CHFA Capital Plan Property Assessment - Kirtland Commons

Property Identification

Kirtland Commons
DEEP RIVER, CT

Total Current Unit Count:	26
Census Tract:	6201.00
Connecticut Congressional District:	2

CHFA Property Identification #: 77007D
Current State Sponsored Housing Program: SH Elderly

This is a single, stand-alone property. As there are no other adjacent properties under common ownership, there are no opportunities for consolidation to achieve greater efficiencies of scale.

Property Description

Tenancy Type:	Elderly/Disabled
Structure Type:	Low rise (1-4 floors)
Number of buildings:	1
Maximum # of Stories:	4
Elevator?	Yes

Summary property description:
The Kirtland Commons property has 26 one-bedroom units. Generally, the property consists of reasonably sized units. It features amenities such as common laundry, a community room, and meal services.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$ 1,510,945
Capital Needs per Unit:	$ 58,113
Projected Year 1 (2014) Operating Income:	$ (575)

Current operations at the property are projected to generate negative $600 in net operating income (NOI, or revenue after operating expenses) in Year 1 (2014). With incomes and expenses trending at 2% and 3% respectively, which is a standard affordable housing industry convention, the NOI figure decreases annually and this shortfall continues to grow. As a result, the property is not sustainable and cannot adequately address its future basic capital needs, projected to be approximately $1.51 million ($58,113 per unit) over the next 20 years.

Current average income relative to the Area Median Income (AMI): 26%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:	495	27%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:	495	27%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

Number of current households that would be impacted by the proposed increase in Base Rent: n/a

Rental operating subsidy necessary in 2014 to generate revenue equal to raising the base rent as proposed: n/a

Additional rental assistance payments subsidy over a 20 year period due to revised base rent: n/a

The Capital Plan is recommending that the property continue operating as it is currently structured, without a consolidated recapitalization transaction. Consequently, the Capital Plan does not recommend a specific revenue adjustment. The owner should note, however, that the rental income is not projected to meet the property's expenses over the next 20 years and may struggle to cover future capital needs. The owner may want to consider an adjustment in the property's base rent in order to avoid future budget problems.

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	17	17
25-50% of AMI	8	8
50% of AMI or greater	1	1
Total number of units	26	26

Since the Capital Plan is recommending that the property continue operating as it is currently structured, without a consolidated recapitalization transaction, the analysis does not assume any changes to the property's income mix.

	Pre-Trans. Base Rent	Post-Trans. Base Rent
Studio/efficiency unit:		
One-bedroom unit:	495	495
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

Rental operating subsidy in the transaction year which would be necessary to generate additional revenue equal to that generated by income mixing: n/a

Additional rental operating subsidy necessary to sustain Rental Assistance Payments based on the adjusted base rent: n/a

Property used for market reference: Worthington Manor

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(1,241,321)	(1,717,478)
Recoverable Grant Scenario:	(2,683,375)	(3,528,462)
CHFA/FHA Scenario:	(2,615,448)	(3,638,950)
4% LIHTC Scenario:	(2,172,779)	(3,196,159)
9% LIHTC Scenario:	(1,016,470)	(2,039,838)

The Capital Plan analysis considers five scenarios and the prospect under each scenario to address the property's capital and operational needs. Each scenario's capacity to address the property's capital needs is listed to the left, as represented by the Replacement Reserve (RM&R) balance at the end of 20 years. Also at left is the total gap, including both operating subsidy needs and capital subsidy needs, over the 20 year study period.

- The first scenario, the "Current Scenario" assumes the property continues operating as it currently is operated - no material change in the base rent and no implementation of income mixing strategies to shift the property's revenue picture. Consequently, there is no adverse impact on residents or on the opportunity to serve the income demographic currently holding tenancies. The current scenario uses the baseline capital needs as the anticipated capital investment for purposes of identifying the surplus or gap. However, the current scenario - unlike the other four scenarios - does not include any allowance for soft costs (architecture or design, relocation, developer overhead, etc.) or for general contractor overhead and profit (as it is assumed each trade would come to the site independently, without the need for overarching coordination).

