

CHFA Capital Plan Property Assessment - Flagg Road

Property Identification

Flagg Road
WEST HARTFORD, CT

Total Current Unit Count: 10
Census Tract: 4974.00
Connecticut Congressional District: -

CHFA Property Identification #: 95136D

Current State Sponsored Housing Program: SH Limited Equity

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: 3
Maximum # of Stories: 3
Elevator? None

Summary property description:

The Flagg Road property has 6 two-bedroom and 4 three-bedroom units. Generally, the property consists of reasonably sized units. It features amenities such as air conditioning, semi-private patios, and an outdoor playground.

Current Situation

Aggregate Capital Needs
(without market enhancements): \$ 1,277,403

Capital Needs per Unit: \$ 127,740

Projected Year 1 (2014) Operating Income: \$ 26,819

The information in CHFA's database regarding current income and expenses is quite limited. As a result, this assessment does not attempt to analyze current or projected net operating income. The capital needs over the next 20 years are set forth to the left, in both a total and a per unit figure. Ongoing deposits into the property's replacement reserve account will cover some of these expenses and many of these expenses will not come due for several years. The members of the co-op should carefully examine the replacement reserve budget projections to determine whether the monthly deposits are sufficient to give the property the resources it will need to fully cover the capital needs in a stable, sustainable, way.

Owner Comments to Property Assessment:

On our Page 5 of Property Assessment, all of the columns have listed as n/a. We did fill in the original paperwork with household income levels and costs of rents/monthly carrying charges and expenses and nothing is noted. We are concerned that if this information is missing, how can the assessment be complete and how can we receive the necessary funding that we are qualified for.

RECAP Response: The Flagg Road property is eligible for funding under the Capital Plan, and the "n/a" columns will not impact the property's eligibility. Due to their unique financing structure, the co-ops will need to work with the State to develop a recapitalization plan that is tailored to the particularities of each property.

Revenue Adjustments Prior to a Recapitalization Transaction

Flagg Road, continued

Current average income relative to the Area Median Income (AMI): 59%

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

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

As noted above, the income and expense figures were not reliably available for analysis so it is impossible for the Capital Plan to make a judgment as to the property's ability to operate in a sustainable manner into the foreseeable future. If the owners determine that the long-term revenue picture is inadequate, greater revenue can be achieved either through operating subsidy from the state or federal government (which is in tension with the ownership model of the limited equity co-op) or through higher carrying charges paid by the residents into the property accounts.

The current carrying charges and affordability are not available and therefore not included in this analysis. The co-op's owners will need to compare their current carrying charges against what is considered a typical payment for shelter costs. For reference purposes, the US Dept. of Housing and Urban Development often uses 30% of each household's adjusted gross income as a measure of whether a household's shelter costs are "affordable." For homeowners, the figures are often higher. The Federal Housing Administration (FHA) permits a 31% ratio between the monthly mortgage payment and income, and sometimes up to 43% when including insurance, taxes, homeowner's dues, etc.

A higher carrying charge could burden the co-op's owner households, so if additional revenue is needed, a long planning and transition period may be appropriate. The limited equity co-op has certain characteristics of both rental and homeownership tenures so the co-op's members would need to identify an appropriate level of affordability.

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

Flagg Road, continued

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	2	2
25-50% of AMI	4	4
50% of AMI or greater	4	4
Total number of units	10	10

As noted above, carry charges and expense information was not available for analysis.

	Pre-Trans. Base Rent	Post-Trans. Base Rent
Studio/efficiency unit:		
One-bedroom unit:		
Two-bedroom unit:	n/a	n/a
Three-bedroom unit:	n/a	n/a
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: Flagg Road

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(1,169,182)	(1,169,182)
Recoverable Grant Scenario:	(1,785,325)	(3,228,850)
CHFA/FHA Scenario:	-	-
4% LIHTC Scenario:	-	-
9% LIHTC Scenario:	-	-

The Capital Plan analysis typically 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 with a reflection of whether there is a capital surplus or gap. 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. 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). Due to the limited data available, the current scenario has been recommended for nearly all co-ops.

