CHFA Capital Plan Property Assessment - Knox Lane Annex

Property Identification

Knox Lane Annex
GLASTONBURY, CT

Total Current Unit Count:	40
Census Tract:	5204.00
Connecticut Congressional District:	1

CHFA Property Identification #: 85058D
Current State Sponsored Housing Program: SH Elderly

This is a single, stand-alone property. There is an adjacent property, Village Green, a 50 unit State Elderly property, located on the site. For the purposes of this evaluation, Knox Lane Annex was modeled independently of Village Green, as Village Green was not included in the scope of the Capital Plan.

Property Description

Tenancy Type:	Elderly/Disabled
Structure Type:	Low rise (1-4 floors)
Number of buildings:	4
Maximum # of Stories:	2
Elevator?	

Summary property description:

The Knox Lane Annex property has 30 efficiency or studio and 10 one-bedroom units. Generally, the property consists of relatively small units. It features amenities such as common laundry and a community room.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$ 1,682,648
Capital Needs per Unit:	$ 42,066
Projected Year 1 (2014) Operating Income:	$ 17,469

Current operations at the property are projected to generate roughly $17,500 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 2022. As a result, the property is not sustainable and cannot adequately address its future basic capital needs, projected to be approximately $1.68 million ($42,066 per unit) over the next 20 years.

Owner Comments to Property Assessment:

Please see Page 9 for Owner Comments

Current average income relative to the Area Median Income (AMI): 28%

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 greaterheir income for housing and it will require that the property serve tenants with modestly higher incomes.

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:	330	22%
One-bedroom unit:	340	21%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

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.

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:	450	30%
One-bedroom unit:	482	30%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

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.

Number of current households that would be impacted by the proposed increase in Base Rent: 21

Protecting the 21 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 $38,842 to protect these households while generating the revenue equivalent to the proposed increase in the base rent.

Rental operating subsidy necessary in 2014 to generate revenue equal to raising the base rent as proposed: $ 38,843

Total rental operating subsidy necessary assuming a turnover-based leasing strategy: $ 226,979

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 $226,979.

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	21	21
25-50% of AMI	16	16
50% of AMI or greater	3	3
Total number of units	40	40

	Pre-Trans. Base Rent	Post-Trans. Base Rent
Studio/efficiency unit:	450	450
One-bedroom unit:	482	482
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: $ (0)

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: Center Village

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.

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(71,266)	(252,369)
Recoverable Grant Scenario:	(2,598,151)	(2,552,527)
CHFA/FHA Scenario:	(1,987,783)	(1,978,022)
4% LIHTC Scenario:	(1,201,662)	(1,221,000)
9% LIHTC Scenario:	59,909	-

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

Recommended Transaction Option:	4% LIHTC
Recommended Transaction Year	2019
Replacement Reserve Deposit PUPY:	350
Debt Service Coverage in Transaction Year:	1.200
Debt Service Coverage in Transaction Year 15:	1.429
Pre-Transaction Capital Subsidy Needed:	-
Transaction Capital Subsidy Needed:	1,201,662

The capital plan recommends using the 4% low income housing tax credit scenario to finance the capital needs at this property. The debt-only scenario leaves significant capital needs unaddressed, while the use of 9% tax credits at this property would be an inefficient use of the scarce 9% resource given the competing needs within the portfolio and within the State as a whole. The 4% LIHTC scenario, however, covers the capital needs appropriately while minimizing the need for State capital subsidies.
This analysis has suggested a potential transaction year of 2019 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.

This property has been underwritten assuming replacement reserve deposits of $350 per unit per year, assuming debt service coverage is maintained over 1.429 throughout the first 15 years of the new financing, and assuming hard construction capital needs of $1.68 million.

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 4% LIHTC scenario, the property yields $95,496 in NOI in the transaction completion year, which includes $350 per unit per year in replacement reserve deposits. After debt service, the property generates $32,710 in cash flow in the capital transaction's completion year, trending to $26,921 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 $954,000 in debt and $1,155,000 in equity. The transaction results in a gap of $1,201,000, all of which would need to be covered by State capital subsidy. This compares to a needs gap of over $252,000 if no transaction takes place at the property and the capital needs are addressed through routine maintenance or a needs gap of over $2,598,000 if the capital needs are addressed in a consolidated transaction relying entirely on State capital subsidy.

