt, of the associated consulting firm, REACSolutions.

Himelstein said that other state agencies have concerns about the issue, and have inquired about conducting similar UPCS training classes and discussions of how to implement these changes. He added that additional classes are likely to occur in other locations, and interested parties should contact him at The Inspection Group, or Michael Gantt at REACSolutions.

REACSolutions – UPCS/REAC Inspections Consulting

- Pre-Inspections and UPCS Compliance Consulting
- Inspection Monitoring
- Appeals Preparation and Support
- UPCS/REAC Physical Inspections Training
- The Gantt Factors Flip Chart reference to REAC deficiency scoring

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For Public Housing UPCS Annual and HQS Inspections, see the web site of our associates at The Inspection Group at http://www.theinspectiongroup.com