- The second scenario, the "Recoverable Grant Scenario" assumes any revenue adjustments described above (i.e., if the analysis suggested an increase in base rent and/or introduction of a mixed-income framework, or the equivalent revenue from federal or state operating subsidy). The Recoverable Grant Scenario envisions a streamlined allocation of funds from the State to the property, implemented with standardized documents and minimal legal or due diligence transaction costs. The Recoverable Grant would be repaid to the State to the extent possible from cash flow. The Recoverable Grant Scenario is most frequently selected when the transaction is too small to warrant the transaction costs associated with alternative financing or if the market is too weak to support debt or equity leverage.

- The three remaining scenarios - "CHFA/FHA," "4% LIHTC" and "9% LIHTC" correspond to three different leverage transaction structures. Each scenario includes transaction costs appropriate to the nature of the transaction. (For example, legal fees in the two LIHTC scenarios are higher than in the CHFA/FHA scenario.) Typically, the CHFA/FHA scenario would generate the least amount of funds for capital improvements and the 9% LIHTC scenario would generate the greatest amount, with the 4% LIHTC scenario falling in between. The CHFA/FHA scenario is a debt-only scenario, using either CHFA or FHA-insured financing. The two LIHTC scenarios assume both debt and a syndication of low income housing tax credits. The 4% tax credits rely on the use of tax exempt bond financing and are generally available when needed. (The analysis assumes that the tax exempt bonds will be used for construction funding in order to generate the tax credits, but may not remain outstanding at the full amount after permanent debt conversion.) The 9% tax credits are a competitive and scarce resource so cannot be assumed to be available for all properties.

Recommended Transaction and Transaction Assumptions	Kirtland Commons, continued

Recommended Transaction Option:	Current
Recommended Transaction Year	n/a
Replacement Reserve Deposit PUPY:	-
Debt Service Coverage in Transaction Year:	-
Debt Service Coverage in Transaction Year 15:	-
Pre-Transaction Capital Subsidy Needed:	1,241,321
Transaction Capital Subsidy Needed:	-

The Capital Plan is recommending that the property continue operating as it is currently structured (i.e., the current scenario described above), as this approach requires the least amount of subsidy from the State over time as compared to the other capital leverage transactions. In the absence of a consolidated recapitalization transaction, however, the property will need additional resources on a continuing basis.

The Capital Plan recommends that the property receive annual grants as needed to cover the gap between the property's capital need budget and the property's ability to pay those costs. These grants, identified as "Pre-Transaction Subsidy" (since no consolidated transaction is proposed), would total $1,241,321 over the course of the next 20 years.

At this time, the "Current Scenario" is the only approach which reasonably covers the property’s capital needs given the low rental revenue and the current programmatic assumptions. However, it is neither a sustainable nor an efficient strategy as it requires the State to have a much more active role in supervising both capital and operating budgets. This level of oversight would correspond to a higher degree of accountability by the owner to the State.

The "Current Scenario" would also require the property to self-manage improvements as they become necessary - the budget does not anticipate the availability of a general contractor. In other words, the property management staff would bring in the specific tradespeople as necessary to repair or replace the components as they fail. Since this is consistent with current property management practices, this burden should be manageable for the owner.

Summary of Recommended Transaction

This property does not have a stable operating revenue and expense picture and is at-risk of experiencing long term structural operating deficits unless it is able to access significant operating subsidy. Under the Current scenario, the property yields negative $575 in NOI in the current year, which includes $0 per unit per year in replacement reserve deposits, trending to negative $40,063 fifteen years thereafter. The transaction results in a capital subsidy need of $1,241,000 and $476,000 in operating deficit subsidy, all of which would need to be covered by State capital subsidy. Given that the "Current Scenario" assumes a heavy dependence on state subsidy on an ongoing annual basis, any cash flow should presumably be escrowed to offset future subsidy need or to repay the state for prior subsidy payments.

Immediate Emergency Capital Needs:	0
Current Deferred Capital Needs:	0
Current Routine Capital Needs:	167,081

The chart below indicates the year-by-year capital investment needs at the property as projected by On-Site Insight. One should note, however, that On-Site Insight used a state-wide cost basis generated from the RS Means database for capital needs. Some high-cost communities can experience a premium of 10%-15% in excess of the State-wide figures. The chart also indicates the timing of State capital and operating subsidy needs assuming the transaction scenario described above.

