

CHFA Capital Plan Property Assessment - Harold J. Murphy Apts, Rocky Hill Seniors

Property Identification

Harold J. Murphy Apts, Rocky Hill Seniors
ROCKY HILL, CT

CHFA Property Identification #: 89038D, 85157D

Current State Sponsored Housing Program: SH Elderly

Total Current Unit Count: 70
Census Tract: 4901.00
Connecticut Congressional District: 1

These properties were originally financed separately and appear in CHFA's records as two separate properties. However, lenders and investors are likely to favor larger transactions given the efficiencies of scale and Recap has elected to analyze these properties as a unitary whole. Recap also recommends that the owner and CHFA merge the properties for purposes of reporting, accounting and ownership.

Property Description

Tenancy Type: Elderly/Disabled
Structure Type: Low rise (1-4 floors)
Number of buildings: 17
Maximum # of Stories: 1
Elevator? None

Summary property description:

The Harold J. Murphy Apts/Rocky Hill Seniors property has 37 efficiency or studio and 33 one-bedroom units. Generally, the property consists of reasonably sized units. It features amenities such as common laundry, owner-provided air condition, semi-private outdoor space, and a common room.

Current Operating & Capital Needs Status

Aggregate Capital Needs
(without market enhancements): \$ 2,281,764

Capital Needs per Unit: \$ 32,597

Projected Year 1 (2014) Operating Income: \$ 2,819

Current operations at the property are projected to generate roughly \$2,800 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 results in negative NOI beginning in 2015. As a result, the property is not sustainable and cannot adequately address its future basic capital needs, projected to be approximately \$2.28 million (\$32,596 per unit) over the next 20 years.

Revenue Adjustments Prior to a Recapitalization Transaction

Harold J. Murphy Apts, Rocky Hill Seniors, continued

Current average income relative to
the Area Median Income (AMI): 25%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:	80	5%
One-bedroom unit:	90	6%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:	80	5%
One-bedroom unit:	90	6%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

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.

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

Total rental operating subsidy necessary
assuming a turnover-based leasing strategy: n/a

Revenue Adjustments Concurrent with a Recapitalization Transaction

Harold J. Murphy Apts, Rocky Hill Seniors, continued

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	39	39
25-50% of AMI	28	28
50% of AMI or greater	3	3
Total number of units	70	70

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:	80	80
One-bedroom unit:	90	90
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

Transitional rental operating subsidy necessary to protect current residents and permit a five-year transition to income tier occupancy: n/a

Property used for market reference: Rocky Hill Seniors

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(890,908)	(1,640,096)
Recoverable Grant Scenario:	(3,631,874)	(3,839,783)
CHFA/FHA Scenario:	(3,304,752)	(3,718,287)
4% LIHTC Scenario:	(2,460,631)	(2,869,563)
9% LIHTC Scenario:	(834,743)	(1,244,102)

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

Harold J. Murphy Apts, Rocky Hill Seniors, continued

Recommended Transaction Option:	Current	
Recommended Transaction Year	n/a	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.
Replacement Reserve Deposit PUPY:	560	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 \$890,908 over the course of the next 20 years.
Debt Service Coverage in Transaction Year:	-	
Debt Service Coverage in Transaction Year 15:	-	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.
Pre-Transaction Capital Subsidy Needed:	890,908	
Transaction Capital Subsidy Needed:	-	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 \$2,819 in NOI in the current year, which includes \$560 per unit per year in replacement reserve deposits, trending to negative \$65,154 fifteen years thereafter. The transaction results in a capital subsidy need of \$890,908 and \$749,188 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.

Summary of Capital Needs & State Subsidy Needs

Harold J. Murphy Apts, Rocky Hill Seniors, continued

Immediate Emergency Capital Needs: 0
 Current Deferred Capital Needs: 34,108
 Current Routine Capital Needs: 113,936

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.

Year	Annual Capital Needs (per CNA)	Capital Subsidy		Operating Subsidy		
		Pre-Transaction Capital Subsidy Needs	Transaction Capital Subsidy Needs	Operating Deficit Subsidy Needs	Base Rent Operating Subsidy Needs	Income Mixing Operating Subsidy Needs
2013	148,043	-	-	-	-	-
2014	47,379	-	-	-	-	-
2015	79,687	-	-	639	-	-
2016	62,943	-	-	4,279	-	-
2017	64,809	-	-	8,108	-	-
2018	187,175	70,805	-	12,135	-	-
2019	162,379	114,728	-	16,368	-	-
2020	61,554	11,998	-	20,813	-	-
2021	123,740	72,201	-	25,481	-	-
2022	62,138	8,537	-	30,380	-	-

Year	Annual Capital Needs (per CNA)	Capital Subsidy		Operating Subsidy		
		Pre-Transaction Capital Subsidy Needs	Transaction Capital Subsidy Needs	Operating Deficit Subsidy Needs	Base Rent Operating Subsidy Needs	Income Mixing Operating Subsidy Needs
2023	243,099	187,354	-	35,518	-	-
2024	113,275	55,301	-	40,906	-	-
2025	93,875	33,582	-	46,554	-	-
2026	124,916	62,211	-	52,470	-	-
2027	122,593	57,380	-	58,667	-	-
2028	113,610	45,788	-	65,154	-	-
2029	94,131	23,596	-	71,944	-	-
2030	71,822	-	-	79,048	-	-
2031	88,504	10,680	-	86,478	-	-
2032	216,089	136,746	-	94,246	-	-

