CHFA Capital Plan Property Assessment - Harvey R. Fuller

Property Identification

Harvey R. Fuller
WETHERSFIELD, CT

Total Current Unit Count:	32
Census Tract:	4926.00
Connecticut Congressional District:	1

CHFA Property Identification #: 88052D
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:	1
Elevator?	None

Summary property description:
The Harvey R. Fuller property has 32 one-bedroom units. Generally, the property consists of reasonably sized units. It features amenities such as common laundry, central air conditioning, semi-private outdoor space and a common room.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$ 1,869,218
Capital Needs per Unit:	$ 58,413
Projected Year 1 (2014) Operating Income:	$ 40,640

Current operations at the property are projected to generate roughly $40,600 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 yet remains positive through the time horizon studied. However, the property cannot leverage debt financing or adequately address its future basic capital needs, projected to be approximately $1.87 million ($58,413 per unit) over the next 20 years.

Owner Comments to Property Assessment:

Owner comments to the Capital Needs Assessment:
-CNA: The photograph comments seem to say certain work was to be done to areas like main entrance and the community kitchen. This was not slated to be done with the last CDBG funding, nor was it done.
-CNA: The capital needs completed on the Admin Bldg (since they are pro-rated across all properties) should be removed from the Capital Needs Assessment.

RECAP Response: The comment period for issues related to the CNAs occurred when the draft CNAs were distributed to the person designated by the owner to review the CNA several months ago, so we are not able to revise CNAs at this time. However, given that the CNA impacts the property anaysis, Recap has included the owner comments regarding the CNA to the property assessment so their concerns will be noted.

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

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:	336	21%
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:	336	21%
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	16	16
25-50% of AMI	14	14
50% of AMI or greater	2	2
Total number of units	32	32

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:	336	336
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: James Devlin Court

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(719,719)	(719,719)
Recoverable Grant Scenario:	(3,068,415)	(3,330,326)
CHFA/FHA Scenario:	(2,351,867)	(3,045,459)
4% LIHTC Scenario:	(1,566,759)	(2,309,113)
9% LIHTC Scenario:	(258,955)	(970,069)

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	Harvey R. Fuller, continued

Recommended Transaction Option:	Current
Recommended Transaction Year	n/a
Replacement Reserve Deposit PUPY:	494
Debt Service Coverage in Transaction Year:	-
Debt Service Coverage in Transaction Year 15:	-
Pre-Transaction Capital Subsidy Needed:	719,719
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 $580,573 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/or small size of the property 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 has a stable operating income and expense foundation and needs little or no additional operating support. Under the Current scenario, the property yields $46,788 in NOI in the current year, which includes $500 per unit per year in replacement reserve deposits, trending to $32,851 fifteen years thereafter. The transaction results in a capital subsidy need of $580,573 and $0 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:	11,569
Current Routine Capital Needs:	78,374

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	**89,943**	-	-	-	-	-
2014	**38,019**	-	-	-	-	-
2015	**43,397**	-	-	-	-	-
2016	**29,158**	-	-	-	-	-
2017	**58,273**	-	-	-	-	-
2018	**48,056**	-	-	-	-	-
2019	**21,011**	-	-	-	-	-
2020	**43,249**	-	-	-	-	-
2021	**97,552**	-	-	-	-	-
2022	**74,806**	-	-	-	-	-

		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	**27,344**	-	-	-	-	-
2024	**27,384**	-	-	-	-	-
2025	**112,113**	-	-	-	-	-
2026	**175,486**	45,716	-	-	-	-
2027	**37,372**	-	-	-	-	-
2028	**117,688**	49,122	-	-	-	-
2029	**24,469**	-	-	-	-	-
2030	**23,115**	-	-	-	-	-
2031	**497,841**	391,597	-	-	-	-
2032	**282,940**	233,285	-	-	-	-

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	183,039	5,719.98	268,847	8,401.46	268,847	8,401	268,847	8,401	268,847	8,401
Vacancy/Loss	(3,783)	(118.21)	(3,783)	(118.21)	(13,442)	(420)	(18,819)	(588)	(18,819)	(588)
Other Income	23,204	725.12	23,204	725.12	23,204	725	23,204	725	23,204	725
Effective Gross Income	**202,461**	**6,326.89**	**288,268**	**9,008.38**	**278,608**	**8,707**	**273,231**	**8,538**	**273,231**	**8,538**
2023 ANNUAL EXPENSES										
Operating Expenses	147,385	4,606	161,799	5,056	158,179	4,943	157,911	4,935	157,911	4,935
Replacement Reserve Deposits	22,504	703	22,504	703	15,941	498	15,941	498	15,941	498
Total Operating Expenses	**169,889**	**5,309**	**184,303**	**5,759**	**174,121**	**5,441**	**173,852**	**5,433**	**173,852**	**5,433**
2023 NET OPERATING INCOME	**32,571**	**1,018**	**103,965**	**3,249**	**104,488**	**3,265**	**99,380**	**3,106**	**99,380**	**3,106**
Debt Service	-	-	-	-	62,726	1,960	64,308	2,010	59,845	1,870
2023 CASH FLOW	**32,571**	**1,018**	**103,965**	**3,249**	**41,761**	**1,305**	**35,072**	**1,096**	**39,535**	**1,235**