		Capital Subsidy		Operating Subsidy		
Year	**Annual Capital Needs (per CNA)**	Pre-Transaction Capital Subsidy Needs	Transaction Capital Subsidy Needs	Operating Deficit Subsidy Needs	Base Rent Operating Subsidy Needs	Income Mixing Operating Subsidy Needs
2013	**167,081**	167,081	-	-	-	-
2014	**40,345**	30,601	-	575	-	-
2015	**47,699**	37,566	-	2,609	-	-
2016	**46,337**	35,798	-	4,746	-	-
2017	**84,993**	74,032	-	6,990	-	-
2018	**44,437**	33,038	-	9,346	-	-
2019	**54,583**	42,729	-	11,817	-	-
2020	**60,322**	47,993	-	14,409	-	-
2021	**21,963**	9,140	-	17,126	-	-
2022	**157,399**	144,064	-	19,972	-	-

		Capital Subsidy		Operating Subsidy		
Year	**Annual Capital Needs (per CNA)**	Pre-Transaction Capital Subsidy Needs	Transaction Capital Subsidy Needs	Operating Deficit Subsidy Needs	Base Rent Operating Subsidy Needs	Income Mixing Operating Subsidy Needs
2023	**119,015**	105,146	-	22,953	-	-
2024	**14,686**	263	-	26,074	-	-
2025	**21,332**	6,331	-	29,339	-	-
2026	**31,422**	15,821	-	32,756	-	-
2027	**223,699**	207,475	-	36,328	-	-
2028	**91,108**	74,234	-	40,063	-	-
2029	**72,099**	54,551	-	43,965	-	-
2030	**58,906**	40,656	-	48,043	-	-
2031	**54,985**	36,005	-	52,301	-	-
2032	**98,536**	78,796	-	56,747	-	-

Income and Expense Analysis

	CURRENT		RECOVERABLE GRANT		CHFA/FHA		4% LIHTC		9% LIHTC	
2023 ANNUAL INCOME	**Total**	**Per Unit**	**Total**	**Per Unit**	**Total**	**Per Unit**	**Total**	**Per Unit**	**Total**	**Per Unit**
Gross Potential Rent	222,622	8,562.39	317,659	12,217.67	317,659	12,218	317,659	12,218	317,659	12,218
Vacancy/Loss	(2,124)	(81.70)	(2,742)	(105.46)	(15,883)	(611)	(22,236)	(855)	(22,236)	(855)
Other Income	8,843	340.13	8,843	340.13	8,843	340	8,843	340	8,843	340
Effective Gross Income	**229,341**	**8,820.82**	**323,761**	**12,452.34**	**310,620**	**11,947**	**304,267**	**11,703**	**304,267**	**11,703**
2023 ANNUAL EXPENSES										
Operating Expenses	238,426	9,170	254,614	9,793	246,800	9,492	246,482	9,480	246,482	9,480
Replacement Reserve Deposits	13,869	533	13,869	533	12,952	498	12,952	498	12,952	498
Total Operating Expenses	**252,294**	**9,704**	**268,482**	**10,326**	**259,752**	**9,990**	**259,434**	**9,978**	**259,434**	**9,978**
2023 NET OPERATING INCOME	**(22,953)**	**(883)**	**55,279**	**2,126**	**50,868**	**1,956**	**44,832**	**1,724**	**44,832**	**1,724**
Debt Service	-	-	-	-	21,534	828	14,652	564	14,650	563
2023 CASH FLOW	**(22,953)**	**(883)**	**55,279**	**2,126**	**29,334**	**1,128**	**30,181**	**1,161**	**30,183**	**1,161**

