CHFA Capital Plan Property Assessment - McKenna Court

Property Identification

McKenna Court
WALLINGFORD, CT

Total Current Unit Count:	30
Census Tract:	1753.00
Connecticut Congressional District:	3

CHFA Property Identification #: 85209D
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:	Row House
Number of buildings:	8
Maximum # of Stories:	1
Elevator?	None

Summary property description:

The McKenna Court property has 22 efficiency or studio and 8 one-bedroom units. Generally, the property consists of relatively small units. It features amenities such as common laundry, semi-private outdoor space and a common room.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$ 1,074,256
Capital Needs per Unit:	$ 35,809
Projected Year 1 (2014) Operating Income:	$ 89,444

Current operations at the property are projected to generate roughly $89,400 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 yet remains positive through the time horizon studied. The property is rare in the portfolio, in that the NOI is sufficient to leverage debt financing and the property is able to adequately address its future basic capital needs, projected to be approximately $1.07 million ($35,808 per unit) over the next 20 years without dramatic changes to the property's operations.

Current average income relative to the Area Median Income (AMI): 27%

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 may want to consider an adjustment in the property's base rent in order to avoid future budget problems.

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:	725	50%
One-bedroom unit:	873	56%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:	725	50%
One-bedroom unit:	873	56%
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

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	30	30
25-50% of AMI	0	0
50% of AMI or greater	0	0
Total number of units	30	30

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:	725	725
One-bedroom unit:	873	873
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: John P. Savage

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	-	-
Recoverable Grant Scenario:	(1,532,071)	(1,018,113)
CHFA/FHA Scenario:	(1,757,966)	(1,599,406)
4% LIHTC Scenario:	(1,546,251)	(1,319,865)
9% LIHTC Scenario:	(739,376)	(510,946)

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	McKenna Court, continued

Recommended Transaction Option:	Current	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.
Recommended Transaction Year	n/a	
Replacement Reserve Deposit PUPY:	325	
Debt Service Coverage in Transaction Year:	-	At this time, the property, as currently operated, generates sufficient income to cover its capital needs without any State subsidy or other capital leverage transaction.
Debt Service Coverage in Transaction Year 15:	-	
Pre-Transaction Capital Subsidy Needed:	-	
Transaction Capital Subsidy Needed:	-	

Summary of Recommended Transaction

This property has a stable operating income and expense foundation and needs little or no additional operating support. Under the Current scenario, the property yields $89,443 in NOI in the transaction completion year, which includes $325 per unit per year in replacement reserve deposits. The property generates $89,443 in cash flow in the capital transaction's completion year, trending to $74,050 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.

Immediate Emergency Capital Needs: 0
Current Deferred Capital Needs: 11,100
Current Routine Capital Needs: 61,321

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	**72,421**	-	-	-	-	-
2014	**65,931**	-	-	-	-	-
2015	**67,909**	-	-	-	-	-
2016	**123,178**	-	-	-	-	-
2017	**48,652**	-	-	-	-	-
2018	**36,309**	-	-	-	-	-
2019	**23,542**	-	-	-	-	-
2020	**24,248**	-	-	-	-	-
2021	**44,120**	-	-	-	-	-
2022	**25,725**	-	-	-	-	-

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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	**72,921**	-	-	-	-	-
2024	**31,378**	-	-	-	-	-
2025	**50,141**	-	-	-	-	-
2026	**56,638**	-	-	-	-	-
2027	**128,503**	-	-	-	-	-
2028	**56,654**	-	-	-	-	-
2029	**47,534**	-	-	-	-	-
2030	**48,960**	-	-	-	-	-
2031	**25,429**	-	-	-	-	-
2032	**24,061**	-	-	-	-	-

Scenario Pro Formas — McKenna Court, continued

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	342,187	11,406.22	342,187	11,406.22	342,187	11,406	342,187	11,406	342,187	11,406
Vacancy/Loss	(8,658)	(288.59)	(8,658)	(288.59)	(17,109)	(570)	(23,953)	(798)	(23,953)	(798)
Other Income	32,231	1,074.37	32,231	1,074.37	32,231	1,074	32,231	1,074	32,231	1,074
Effective Gross Income	**365,760**	**12,192.00**	**365,760**	**12,192.00**	**357,308**	**11,910**	**350,465**	**11,682**	**350,465**	**11,682**
2023 ANNUAL EXPENSES										
Operating Expenses	269,887	8,996	288,175	9,606	283,252	9,442	282,910	9,430	282,910	9,430
Replacement Reserve Deposits	13,895	463	13,895	463	14,945	498	14,945	498	14,945	498
Total Operating Expenses	**283,782**	**9,459**	**302,070**	**10,069**	**298,197**	**9,940**	**297,855**	**9,928**	**297,855**	**9,928**
2023 NET OPERATING INCOME	**81,979**	**2,733**	**63,690**	**2,123**	**59,111**	**1,970**	**52,610**	**1,754**	**52,610**	**1,754**
Debt Service	-	-	-	-	37,155	1,238	30,387	1,013	30,292	1,010
2023 CASH FLOW	**81,979**	**2,733**	**63,690**	**2,123**	**21,957**	**732**	**22,223**	**741**	**22,318**	**744**

