

## CHFA Capital Plan Property Assessment - Devaux Apts

### Property Identification

Devaux Apts  
SHELTON, CT

Total Current Unit Count: 40  
Census Tract: 1102.01  
Connecticut Congressional District: 3

CHFA Property Identification #: 85161D  
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: 4  
Maximum # of Stories: 2  
Elevator? None

#### Summary property description:

The Devaux Apts property has 28 efficiency or studio and 12 one-bedroom units. Generally, the property consists of reasonably sized units. It features amenities such as common laundry, owner-provided air conditioning, and a common room.

### Current Operating & Capital Needs Status

Aggregate Capital Needs  
(without market enhancements): \$ 993,296  
  
Capital Needs per Unit: \$ 24,832  
  
Projected Year 1 (2014) Operating Income: \$ (53,385)

Current operations at the property are projected to generate negative \$53,400 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 \$0.99 million (\$24,832 per unit) over the next 20 years.

Current average income relative to  
the Area Median Income (AMI): 17%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:	90	6%
One-bedroom unit:	110	7%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:	461	30%
One-bedroom unit:	494	30%
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: 37

Rental operating subsidy necessary in 2014 to  
generate revenue equal to raising the base rent  
as proposed: \$ 136,794

Total rental operating subsidy necessary  
assuming a turnover-based leasing strategy: \$ 799,366

In order for the property to operate in a sustainable manner into the foreseeable future, the property would benefit from greater revenues. This can happen in one of two ways - either the property could get operating subsidy from the state or federal government, or it could charge higher rents. A higher rent structure burdens low-income households to pay a greater their income for housing and it will require that the property serve tenants with modestly higher incomes.

Currently, base rents are set by the owner of each property, often in consultation with CHFA staff. While there varying definitions of affordability, this study considers a rent which exceeds 30% of a household's adjusted gross income to be burdensome on the household's monthly budget. In the table to the left, the base rent is identified for each unit size. The table also identifies the minimum household income level for which the base rent would be considered "affordable." The household income level is presented as a percentage of the local Area Median Income.

There are strong reasons to keep the base rents low, as low base rents provide affordable housing options for the state's lowest income residents and reduce the burden of operating subsidies on the State budget. However, if the property's revenue stream (including any available operating subsidy and any cross-subsidy from higher income residents) does not cover the cost of actually operating the property, including the cost of ongoing maintenance and capital improvements, the property itself is at risk.

The Capital Plan is intended to identify the real estate needs of the State Sponsored Housing Portfolio. In order to ensure a minimum revenue stream and in order to implement programmatic consistency regarding base rent levels, this analysis assumes that all base rents are adjusted in 2014 to equal the greater of a) the current base rent or b) 30% of the adjusted gross income of a household at 30% of AMI for the applicable household size, provided these levels do not exceed the local market. This base rent adjustment would represent a significant increase for some households. The analysis identifies the number of households that would be affected by such a change and the amount of operating subsidy needed to protect these households. If the owners elect not to raise the base rents as assumed in this analysis, the property is more likely to experience tight operating budgets towards the end of the Capital Plan subsidy period and will be less able to access leverage funding such as private debt.

Protecting the 37 Elderly/Disabled Households at risk in the event of a base rent increase is clearly a major concern. In 2014, the base rent increase creates the need for operating subsidy of \$136,794 to protect these households while generating the revenue equivalent to the proposed increase in the base rent.

This 2014 rental operating subsidy would recur annually, with inflation increases, for the next 20 years if the State determines that, as a policy matter, the property should continue serving households with an income profile equivalent to the current residents at the property. An alternative formulation assumes that, upon turnover, new residents would move in for whom the proposed base rent is affordable and tenant protection operating subsidies would no longer be necessary. This turnover strategy requires less operating subsidy from the State, but also reduces the number of units of housing available to the lowest income residents of the community. The total tenant protection operating subsidy associated with the increase in the base rent assuming that, on turnover, the units are leased to households able to pay the new base rent without assistance is \$799,366.

