CHFA Capital Plan Property Assessment - McCluggage Manor

Property Identification

McCluggage Manor
GRISWOLD, CT

Total Current Unit Count:	30
Census Tract:	7092.00
Connecticut Congressional District:	2

CHFA Property Identification #: 85063D
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:	9
Maximum # of Stories:	1
Elevator?	None

Summary property description:

The McCluggage Manor property has 19 efficiency or studio and 11 one-bedroom units. Generally, the property consists of relatively small units. It features amenities such as central air conditioning, a community room, and an outdoor playground.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$ 2,318,974
Capital Needs per Unit:	$ 77,299
Projected Year 1 (2014) Operating Income:	$ 17,578

Current operations at the property are projected to generate roughly $17,600 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 and results in negative NOI beginning in 2034. As a result, the property is not sustainable and cannot adequately address its future basic capital needs, projected to be approximately $2.32 million ($77,299 per unit) over the next 20 years.

Current average income relative to the Area Median Income (AMI): 23%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:	60	4%
One-bedroom unit:	70	5%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:	60	4%
One-bedroom unit:	70	5%
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

Total rental operating subsidy necessary assuming a turnover-based leasing strategy: 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	17	17
25-50% of AMI	13	13
50% of AMI or greater	0	0
Total number of units	30	30

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:	60	60
One-bedroom unit:	70	70
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: Ashland Manor

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(1,668,262)	(1,668,262)
Recoverable Grant Scenario:	(3,783,024)	(3,674,317)
CHFA/FHA Scenario:	(3,465,988)	(3,667,602)
4% LIHTC Scenario:	(2,467,123)	(2,706,855)
9% LIHTC Scenario:	(884,593)	(1,096,399)

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	McCluggage Manor, continued

Recommended Transaction Option:	Current
Recommended Transaction Year	n/a
Replacement Reserve Deposit PUPY:	260
Debt Service Coverage in Transaction Year:	-
Debt Service Coverage in Transaction Year 15:	-
Pre-Transaction Capital Subsidy Needed:	1,668,262
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 $1,668,262 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 $17,578 in NOI in the current year, which includes $260 per unit per year in replacement reserve deposits, trending to negative $6,889 fifteen years thereafter. The transaction results in a capital subsidy need of $1,668,262, 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:	0
Current Routine Capital Needs:	1,293,339

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	**1,293,339**	1,068,339	-	-	-	-
2014	**50,355**	24,963	-	-	-	-
2015	**12,877**	-	-	-	-	-
2016	**13,264**	-	-	-	-	-
2017	**15,857**	-	-	-	-	-
2018	**20,942**	-	-	-	-	-
2019	**18,225**	-	-	-	-	-
2020	**18,511**	-	-	-	-	-
2021	**17,846**	-	-	-	-	-
2022	**128,146**	50,783	-	-	-	-

		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	**23,158**	244	-	-	-	-
2024	**38,147**	15,660	-	-	-	-
2025	**20,086**	-	-	-	-	-
2026	**100,429**	76,960	-	-	-	-
2027	**107,894**	86,900	-	-	-	-
2028	**133,825**	113,407	-	-	-	-
2029	**39,689**	19,888	-	-	-	-
2030	**46,915**	27,773	-	-	-	-
2031	**41,553**	23,115	-	-	-	-
2032	**177,916**	160,230	-	-	-	-

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	108,875	3,629.16	183,429	6,114.29	183,429	6,114	183,429	6,114	183,429	6,114
Vacancy/Loss	-	-	-	-	(9,171)	(306)	(12,840)	(428)	(12,840)	(428)
Other Income	2,448	81.60	2,448	81.60	2,448	82	2,448	82	2,448	82
Effective Gross Income	**111,323**	**3,710.76**	**185,877**	**6,195.89**	**176,705**	**5,890**	**173,037**	**5,768**	**173,037**	**5,768**
2023 ANNUAL EXPENSES										
Operating Expenses	88,410	2,947	97,703	3,257	94,896	3,163	94,713	3,157	94,713	3,157
Replacement Reserve Deposits	11,120	371	11,120	371	14,945	498	14,945	498	14,945	498
Total Operating Expenses	**99,530**	**3,318**	**108,824**	**3,627**	**109,841**	**3,661**	**109,657**	**3,655**	**109,657**	**3,655**
2023 NET OPERATING INCOME	**11,793**	**393**	**77,053**	**2,568**	**66,864**	**2,229**	**63,379**	**2,113**	**63,379**	**2,113**
Debt Service	-	-	-	-	40,551	1,352	43,160	1,439	38,506	1,284
2023 CASH FLOW	**11,793**	**393**	**77,053**	**2,568**	**26,313**	**877**	**20,219**	**674**	**24,873**	**829**