- The second scenario, the "Recoverable Grant Scenario" assumes 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 three remaining scenarios - "CHFA/FHA," "4% LIHTC" and "9% LIHTC" correspond to three different leverage transaction structures. However, the 4% LIHTC and 9% LIHTC structures are only appropriate for rental properties. For a limited equity co-op, the LIHTC structures would be inappropriate as they would represent a loss of owner equity. The CHFA/FHA scenario is a debt-only scenario and is the primary leverage scenario available for co-ops. Unfortunately, however, it is impossible to estimate the viability of a debt scenario if the operating revenue and expense figures - which determine the availability of funds to support debt payments - are unavailable.

Recommended Transaction and Transaction Assumptions

Flagg Road, continued

Recommended Transaction Option:	Current	Given the limited data available, the Capital Plan assumes that the property, as currently operated, generates sufficient income to cover its operating expenses without any State operating subsidy. However, the replacement reserve analysis in the capital needs assessment indicates that, over time, the co-op may have trouble assembling sufficient funds to cover its capital needs as they arise.
Recommended Transaction Year	n/a	Given the current replacement reserve balance and the projected capital needs over time, the property will struggle to meet its 20-year capital needs purely from its own resources. 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.
Replacement Reserve Deposit PUPY:	-	
Debt Service Coverage in Transaction Year:	-	
Debt Service Coverage in Transaction Year 15:	-	These grants, identified as "Pre-Transaction Subsidy" (since no consolidated transaction is proposed), would total \$1,263,159 over the course of the next 20 years. This approach would require the State to have a much more active role in supervising both capital and operating budgets, in order to ensure that the subsidy is only what is minimally needed to keep the property well maintained. This level of oversight would correspond to a loss of owner autonomy.
Pre-Transaction Capital Subsidy Required:	1,169,182	
Transaction Capital Subsidy Required:	-	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.

Summary of Recommended Transaction

The Capital Plan recommends the Current Scenario for this co-op property primarily because of the limited data available with respect to the property's income and expenses, and consequently its ability to leverage debt. The Current Scenario does, however, require the State to have a much more active role in approving the budgets and capital investments at the property. The Capital Plan recommends, however, that the owner share with the State more detailed information about the property's carrying charges and operating expenses so that a more appropriate strategy which maximizes the co-op owner's independence can be identified.

Summary of Capital Needs & State Subsidy Needs

Flagg Road, continued

Immediate Emergency Capital Needs: 0
 Current Deferred Capital Needs: 2,075
 Current Routine Capital Needs: 72,162

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	74,237	59,993	-	-	-	-
2014	93,148	89,752	-	-	8,700	-
2015	58,458	54,926	-	-	7,987	-
2016	56,332	52,659	-	-	7,241	-
2017	97,999	94,179	-	-	6,463	-
2018	85,060	81,087	-	-	5,650	-
2019	76,958	72,826	-	-	4,803	-
2020	31,878	27,581	-	-	3,919	-
2021	29,510	25,041	-	-	2,998	-
2022	45,592	40,944	-	-	2,039	-

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	38,242	33,408	-	-	1,040	-
2024	38,307	33,280	-	-	-	-
2025	36,338	31,110	-	-	-	-
2026	118,193	112,756	-	-	-	-
2027	121,372	115,717	-	-	-	-
2028	54,954	49,073	-	-	-	-
2029	41,210	35,094	-	-	-	-
2030	48,831	42,470	-	-	-	-
2031	90,164	83,549	-	-	-	-
2032	40,619	33,739	-	-	-	-