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	-	-	-	-	1,091,522	34,110	980,124	30,629	1,041,382	32,543
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	1,225,155	38,286	1,225,155	38,286
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	21,990	687	33,190	1,037	33,190	1,037	33,190	1,037
Cash Escrows	-	-	119,264	3,727	114,653	3,583	114,653	3,583	114,653	3,583
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	184,081	5,753	192,678	6,021	191,843	5,995
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	1,194,493	37,328	2,437,203	76,163
Other	-		-		-		-		-	
Total Sources of Funds	**-**	**-**	**141,254**	4,414	**1,423,446**	44,483	**3,740,294**	116,884	**5,043,427**	157,607
USES										
Acquisition Costs	-	-	-	-	-	-	1,225,155	38,286	1,225,155	38,286
Construction Costs	-	-	2,543,300	79,478	2,543,300	79,478	2,571,484	80,359	2,571,484	80,359
Soft Costs - Design & Construction	-	-	283,555	8,861	279,547	8,736	286,233	8,945	286,233	8,945
Soft Costs - Due Diligence	-	-	12,152	380	21,252	664	24,356	761	24,356	761
Soft Costs - Transaction Costs	-	-	42,490	1,328	122,490	3,828	252,025	7,876	252,025	7,876
Soft Costs - Financing	-	-	77,226	2,413	250,433	7,826	288,176	9,006	286,028	8,938
Soft Costs - Other	-	-	18,400	575	20,800	650	20,800	650	20,800	650
Soft Cost Contingency	-	-	21,691	678	34,726	1,085	39,069	1,221	38,363	1,199
Reserves	-	-	-	-	42,563	1,330	118,059	3,689	118,328	3,698
Developer Fee	-	-	210,854	6,589	460,202	14,381	481,694	15,053	479,608	14,988
Total Uses of Funds	**-**	**-**	**3,209,669**	100,302	**3,775,313**	117,979	**5,307,053**	165,845	**5,302,381**	165,699
TRANSACTION SURPLUS (GAP)	**-**	**-**	**(3,068,415)**	(95,888)	**(2,351,867)**	(73,496)	**(1,566,759)**	(48,961)	**(258,955)**	(8,092)

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	-	-	1,962,787	61,337	1,962,787	61,337	1,962,787	61,337	1,962,787	61,337
Capital Needs Funded Using Subsidy	719,719	22,491	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	117,245	3,664	117,245	3,664	117,245	3,664	117,245	3,664	117,245	3,664
Replacement Reserves	1,032,254	32,258	437,511	13,672	309,918	9,685	309,918	9,685	309,918	9,685
Total Funds	**1,869,218**	**58,413**	**2,517,544**	**78,673**	**2,389,950**	**74,686**	**2,389,950**	**74,686**	**2,389,950**	**74,686**
USES										
Estimated Capital Needs	1,869,218	58,413	1,869,218	58,413	1,869,218	58,413	1,869,218	58,413	1,869,218	58,413
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**1,869,218**	**58,413**	**1,869,218**	**58,413**	**1,869,218**	**58,413**	**1,869,218**	**58,413**	**1,869,218**	**58,413**
YEAR 20 REPLACEMENT RESERVE BALANCE	**-**	**-**	**648,326**	**20,260**	**520,732**	**16,273**	**520,732**	**16,273**	**520,732**	**16,273**

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	987,946	30,873	987,946	30,873	987,946	30,873	987,946	30,873
Operating Deficit Subsidy Needed	0	-	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	**-**	**-**	**987,946**	**30,873**	**987,946**	**30,873**	**987,946**	**30,873**	**987,946**	**30,873**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	719,719	22,491	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(726,035)	(22,689)	(294,353)	(9,199)	(245,591)	(7,675)	(276,832)	(8,651)
Transaction Capital Subsidy Needed	n/a	n/a	3,068,415	95,888	2,351,867	73,496	1,566,759	48,961	258,955	8,092
Total Capital Subsidy	**719,719**	**22,491**	**2,342,380**	**73,199**	**2,057,513**	**64,297**	**1,321,168**	**41,286**	**(17,877)**	**(559)**
TOTAL SUBSIDY NEEDED	**719,719**	**22,491**	**3,330,326**	**104,073**	**3,045,459**	**95,171**	**2,309,113**	**72,160**	**970,069**	**30,315**