Immediate Emergency Capital Needs:	0
Current Deferred Capital Needs:	0
Current Routine Capital Needs:	26,739

The chart below indicates the year-by-year capital investment needs at the property as projected by The Replacement Reserve Report. 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	**26,739**	-	-	-	-	-
2014	**34,564**	-	-	-	38,843	-
2015	**28,533**	-	-	-	35,657	-
2016	**26,742**	-	-	-	32,329	-
2017	**42,035**	-	-	-	28,854	-
2018	**28,371**	-	-	-	25,227	-
2019	**29,222**	-	1,201,662	-	21,443	-
2020	**40,298**	-	-	-	17,497	(0)
2021	**31,001**	-	-	-	13,385	(0)
2022	**190,961**	-	-	-	9,102	-

		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	**84,567**	-	-	-	4,642	-
2024	**87,104**	-	-	-	-	-
2025	**38,346**	-	-	-	-	-
2026	**35,939**	-	-	-	-	-
2027	**223,194**	-	-	-	-	-
2028	**218,657**	-	-	-	-	-
2029	**39,272**	-	-	-	-	-
2030	**384,397**	-	-	-	-	-
2031	**41,663**	-	-	-	-	-
2032	**51,041**	-	-	-	-	-

Scenario Pro Formas

Knox Lane Annex, 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	249,859	6,246.46	316,230	7,905.76	316,230	7,906	316,230	7,906	316,230	7,906
Vacancy/Loss	(32,090)	(802.26)	(32,090)	(802.26)	(32,090)	(802)	(32,090)	(802)	(32,090)	(802)
Other Income	4,311	107.78	4,311	107.78	4,311	108	4,311	108	4,311	108
Effective Gross Income	**222,079**	**5,551.98**	**288,451**	**7,211.28**	**288,451**	**7,211**	**288,451**	**7,211**	**288,451**	**7,211**
2023 ANNUAL EXPENSES										
Operating Expenses	161,794	4,045	176,217	4,405	172,882	4,322	172,882	4,322	172,882	4,322
Replacement Reserve Deposits	63,131	1,578	63,131	1,578	19,926	498	19,926	498	19,926	498
Total Operating Expenses	**224,925**	**5,623**	**239,348**	**5,984**	**192,808**	**4,820**	**192,808**	**4,820**	**192,808**	**4,820**
2023 NET OPERATING INCOME	**(2,846)**	**(71)**	**49,103**	**1,228**	**95,643**	**2,391**	**95,643**	**2,391**	**95,643**	**2,391**
Debt Service	-	-	-	-	58,308	1,458	62,785	1,570	58,308	1,458
2023 CASH FLOW	**(2,846)**	**(71)**	**49,103**	**1,228**	**37,335**	**933**	**32,858**	**821**	**37,335**	**933**

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	-	-	-	-	1,014,647	25,366	954,962	23,874	1,014,647	25,366
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	-	-	26,129	653	40,129	1,003	40,129	1,003	40,129	1,003
Cash Escrows	-	-	474,484	11,862	412,560	10,314	412,560	10,314	412,560	10,314
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	176,990	4,425	185,567	4,639	184,763	4,619
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	1,155,443	28,886	2,353,648	58,841
Other	-		-		-		-		-	
Total Sources of Funds	**-**	-	**500,613**	12,515	**1,644,326**	41,108	**3,948,661**	98,717	**5,205,747**	130,144
USES										
Acquisition Costs	-	-	-	-	-	-	1,200,000	30,000	1,200,000	30,000
Construction Costs	-	-	2,443,612	61,090	2,443,612	61,090	2,470,691	61,767	2,470,691	61,767
Soft Costs - Design & Construction	-	-	272,931	6,823	269,079	6,727	275,503	6,888	275,503	6,888
Soft Costs - Due Diligence	-	-	12,432	311	21,932	548	25,405	635	25,405	635
Soft Costs - Transaction Costs	-	-	46,629	1,166	126,629	3,166	255,202	6,380	255,202	6,380
Soft Costs - Financing	-	-	75,088	1,877	225,759	5,644	264,696	6,617	262,638	6,566
Soft Costs - Other	-	-	23,000	575	26,000	650	26,000	650	26,000	650
Soft Cost Contingency	-	-	21,504	538	33,470	837	37,857	946	37,176	929
Reserves	-	-	-	-	43,154	1,079	131,052	3,276	131,313	3,283
Developer Fee	-	-	203,568	5,089	442,474	11,062	463,917	11,598	461,908	11,548
Total Uses of Funds	**-**	-	**3,098,765**	77,469	**3,632,109**	90,803	**5,150,323**	128,758	**5,145,838**	128,646
TRANSACTION SURPLUS (GAP)	**-**	-	**(2,598,151)**	(64,954)	**(1,987,783)**	(49,695)	**(1,201,662)**	(30,042)	**59,909**	1,498