Scenario Pro Formas

Flagg Road, 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
2014 ANNUAL INCOME										
Gross Potential Rent	92,335	9,233	92,335	9,233	112,273	11,227	112,273	11,227	112,273	11,227
Vacancy/Loss	(1,339)	(134)	(1,339)	(134)						
Other Income	7,799	780	7,799	780						
Effective Gross Income	98,795	9,879	98,795	9,879	112,273	11,227	112,273	11,227	112,273	11,227
2014 ANNUAL EXPENSES										
Operating Expenses	68,579	6,858	68,579	6,858						
Replacement Reserve Deposits	3,396	340	3,396	340						
Total Operating Expenses	71,975	7,198	71,975	7,198	-	-	-	-	-	-
2014 NET OPERATING INCOME	26,819	2,682	26,819	2,682	112,273	11,227	112,273	11,227	112,273	11,227
Debt Service	-	-								
2014 CASH FLOW	26,819	2,682	26,819	2,682	112,273	11,227	112,273	11,227	112,273	11,227

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	-	-	-	-						
Commercial Debt 2	-	-	-	-						
Tax-Exempt Bond	-	-	-	-						
Other	-	-	-	-						
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-						
State	-	-	-	-						
Local	-	-	-	-						
Other	-	-	-	-						
Other										
From Operations	-	-	32,964	3,296						
Cash Escrows	-	-	14,244	1,424						
Grant	-	-	-	-						
Other	-	-	-	-						
Other	-	-	-	-						
Deferred Developer Fee	-	-	-	-						
Equity										
GP Contribution	-	-	-	-						
LIHTC	-	-	-	-						
Other	-	-	-	-						
Total Sources of Funds	-	-	47,208	4,721	-	-	-	-	-	-
USES										
Acquisition Costs	-	-	-	-						
Construction Costs	-	-	1,422,470	142,247						
Soft Costs - Design & Construction	-	-	164,101	16,410						
Soft Costs - Due Diligence	-	-	9,707	971						
Soft Costs - Transaction Costs	-	-	53,464	5,346						
Soft Costs - Financing	-	-	42,861	4,286						
Soft Costs - Other	-	-	5,750	575						
Soft Cost Contingency	-	-	13,794	1,379						
Reserves	-	-	-	-						
Developer Fee	-	-	120,385	12,039						
Total Uses of Funds	-	-	1,832,533	183,253	-	-	-	-	-	-
TRANSACTION SURPLUS (GAP)	-	-	(1,785,325)	(178,533)	-	-	-	-	-	-

Scenario Pro Formas (continued)

Flagg Road, 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	-	-	1,097,789	109,779						
Capital Needs Funded Using Subsidy	1,169,182	116,918	-	-						
Existing Replacement Reserve Balance	14,244	1,424	14,244	1,424						
Replacement Reserves	93,977	9,398	93,977	9,398						
Total Funds	1,277,403	127,740	1,206,009	120,601	-	-	-	-	-	-
USES										
Estimated Capital Needs	1,277,403	127,740	1,277,403	127,740						
Enhancements	-	-	-	-						
Total Uses	1,277,403	127,740	1,277,403	127,740	-	-	-	-	-	-
YEAR 20 REPLACEMENT RESERVE BALANCE	-	-	(71,394)	(7,139)	-	-	-	-	-	-

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	n/a	n/a						
Operating Deficit Subsidy Needed	0	-	1,443,525	144,352						
Income Mixing Operating Subsidy Needed	n/a	n/a	n/a	n/a						
Total Operating Subsidy	-	-	1,443,525	144,352	-	-	-	-	-	-
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	1,169,182	116,918	-	-						
Recoverable Cash Flow	n/a	n/a	-	-						
Transaction Capital Subsidy Needed	n/a	n/a	1,785,325	178,533						
Total Capital Subsidy	1,169,182	116,918	1,785,325	178,533	-	-	-	-	-	-
TOTAL SUBSIDY NEEDED	1,169,182	116,918	3,228,850	322,885	-	-	-	-	-	-