**Revenue Adjustments Concurrent with a Recapitalization Transaction**

Devaux Apts, continued

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	37	37
25-50% of AMI	3	3
50% of AMI or greater	0	0
Total number of units	40	40

With the revenue generated by the increase in the base rent or the provision of an equivalent operating subsidy, the property should operate under a sustainable revenue picture for the foreseeable future. As a result, no additional revenue adjustments from income mixing are recommended in connection with the transaction.

	Pre-Trans. Base Rent	Post-Trans. Base Rent
Studio/efficiency unit:	461	461
One-bedroom unit:	494	494
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: \$ -

Transitional rental operating subsidy necessary  
to protect current residents and permit a five-  
year transition to income tier occupancy: \$ 0

Property used for market reference: Sinsabaugh Heights

**Transaction Options**

Devaux Apts, continued

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(292,604)	(1,898,044)
Recoverable Grant Scenario:	(1,260,124)	(1,398,003)
CHFA/FHA Scenario:	(635,069)	(1,186,921)
4% LIHTC Scenario:	(297,806)	(859,744)
9% LIHTC Scenario:	355,413	(522,905)

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**

Devaux Apts, continued

Recommended Transaction Option:	CHFA/FHA	The capital plan recommends using the debt-only scenario to finance the capital needs at this property. The property has positive NOI which can leverage debt sufficient to cover the long-term capital needs without the complexity of a tax credit transaction.
Recommended Transaction Year	2015	
Replacement Reserve Deposit PUPY:	350	This analysis has suggested a potential transaction year of 2015 based on a series of criteria outlined in the capital plan report. In short, the transaction year has been informed by the distribution of critical capital needs year-by-year at the property (i.e., roof, mechanical, structural components) and by the need to distribute the timing of capital transaction for properties within the State Sponsored Housing Portfolio over a period of years in order to manage scarce State-wide resources.
Debt Service Coverage in Transaction Year:	1.200	
Debt Service Coverage in Transaction Year 15:	1.496	This property has been underwritten assuming replacement reserve deposits of \$350 per unit per year, and assuming hard construction capital needs of \$0.99 million.
Pre-Transaction Capital Subsidy Needed:	-	
Transaction Capital Subsidy Needed:	635,069	The property is able to cover its capital needs from current replacement reserves through the date of the capital transaction, so no interim State support is needed.

**Summary of Recommended Transaction**

Under the CHFA/FHA scenario, the property yields \$81,443 in NOI in the transaction completion year, which includes \$350 per unit per year in replacement reserve deposits. After debt service, the property generates \$31,715 in cash flow in the capital transaction's completion year, trending to \$24,668 fifteen years thereafter. Post-transaction, distribution of cash flow is governed by the terms of the transaction documents and, to the extent not restricted by the documents, could be used at the owner's discretion for ongoing capital needs, owner's working capital or the owner's other priorities. The transaction raises \$865,000 in debt. The transaction results in a gap of \$635,000, all of which would need to be covered by State capital subsidy. This compares to a needs gap of over \$1,898,000 if no transaction takes place at the property and the capital needs are addressed through routine maintenance or a needs gap of over \$1,260,000 if the capital needs are addressed in a consolidated transaction relying entirely on State capital subsidy.

**Summary of Capital Needs & State Subsidy Needs**

Devaux Apts, continued

Immediate Emergency Capital Needs: 0  
 Current Deferred Capital Needs: 0  
 Current Routine Capital Needs: 151,317

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	151,317	-	-	-	-	-
2014	60,915	-	-	-	136,794	-
2015	34,098	-	635,069	-	125,577	-
2016	9,060	-	-	-	113,856	-
2017	12,520	-	-	-	101,617	0
2018	16,625	-	-	-	88,842	-
2019	20,402	-	-	-	75,516	-
2020	26,487	-	-	-	61,621	-
2021	24,574	-	-	-	47,140	-
2022	23,547	-	-	-	32,055	-

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	97,016	-	-	-	16,348	-
2024	26,407	-	-	-	-	-
2025	27,199	-	-	-	-	-
2026	62,452	-	-	-	-	-
2027	81,223	-	-	-	-	-
2028	67,703	-	-	-	-	-
2029	74,139	-	-	-	-	-
2030	39,434	-	-	-	-	-
2031	81,730	-	-	-	-	-
2032	56,447	-	-	-	-	-

