

CHFA Capital Plan Property Assessment - Trefoil Court

Property Identification

Trefoil Court
FAIRFIELD, CT

CHFA Property Identification #: 85054D

Current State Sponsored Housing Program: SH Elderly Section 8

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.

Total Current Unit Count: 30
Census Tract: 610.00
Connecticut Congressional District: 4

Property Description

Tenancy Type: Elderly/Disabled
Structure Type: Low rise (1-4 floors)
Number of buildings: 9
Maximum # of Stories: 1
Elevator?

Summary property description:

The Trefoil Court property has 22 efficiency or studio and 8 one-bedroom units. Generally, the property consists of reasonably sized units. It features amenities such as central air conditioning, common laundry, and a community room.

Current Operating & Capital Needs Status

Aggregate Capital Needs
(without market enhancements): \$ 1,506,823

Capital Needs per Unit: \$ 50,227

Projected Year 1 (2014) Operating Income: \$ (18,979)

Current operations at the property are projected to generate negative \$19,000 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 this shortfall continues to grow. As a result, the property is not sustainable and cannot adequately address its future basic capital needs, projected to be approximately \$1.51 million (\$50,227 per unit) over the next 20 years.

Revenue Adjustments Prior to a Recapitalization Transaction

Trefoil Court, continued

Current average income relative to
the Area Median Income (AMI): 22%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:	639	41%
One-bedroom unit:	698	42%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:	639	41%
One-bedroom unit:	698	42%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

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.

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

Revenue Adjustments Concurrent with a Recapitalization Transaction

Trefoil Court, continued

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:	639	639
One-bedroom unit:	698	698
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: PineTree Apts.

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	-	(1,231,897)
Recoverable Grant Scenario:	(2,405,569)	(3,825,683)
CHFA/FHA Scenario:	(2,385,060)	(2,893,416)
4% LIHTC Scenario:	(1,946,145)	(2,450,737)
9% LIHTC Scenario:	(783,123)	(1,287,573)

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

Trefoil 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:	2,435	
Debt Service Coverage in Transaction Year:	-	
Debt Service Coverage in Transaction Year 15:	-	At this time, the "Current Scenario" is the only approach which reasonably covers the property's capital needs given the 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.
Pre-Transaction Capital Subsidy Needed:	-	
Transaction Capital Subsidy Needed:	-	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 does not have a stable operating revenue and expense picture and is at-risk of experiencing long term structural operating deficits unless it is able to access significant operating subsidy. Under the Current scenario, the property yields negative \$18,979 in NOI in the current year, which includes \$2,435 per unit per year in replacement reserve deposits, trending to negative \$92,950 fifteen years thereafter. The transaction results in no capital subsidy need, but \$1,231,000 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.

Summary of Capital Needs & State Subsidy Needs

Trefoil Court, continued

Immediate Emergency Capital Needs: 0
 Current Deferred Capital Needs: 0
 Current Routine Capital Needs: 101,404

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	101,404	-	-	-	-	-
2014	20,005	-	-	18,979	-	-
2015	105,955	-	-	22,777	-	-
2016	21,220	-	-	26,768	-	-
2017	21,857	-	-	30,960	-	-
2018	37,876	-	-	35,361	-	-
2019	32,862	-	-	39,980	-	-
2020	157,109	-	-	44,826	-	-
2021	34,861	-	-	49,909	-	-
2022	35,906	-	-	55,236	-	-

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	72,809	-	-	60,820	-	-
2024	36,871	-	-	66,670	-	-
2025	141,050	-	-	72,796	-	-
2026	24,861	-	-	79,210	-	-
2027	25,608	-	-	85,924	-	-
2028	35,242	-	-	92,950	-	-
2029	495,648	-	-	100,299	-	-
2030	42,248	-	-	107,986	-	-
2031	31,247	-	-	116,023	-	-
2032	32,182	-	-	124,424	-	-

Scenario Pro Formas

Trefoil Court, 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
2023 ANNUAL INCOME										
Gross Potential Rent	293,068	9,768.94	351,682	11,722.73	351,682	11,723	351,682	11,723	351,682	11,723
Vacancy/Loss					(17,584)	(586)	(24,618)	(821)	(24,618)	(821)
Other Income	5,445	181.49	5,445	181.49	5,445	181	5,445	181	5,445	181
Effective Gross Income	298,513	9,950.44	357,127	11,904.22	339,543	11,318	332,509	11,084	332,509	11,084
2023 ANNUAL EXPENSES										
Operating Expenses	255,346	8,512	273,202	9,107	267,169	8,906	266,817	8,894	266,817	8,894
Replacement Reserve Deposits	103,987	3,466	103,987	3,466	14,945	498	14,945	498	14,945	498
Total Operating Expenses	359,333	11,978	377,189	12,573	282,114	9,404	281,762	9,392	281,762	9,392
2023 NET OPERATING INCOME	(60,820)	(2,027)	(20,063)	(669)	57,429	1,914	50,747	1,692	50,747	1,692
Debt Service	-	-	-	-	25,822	861	18,132	604	18,110	604
2023 CASH FLOW	(60,820)	(2,027)	(20,063)	(669)	31,607	1,054	32,615	1,087	32,637	1,088