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	-	-	-	-	705,643	23,521	630,637	21,021	670,051	22,335
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	900,000	30,000	900,000	30,000
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	9,553	318	20,053	668	20,053	668	20,053	668
Cash Escrows	-	-	227,255	7,575	235,643	7,855	235,643	7,855	235,643	7,855
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	228,063	7,602	237,012	7,900	235,935	7,865
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	1,355,132	45,171	2,892,473	96,416
Other	-		-		-		-		-	
Total Sources of Funds	**-**	**-**	**236,808**	7,894	**1,189,402**	39,647	**3,378,476**	112,616	**4,954,155**	165,138
USES										
Acquisition Costs	-	-	-	-	-	-	900,000	30,000	900,000	30,000
Construction Costs	-	-	3,218,014	107,267	3,218,014	107,267	3,253,675	108,456	3,253,675	108,456
Soft Costs - Design & Construction	-	-	355,464	11,849	350,391	11,680	358,852	11,962	358,852	11,962
Soft Costs - Due Diligence	-	-	12,862	429	21,862	729	24,484	816	24,484	816
Soft Costs - Transaction Costs	-	-	30,053	1,002	110,053	3,668	246,096	8,203	246,096	8,203
Soft Costs - Financing	-	-	96,507	3,217	294,807	9,827	325,499	10,850	322,079	10,736
Soft Costs - Other	-	-	17,250	575	19,500	650	19,500	650	19,500	650
Soft Cost Contingency	-	-	25,607	854	39,831	1,328	43,756	1,459	42,844	1,428
Reserves	-	-	-	-	30,776	1,026	81,207	2,707	81,380	2,713
Developer Fee	-	-	264,077	8,803	570,158	19,005	592,531	19,751	589,838	19,661
Total Uses of Funds	**-**	**-**	**4,019,832**	133,994	**4,655,390**	155,180	**5,845,599**	194,853	**5,838,748**	194,625
TRANSACTION SURPLUS (GAP)	**-**	**-**	**(3,783,024)**	(126,101)	**(3,465,988)**	(115,533)	**(2,467,123)**	(82,237)	**(884,593)**	(29,486)

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	-	-	2,483,497	82,783	2,483,497	82,783	2,483,497	82,783	2,483,497	82,783
Capital Needs Funded Using Subsidy	1,668,262	55,609	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	225,000	7,500	225,000	7,500	225,000	7,500	225,000	7,500	225,000	7,500
Replacement Reserves	425,712	14,190	216,195	7,207	290,548	9,685	290,548	9,685	290,548	9,685
Total Funds	**2,318,974**	**77,299**	**2,924,692**	**97,490**	**2,999,045**	**99,968**	**2,999,045**	**99,968**	**2,999,045**	**99,968**
USES										
Estimated Capital Needs	2,318,974	77,299	2,318,974	77,299	2,318,974	77,299	2,318,974	77,299	2,318,974	77,299
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**2,318,974**	**77,299**	**2,318,974**	**77,299**	**2,318,974**	**77,299**	**2,318,974**	**77,299**	**2,318,974**	**77,299**
YEAR 20 REPLACEMENT RESERVE BALANCE	**-**	**-**	**605,718**	**20,191**	**680,071**	**22,669**	**680,071**	**22,669**	**680,071**	**22,669**

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	360,896	12,030	360,896	12,030	360,896	12,030	360,896	12,030
Operating Deficit Subsidy Needed	0	-	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	0	0	0	0	0	0	0	0
Total Operating Subsidy	**-**	**-**	**360,896**	**12,030**	**360,896**	**12,030**	**360,896**	**12,030**	**360,896**	**12,030**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	1,668,262	55,609	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(469,604)	(15,653)	(159,282)	(5,309)	(121,164)	(4,039)	(149,090)	(4,970)
Transaction Capital Subsidy Needed	n/a	n/a	3,783,024	126,101	3,465,988	115,533	2,467,123	82,237	884,593	29,486
Total Capital Subsidy	**1,668,262**	**55,609**	**3,313,421**	**110,447**	**3,306,706**	**110,224**	**2,345,959**	**78,199**	**735,502**	**24,517**
TOTAL SUBSIDY NEEDED	**1,668,262**	**55,609**	**3,674,317**	**122,477**	**3,667,602**	**122,253**	**2,706,855**	**90,229**	**1,096,399**	**36,547**