Sources and Uses Analysis

	CURRENT		RECOVERABLE GRANT		CHFA/FHA		4% LIHTC		9% LIHTC	
SOURCES	**Total**	**Per Unit**	**Total**	**Per Unit**	**Total**	**Per Unit**	**Total**	**Per Unit**	**Total**	**Per Unit**
Hard Debt										
Commercial Debt 1	-	-	-	-	374,714	14,412	159,503	6,135	254,926	9,805
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	780,000	30,000	780,000	30,000
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	15,419	593	24,519	943	24,519	943	24,519	943
Cash Escrows	-	-	19,877	765	18,564	714	18,564	714	18,564	714
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	156,314	6,012	163,650	6,294	162,992	6,269
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	966,691	37,180	2,027,601	77,985
Other	-		-		-		-		-	
Total Sources of Funds	**-**	**-**	**35,297**	1,358	**574,110**	22,081	**2,112,927**	81,266	**3,268,602**	125,715
USES										
Acquisition Costs	-	-	-	-	-	-	780,000	30,000	780,000	30,000
Construction Costs	-	-	2,152,097	82,773	2,152,097	82,773	2,175,946	83,690	2,175,946	83,690
Soft Costs - Design & Construction	-	-	241,862	9,302	238,470	9,172	244,128	9,390	244,128	9,390
Soft Costs - Due Diligence	-	-	11,383	438	20,183	776	22,447	863	22,447	863
Soft Costs - Transaction Costs	-	-	35,919	1,382	115,919	4,458	241,680	9,295	241,680	9,295
Soft Costs - Financing	-	-	65,386	2,515	205,490	7,903	229,223	8,816	228,295	8,781
Soft Costs - Other	-	-	14,950	575	16,900	650	16,900	650	16,900	650
Soft Cost Contingency	-	-	18,475	711	29,848	1,148	33,582	1,292	33,025	1,270
Reserves	-	-	-	-	19,867	764	132,673	5,103	135,172	5,199
Developer Fee	-	-	178,599	6,869	390,784	15,030	409,126	15,736	407,479	15,672
Total Uses of Funds	**-**	**-**	**2,718,672**	104,564	**3,189,558**	122,675	**4,285,706**	164,835	**4,285,072**	164,810
TRANSACTION SURPLUS (GAP)	**-**	**-**	**(2,683,375)**	(103,207)	**(2,615,448)**	(100,594)	**(2,172,779)**	(83,568)	**(1,016,470)**	(39,095)

Coverage of Capital Needs Analysis

	CURRENT		RECOVERABLE GRANT		CHFA/FHA		4% LIHTC		9% LIHTC	
	Total	Per Unit	Total	Per Unit	Total	Per Unit	Total	Per Unit	Total	Per Unit
FUNDS										
Transaction Rehab	-	-	1,660,877	63,880	1,660,877	63,880	1,660,877	63,880	1,660,877	63,880
Capital Needs Funded Using Subsidy	1,241,321	47,743	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	-	-	-	-	-	-	-	-	-	-
Replacement Reserves	269,624	10,370	269,624	10,370	251,808	9,685	251,808	9,685	251,808	9,685
Total Funds	**1,510,945**	**58,113**	**1,930,502**	**74,250**	**1,912,686**	**73,565**	**1,912,686**	**73,565**	**1,912,686**	**73,565**
USES										
Estimated Capital Needs	1,510,945	58,113	1,510,945	58,113	1,510,945	58,113	1,510,945	58,113	1,510,945	58,113
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**1,510,945**	**58,113**	**1,510,945**	**58,113**	**1,510,945**	**58,113**	**1,510,945**	**58,113**	**1,510,945**	**58,113**
YEAR 20 REPLACEMENT RESERVE BALANCE	**-**	**-**	**419,556**	**16,137**	**401,740**	**15,452**	**401,740**	**15,452**	**401,740**	**15,452**

Subsidy Analysis

	CURRENT		RECOVERABLE GRANT		CHFA/FHA		4% LIHTC		9% LIHTC	
	Total	Per Unit	Total	Per Unit	Total	Per Unit	Total	Per Unit	Total	Per Unit
OPERATING SUBSIDY										
Base Rent Operating Subsidy Needed	n/a	n/a	1,164,362	44,783	1,164,362	44,783	1,164,362	44,783	1,164,362	44,783
Operating Deficit Subsidy Needed	476,156	18,314	1,800	69	11,816	454	14,680	565	14,680	565
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	**476,156**	**18,314**	**1,166,161**	**44,852**	**1,176,178**	**45,238**	**1,179,041**	**45,348**	**1,179,041**	**45,348**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	1,241,321	47,743	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(321,075)	(12,349)	(152,675)	(5,872)	(155,661)	(5,987)	(155,673)	(5,987)
Transaction Capital Subsidy Needed	n/a	n/a	2,683,375	103,207	2,615,448	100,594	2,172,779	83,568	1,016,470	39,095
Total Capital Subsidy	**1,241,321**	**47,743**	**2,362,300**	**90,858**	**2,462,773**	**94,722**	**2,017,118**	**77,581**	**860,797**	**33,108**
TOTAL SUBSIDY NEEDED	**1,717,478**	**66,057**	**3,528,462**	**135,710**	**3,638,950**	**139,960**	**3,196,159**	**122,929**	**2,039,838**	**78,455**