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	-	-	-	-	449,332	14,978	217,021	7,234	315,142	10,505
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	-	-	33,769	1,126	44,269	1,476	44,269	1,476	44,269	1,476
Cash Escrows	-	-	307,802	10,260	180,179	6,006	180,179	6,006	180,179	6,006
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	157,457	5,249	164,980	5,499	164,322	5,477
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	993,688	33,123	2,058,649	68,622
Other	-	-	-	-	-	-	-	-	-	-
Total Sources of Funds	-	-	341,571	11,386	831,237	27,708	2,500,137	83,338	3,662,561	122,085
USES										
Acquisition Costs	-	-	-	-	-	-	900,000	30,000	900,000	30,000
Construction Costs	-	-	2,155,874	71,862	2,155,874	71,862	2,179,765	72,659	2,179,765	72,659
Soft Costs - Design & Construction	-	-	242,265	8,075	238,867	7,962	244,535	8,151	244,535	8,151
Soft Costs - Due Diligence	-	-	11,587	386	20,587	686	23,196	773	23,196	773
Soft Costs - Transaction Costs	-	-	54,269	1,809	134,269	4,476	260,066	8,669	260,066	8,669
Soft Costs - Financing	-	-	65,864	2,195	199,510	6,650	226,247	7,542	225,364	7,512
Soft Costs - Other	-	-	17,250	575	19,500	650	19,500	650	19,500	650
Soft Cost Contingency	-	-	19,562	652	30,637	1,021	34,500	1,150	33,943	1,131
Reserves	-	-	-	-	23,411	780	146,023	4,867	148,512	4,950
Developer Fee	-	-	180,469	6,016	393,644	13,121	412,450	13,748	410,804	13,693
Total Uses of Funds	-	-	2,747,140	91,571	3,216,297	107,210	4,446,282	148,209	4,445,684	148,189
TRANSACTION SURPLUS (GAP)	-	-	(2,405,569)	(80,186)	(2,385,060)	(79,502)	(1,946,145)	(64,872)	(783,123)	(26,104)

Scenario Pro Formas (continued)

Trefoil Court, 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	-	-	1,663,792	55,460	1,663,792	55,460	1,663,792	55,460	1,663,792	55,460
Capital Needs Funded Using Subsidy	-	-	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	166,641	5,555	166,641	5,555	166,641	5,555	166,641	5,555	166,641	5,555
Replacement Reserves	2,021,664	67,389	2,021,664	67,389	290,548	9,685	290,548	9,685	290,548	9,685
Total Funds	2,188,305	72,944	3,852,097	128,403	2,120,981	70,699	2,120,981	70,699	2,120,981	70,699
USES										
Estimated Capital Needs	1,506,823	50,227	1,506,823	50,227	1,506,823	50,227	1,506,823	50,227	1,506,823	50,227
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	1,506,823	50,227	1,506,823	50,227	1,506,823	50,227	1,506,823	50,227	1,506,823	50,227
YEAR 20 REPLACEMENT RESERVE BALANCE	681,482	22,716	2,345,274	78,176	614,158	20,472	614,158	20,472	614,158	20,472

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	673,254	22,442	673,254	22,442	673,254	22,442	673,254	22,442
Operating Deficit Subsidy Needed	1,231,897	41,063	746,860	24,895	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	1,231,897	41,063	1,420,113	47,337	673,254	22,442	673,254	22,442	673,254	22,442
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	0	-	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	-	-	(164,897)	(5,497)	(168,662)	(5,622)	(168,804)	(5,627)
Transaction Capital Subsidy Needed	n/a	n/a	2,405,569	80,186	2,385,060	79,502	1,946,145	64,872	783,123	26,104
Total Capital Subsidy	-	-	2,405,569	80,186	2,220,163	74,005	1,777,483	59,249	614,319	20,477
TOTAL SUBSIDY NEEDED	1,231,897	41,063	3,825,683	127,523	2,893,416	96,447	2,450,737	81,691	1,287,573	42,919