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	-	-	-	-	646,545	21,552	419,541	13,985	527,126	17,571
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	324,006	10,800	324,006	10,800
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	33,232	1,108	43,732	1,458	43,732	1,458	43,732	1,458
Cash Escrows	-	-	167,850	5,595	167,850	5,595	167,850	5,595	167,850	5,595
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	104,318	3,477	109,984	3,666	109,604	3,653
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	715,401	23,847	1,416,570	47,219
Other	-		-		-		-		-	
Total Sources of Funds	**-**	**-**	**201,082**	6,703	**962,445**	32,082	**1,780,513**	59,350	**2,588,888**	86,296
USES										
Acquisition Costs	-	-	-	-	575,994	19,200	900,000	30,000	900,000	30,000
Construction Costs	-	-	1,327,850	44,262	1,327,850	44,262	1,342,565	44,752	1,342,565	44,752
Soft Costs - Design & Construction	-	-	154,017	5,134	151,924	5,064	155,415	5,181	155,415	5,181
Soft Costs - Due Diligence	-	-	10,593	353	20,285	676	22,191	740	22,191	740
Soft Costs - Transaction Costs	-	-	53,732	1,791	133,732	4,458	251,541	8,385	251,541	8,385
Soft Costs - Financing	-	-	41,976	1,399	176,174	5,872	187,935	6,265	188,255	6,275
Soft Costs - Other	-	-	17,250	575	19,500	650	19,500	650	19,500	650
Soft Cost Contingency	-	-	13,878	463	25,081	836	28,266	942	27,944	931
Reserves	-	-	-	-	29,077	969	144,391	4,813	146,844	4,895
Developer Fee	-	-	113,857	3,795	260,795	8,693	274,960	9,165	274,009	9,134
Total Uses of Funds	**-**	**-**	**1,733,153**	57,772	**2,720,411**	90,680	**3,326,764**	110,892	**3,328,264**	110,942
TRANSACTION SURPLUS (GAP)	**-**	**-**	**(1,532,071)**	(51,069)	**(1,757,966)**	(58,599)	**(1,546,251)**	(51,542)	**(739,376)**	(24,646)

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	-	-	1,024,766	34,159	1,024,766	34,159	1,024,766	34,159	1,024,766	34,159
Capital Needs Funded Using Subsidy	-	-	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	167,850	5,595	167,850	5,595	167,850	5,595	167,850	5,595	167,850	5,595
Replacement Reserves	1,795,077	59,836	270,138	9,005	290,548	9,685	290,548	9,685	290,548	9,685
Total Funds	**1,962,927**	**65,431**	**1,462,754**	**48,758**	**1,483,164**	**49,439**	**1,483,164**	**49,439**	**1,483,164**	**49,439**
USES										
Estimated Capital Needs	1,074,256	35,809	1,074,256	35,809	1,074,256	35,809	1,074,256	35,809	1,074,256	35,809
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**1,074,256**	**35,809**	**1,074,256**	**35,809**	**1,074,256**	**35,809**	**1,074,256**	**35,809**	**1,074,256**	**35,809**
YEAR 20 REPLACEMENT RESERVE BALANCE	**888,671**	**29,622**	**388,498**	**12,950**	**408,907**	**13,630**	**408,907**	**13,630**	**408,907**	**13,630**

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	-	-	0	-	0	-	0	-
Operating Deficit Subsidy Needed	0	-	-	-	0	-	31	1	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	**-**	**-**	**-**	**-**	**-**	**-**	**31**	**1**	**-**	**-**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	0	-	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(513,959)	(17,132)	(158,560)	(5,285)	(226,417)	(7,547)	(228,430)	(7,614)
Transaction Capital Subsidy Needed	n/a	n/a	1,532,071	51,069	1,757,966	58,599	1,546,251	51,542	739,376	24,646
Total Capital Subsidy	**-**	**-**	**1,018,113**	**33,937**	**1,599,406**	**53,314**	**1,319,834**	**43,994**	**510,946**	**17,032**
TOTAL SUBSIDY NEEDED	**-**	**-**	**1,018,113**	**33,937**	**1,599,406**	**53,314**	**1,319,865**	**43,995**	**510,946**	**17,032**