**Scenario Pro Formas**

Devaux Apts, 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
<b>2023 ANNUAL INCOME</b>										
Gross Potential Rent	111,128	2,778.20	287,425	7,185.62	287,425	7,186	287,425	7,186	287,425	7,186
Vacancy/Loss	(2,779)	(69.47)	(2,779)	(69.47)	(14,371)	(359)	(20,120)	(503)	(20,120)	(503)
Other Income	5,207	130.17	5,207	130.17	5,207	130	5,207	130	5,207	130
<b>Effective Gross Income</b>	<b>113,556</b>	<b>2,838.89</b>	<b>289,852</b>	<b>7,246.31</b>	<b>278,260</b>	<b>6,957</b>	<b>272,512</b>	<b>6,813</b>	<b>272,512</b>	<b>6,813</b>
<b>2023 ANNUAL EXPENSES</b>										
Operating Expenses	168,973	4,224	183,466	4,587	178,156	4,454	177,868	4,447	177,868	4,447
Replacement Reserve Deposits	26,900	673	26,900	673	19,926	498	19,926	498	19,926	498
<b>Total Operating Expenses</b>	<b>195,873</b>	<b>4,897</b>	<b>210,366</b>	<b>5,259</b>	<b>198,082</b>	<b>4,952</b>	<b>197,795</b>	<b>4,945</b>	<b>197,795</b>	<b>4,945</b>
<b>2023 NET OPERATING INCOME</b>	<b>(82,318)</b>	<b>(2,058)</b>	<b>79,486</b>	<b>1,987</b>	<b>80,178</b>	<b>2,004</b>	<b>74,717</b>	<b>1,868</b>	<b>74,717</b>	<b>1,868</b>
Debt Service	-	-	-	-	49,728	1,243	51,405	1,285	46,825	1,171
<b>2023 CASH FLOW</b>	<b>(82,318)</b>	<b>(2,058)</b>	<b>79,486</b>	<b>1,987</b>	<b>30,450</b>	<b>761</b>	<b>23,312</b>	<b>583</b>	<b>27,892</b>	<b>697</b>

**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
<b>SOURCES</b>										
Hard Debt										
Commercial Debt 1	-	-	-	-	865,336	21,633	766,892	19,172	814,822	20,371
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	1,200,000	30,000	1,200,000	30,000
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	24,187	605	38,187	955	38,187	955	38,187	955
Cash Escrows	-	-	177,708	4,443	177,708	4,443	177,708	4,443	177,708	4,443
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	87,014	2,175	93,995	2,350	93,612	2,340
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	700,904	17,523	1,304,842	32,621
Other	-	-	-	-	-	-	-	-	-	-
<b>Total Sources of Funds</b>	<b>-</b>	<b>-</b>	<b>201,895</b>	<b>5,047</b>	<b>1,168,245</b>	<b>29,206</b>	<b>2,977,686</b>	<b>74,442</b>	<b>3,629,172</b>	<b>90,729</b>
<b>USES</b>										
Acquisition Costs	-	-	-	-	-	-	1,200,000	30,000	1,200,000	30,000
Construction Costs	-	-	1,108,029	27,701	1,108,029	27,701	1,120,307	28,008	1,120,307	28,008
Soft Costs - Design & Construction	-	-	130,589	3,265	128,843	3,221	131,756	3,294	131,756	3,294
Soft Costs - Due Diligence	-	-	10,830	271	20,330	508	23,784	595	23,784	595
Soft Costs - Transaction Costs	-	-	44,687	1,117	124,687	3,117	240,376	6,009	240,376	6,009
Soft Costs - Financing	-	-	36,557	914	118,127	2,953	155,428	3,886	154,766	3,869
Soft Costs - Other	-	-	23,000	575	26,000	650	26,000	650	26,000	650
Soft Cost Contingency	-	-	12,283	307	20,899	522	25,376	634	25,051	626
Reserves	-	-	-	-	38,864	972	117,477	2,937	117,687	2,942
Developer Fee	-	-	96,045	2,401	217,535	5,438	234,988	5,875	234,030	5,851
<b>Total Uses of Funds</b>	<b>-</b>	<b>-</b>	<b>1,462,020</b>	<b>36,550</b>	<b>1,803,314</b>	<b>45,083</b>	<b>3,275,493</b>	<b>81,887</b>	<b>3,273,758</b>	<b>81,844</b>
<b>TRANSACTION SURPLUS (GAP)</b>	<b>-</b>	<b>-</b>	<b>(1,260,124)</b>	<b>(31,503)</b>	<b>(635,069)</b>	<b>(15,877)</b>	<b>(297,806)</b>	<b>(7,445)</b>	<b>355,413</b>	<b>8,885</b>