Scenario Pro Formas

Harold J. Murphy Apts, Rocky Hill Seniors, continued

Income and Expense 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
2023 ANNUAL INCOME										
Gross Potential Rent	375,743	5,367.75	511,557	7,307.95	511,557	7,308	511,557	7,308	511,557	7,308
Vacancy/Loss	(2,412)	(34.46)	(2,412)	(34.46)	(25,578)	(365)	(35,809)	(512)	(35,809)	(512)
Other Income	3,171	45.29	3,171	45.29	3,171	45	3,171	45	3,171	45
Effective Gross Income	376,501	5,378.59	512,315	7,318.79	489,149	6,988	478,918	6,842	478,918	6,842
2023 ANNUAL EXPENSES										
Operating Expenses	356,275	5,090	381,891	5,456	372,040	5,315	371,529	5,308	371,529	5,308
Replacement Reserve Deposits	55,745	796	55,745	796	34,871	498	34,871	498	34,871	498
Total Operating Expenses	412,020	5,886	437,635	6,252	406,911	5,813	406,400	5,806	406,400	5,806
2023 NET OPERATING INCOME	(35,518)	(507)	74,680	1,067	82,238	1,175	72,518	1,036	72,518	1,036
Debt Service	-	-	-	-	38,915	556	28,012	400	28,073	401
2023 CASH FLOW	(35,518)	(507)	74,680	1,067	43,323	619	44,506	636	44,445	635

Sources and Uses 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
SOURCES										
Hard Debt										
Commercial Debt 1	-	-	-	-	677,179	9,674	380,301	5,433	488,513	6,979
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	2,100,000	30,000	2,100,000	30,000
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	45,476	650	69,976	1,000	69,976	1,000	69,976	1,000
Cash Escrows	-	-	335,818	4,797	321,153	4,588	321,153	4,588	321,153	4,588
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	224,564	3,208	235,138	3,359	234,161	3,345
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	1,577,712	22,539	3,093,710	44,196
Other	-	-	-	-	-	-	-	-	-	-
Total Sources of Funds	-	-	381,294	5,447	1,292,871	18,470	4,684,278	66,918	6,307,513	90,107
USES										
Acquisition Costs	-	-	-	-	-	-	2,100,000	30,000	2,100,000	30,000
Construction Costs	-	-	3,153,236	45,046	3,109,041	44,415	3,143,495	44,907	3,143,495	44,907
Soft Costs - Design & Construction	-	-	348,560	4,979	338,949	4,842	347,123	4,959	347,123	4,959
Soft Costs - Due Diligence	-	-	14,784	211	25,731	368	31,792	454	31,792	454
Soft Costs - Transaction Costs	-	-	65,976	943	145,976	2,085	280,968	4,014	280,968	4,014
Soft Costs - Financing	-	-	98,328	1,405	285,000	4,071	344,567	4,922	342,649	4,895
Soft Costs - Other	-	-	40,250	575	45,500	650	45,500	650	45,500	650
Soft Cost Contingency	-	-	28,395	406	42,058	601	47,238	675	46,411	663
Reserves	-	-	-	-	43,958	628	216,383	3,091	218,913	3,127
Developer Fee	-	-	263,639	3,766	561,411	8,020	587,844	8,398	585,404	8,363
Total Uses of Funds	-	-	4,013,168	57,331	4,597,624	65,680	7,144,910	102,070	7,142,255	102,032
TRANSACTION SURPLUS (GAP)	-	-	(3,631,874)	(51,884)	(3,304,752)	(47,211)	(2,460,631)	(35,152)	(834,743)	(11,925)

Scenario Pro Formas (continued)

Harold J. Murphy Apts, Rocky Hill Seniors, continued

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	-	-	2,433,505	34,764	2,399,397	34,277	2,399,397	34,277	2,399,397	34,277
Capital Needs Funded Using Subsidy	890,908	12,727	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	304,279	4,347	304,279	4,347	304,279	4,347	304,279	4,347	304,279	4,347
Replacement Reserves	1,086,577	15,523	1,083,758	15,482	677,945	9,685	677,945	9,685	677,945	9,685
Total Funds	2,281,764	32,597	3,821,542	54,593	3,381,621	48,309	3,381,621	48,309	3,381,621	48,309
USES										
Estimated Capital Needs	2,281,764	32,597	2,281,764	32,597	2,281,764	32,597	2,281,764	32,597	2,281,764	32,597
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	2,281,764	32,597	2,281,764	32,597	2,281,764	32,597	2,281,764	32,597	2,281,764	32,597
YEAR 20 REPLACEMENT RESERVE BALANCE	-	-	1,539,778	21,997	1,099,858	15,712	1,099,858	15,712	1,099,858	15,712

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	659,015	9,415	659,015	9,415	659,015	9,415	659,015	9,415
Operating Deficit Subsidy Needed	749,188	10,703	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Total Operating Subsidy	749,188	10,703	659,015	9,415	659,015	9,415	659,015	9,415	659,015	9,415
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	890,908	12,727	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(451,107)	(6,444)	(245,480)	(3,507)	(250,084)	(3,573)	(249,656)	(3,567)
Transaction Capital Subsidy Needed	n/a	n/a	3,631,874	51,884	3,304,752	47,211	2,460,631	35,152	834,743	11,925
Total Capital Subsidy	890,908	12,727	3,180,767	45,440	3,059,272	43,704	2,210,547	31,579	585,086	8,358
TOTAL SUBSIDY NEEDED	1,640,096	23,430	3,839,783	54,854	3,718,287	53,118	2,869,563	40,994	1,244,102	17,773