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	-	-	1,885,853	47,146	1,885,853	47,146	1,885,853	47,146	1,885,853	47,146
Capital Needs Funded Using Subsidy	71,266	1,782	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	384,000	9,600	384,000	9,600	384,000	9,600	384,000	9,600	384,000	9,600
Replacement Reserves	1,310,933	32,773	1,227,358	30,684	387,397	9,685	387,397	9,685	387,397	9,685
Total Funds	**1,766,199**	**44,155**	**3,497,211**	**87,430**	**2,657,250**	**66,431**	**2,657,250**	**66,431**	**2,657,250**	**66,431**
USES										
Estimated Capital Needs	1,682,648	42,066	1,682,648	42,066	1,682,648	42,066	1,682,648	42,066	1,682,648	42,066
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**1,682,648**	**42,066**	**1,682,648**	**42,066**	**1,682,648**	**42,066**	**1,682,648**	**42,066**	**1,682,648**	**42,066**
YEAR 20 REPLACEMENT RESERVE BALANCE	**83,550**	**2,089**	**1,814,562**	**45,364**	**974,602**	**24,365**	**974,602**	**24,365**	**974,602**	**24,365**

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	226,979	5,674	226,979	5,674	226,979	5,674	226,979	5,674
Operating Deficit Subsidy Needed	181,103	4,528	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Total Operating Subsidy	**181,103**	**4,528**	**226,979**	**5,674**	**226,979**	**5,674**	**226,979**	**5,674**	**226,979**	**5,674**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	71,266	1,782	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(272,603)	(6,815)	(236,740)	(5,919)	(207,642)	(5,191)	(226,979)	(5,674)
Transaction Capital Subsidy Needed	n/a	n/a	2,598,151	64,954	1,987,783	49,695	1,201,662	30,042	-	-
Total Capital Subsidy	**71,266**	**1,782**	**2,325,548**	**58,139**	**1,751,043**	**43,776**	**994,021**	**24,851**	**(226,979)**	**(5,674)**
TOTAL SUBSIDY NEEDED	**252,369**	**6,309**	**2,552,527**	**63,813**	**1,978,022**	**49,451**	**1,221,000**	**30,525**	**-**	**-**

Owner Comments

Knox Lane Annex

CNA: Community Hall renovations completed in 10/2013. Includes all new parking lots, site lighting, laundry room & laundry equipment, interior electrical, interior lighting, exterior building lights, windows, doors, bathrooms, flooring, new generator & transfer switch, addition of 2 bay garage, and new mail boxes for residents.
Property Assessment:

- Number of buildings is 4 not 2 (2 two story and 2 one story); (plus community hall shared with Village Green)
- Property is not a stand-alone property, on same property is 50 unit Village Green (State Elderly property) and 1.4 miles away is Center Village (50 unit elderly property)
- Can't figure out how to tie the capital needs figure into the CNA performed the RRR?

> RECAP Response: The property description has been revised per owner comments. The RRR did not reflect any impact of inflation to the caputal needs costs, therefore the annual capital needs figures from the RRR were revised to reflect inflation of 3% per year, starting in 2013. The analysis was not revised to reflect the recent work completed at the community hall, as the RRR did not itemize the costs in a similar fashion. Given that some of these costs may be included in the capital needs work assumed in the financial anaysis, the capital needs shortfall may be less than currently projected.

For both Center Village and Knox Lane Annex,
I reviewed the report and wondered if the scenario of a property that sets the rental charge based on the income category (i.e. like it would as a tax credit property) would be considered as an alternate solution. Was considering a situation where all 140 units across three properties had a rental structure that tiered the rents based on a unit split between 25%, 30% 50% and 80% median households
We are trying to presently evaluate a proforma that would use a proposed mix of 24 units for <25% median, 66 units for <30% median, 43 units <50% median, 7 units <80% median. The rental structure proposed, works to tie the base rent to the income category and square footage of the apartment. Will share for discussion once complete if option for consideration?
Question related to elderly housing. If the properties are to use the 4% tax credit would every household have to be 62 and older to be considered elderly housing? The other option I am aware of is one person being 55 and older in at least 80% of the housing. The problem with that model is if the scales ever tip to >20% of the households being young disabled under 55 the property would no longer be elderly. This would be a major concern to the local community.

> RECAP Response: Recap encourages property owners to develop their own recapitalization solutions that work for their specific situation, with the Capital Plan Property Assessment to be used as a starting point for discussions internally and with the State. Regarding the elderly housing questions, the low income housing tax credit program does not have any age designations or requirements. Whatever elderly housing restrictions an owner proposes is superimposed on top of the tax credit regulations.