**Scenario Pro Formas (continued)**

Devaux Apts, 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
<b>FUNDS</b>										
Transaction Rehab	-	-	855,119	21,378	855,119	21,378	855,119	21,378	855,119	21,378
Capital Needs Funded Using Subsidy	292,604	7,315	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	177,708	4,443	177,708	4,443	177,708	4,443	177,708	4,443	177,708	4,443
Replacement Reserves	522,984	13,075	522,984	13,075	387,397	9,685	387,397	9,685	387,397	9,685
<b>Total Funds</b>	<b>993,296</b>	<b>24,832</b>	<b>1,555,811</b>	<b>38,895</b>	<b>1,420,224</b>	<b>35,506</b>	<b>1,420,224</b>	<b>35,506</b>	<b>1,420,224</b>	<b>35,506</b>
<b>USES</b>										
Estimated Capital Needs	993,296	24,832	993,296	24,832	993,296	24,832	993,296	24,832	993,296	24,832
Enhancements	-	-	-	-	-	-	-	-	-	-
<b>Total Uses</b>	<b>993,296</b>	<b>24,832</b>	<b>993,296</b>	<b>24,832</b>	<b>993,296</b>	<b>24,832</b>	<b>993,296</b>	<b>24,832</b>	<b>993,296</b>	<b>24,832</b>
<b>YEAR 20 REPLACEMENT RESERVE BALANCE</b>	<b>-</b>	<b>-</b>	<b>562,515</b>	<b>14,063</b>	<b>426,928</b>	<b>10,673</b>	<b>426,928</b>	<b>10,673</b>	<b>426,928</b>	<b>10,673</b>

**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
<b>OPERATING SUBSIDY</b>										
Base Rent Operating Subsidy Needed	n/a	n/a	799,366	19,984	799,366	19,984	799,366	19,984	799,366	19,984
Operating Deficit Subsidy Needed	1,605,440	40,136	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	0	0	0	0	0	0	0	0
<b>Total Operating Subsidy</b>	<b>1,605,440</b>	<b>40,136</b>	<b>799,366</b>	<b>19,984</b>	<b>799,366</b>	<b>19,984</b>	<b>799,366</b>	<b>19,984</b>	<b>799,366</b>	<b>19,984</b>
<b>CAPITAL SUBSIDY</b>										
Pre-Transaction Capital Subsidy Needed	292,604	7,315	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(661,488)	(16,537)	(247,514)	(6,188)	(237,428)	(5,936)	(276,461)	(6,912)
Transaction Capital Subsidy Needed	n/a	n/a	1,260,124	31,503	635,069	15,877	297,806	7,445	-	-
<b>Total Capital Subsidy</b>	<b>292,604</b>	<b>7,315</b>	<b>598,637</b>	<b>14,966</b>	<b>387,555</b>	<b>9,689</b>	<b>60,378</b>	<b>1,509</b>	<b>(276,461)</b>	<b>(6,912)</b>
<b>TOTAL SUBSIDY NEEDED</b>	<b>1,898,044</b>	<b>47,451</b>	<b>1,398,003</b>	<b>34,950</b>	<b>1,186,921</b>	<b>29,673</b>	<b>859,744</b>	<b>21,494</b>	<b>522,905</b>	<b>13,073</b>