CHFA Capital Plan Property Assessment - Ella B. Scantlebury

Property Identification

Ella B. Scantlebury
NEW HAVEN, CT

Total Current Unit Count:	20
Census Tract:	1416.00
Connecticut Congressional District:	3

CHFA Property Identification #: 95086D
Current State Sponsored Housing Program: SH Congregate

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:	Congregate
Structure Type:	Low rise (1-4 floors)
Number of buildings:	1
Maximum # of Stories:	4
Elevator?	Yes

Summary property description:

The Ella B. Scantlebury property has 20 one-bedroom units. Generally, the property consists of relatively spacious units. It features amenities such as a fitness room, a business center/computer room, a community room, and meal service.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$ 737,570
Capital Needs per Unit:	$ 36,878
Projected Year 1 (2014) Operating Income:	$ (25,809)

Current operations at the property are projected to generate negative $25,800 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 $0.74 million ($36,878 per unit) over the next 20 years.

Current average income relative to the Area Median Income (AMI): 36%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:	650	42%
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:	650	42%
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: 0

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

Additional rental assistance payments subsidy over a 20 year period due to revised base rent: $ -

In order for the property to operate in a sustainable manner into the foreseeable future, the property would benefit from greater revenues. This property currently has a rental assistance payments contract with the State, which allow the residents to pay an affordable rent based on their income, but generally only yields the base rent amount as revenue. Currently, base rents are set by the property owners in consultation with CHFA.

Low base rent levels maximize affordability for households in the community. However, if the property's revenue stream (including any available operating subsidy) does not cover the cost of actually operating the property, including the cost of ongoing maintenance and capital improvements, necessary repairs and maintenance will get deferred. An extended period of deferred maintenance can put the property itself at risk, which would be a significant blow to the availability of affordable housing in the area.

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, 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.

The figures to the left indicate the additional rental operating subsidy which would be necessary in 2014 to cover this base rent increase as well as the total 20 year impact given that this subsidy need will recur annually, with inflation increases. Since the rental assistance payment protects the residents of the property, none of the actual households would be impacted by the increase in the base rent and the property would continue to serve the current resident demographic.

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	20	20
25-50% of AMI	0	0
50% of AMI or greater	0	0
Total number of units	20	20

	Pre-Trans. Base Rent	Post-Trans. Base Rent
Studio/efficiency unit:		
One-bedroom unit:	650	878
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: $ -

Additional rental operating subsidy necessary to sustain Rental Assistance Payments based on the adjusted base rent: $ 818,511

Property used for market reference: Ella B. Scantlebury

While the revenue generated by the increase in the base rent improves the property's income and expense picture, it is insufficient for the property to operate sustainably for the foreseeable future. (The capital plan analysis considers sustainable operations to be a level of operating income sufficient to cover operating expenses and servicing of any capital leverage necessary to maintain the physical asset for the next 15-20 years without routine capital subsidies from the State.) However, as noted above, the property receives a project-based rental assistance payment. A RAP arrangement provides operating support to the property while permitting residents to pay based on what they can afford, so income mixing is neither needed nor appropriate. For extremely low income households, properties with a RAP are their only viable option. In order to ensure long-term stability, a post-transaction base rent increase, which would be covered by the RAP subsidy, is used to generate enough income for the property to operate at a sustainable level.

The rental assistance payment ensures that the property receives the base rent. However, since the base rent increase suggested above is insufficient over the long term, the only alternative is to increase the base rent again in conjunction with the recapitalization transaction. (An income-tier structure in this situation would only serve to reduce housing options to the lowest income households, without increasing revenue to the property.)

An increase in the base rent at a property with a rental assistance payment translates into an increase in the operating subsidy necessary to sustain the property over time.

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(216,742)	(1,263,009)
Recoverable Grant Scenario:	(1,248,498)	(2,153,620)
CHFA/FHA Scenario:	(1,073,544)	(1,813,243)
4% LIHTC Scenario:	(851,844)	(1,592,552)
9% LIHTC Scenario:	(46,207)	(786,900)

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:	CHFA/FHA
Recommended Transaction Year	2018
Replacement Reserve Deposit PUPY:	350
Debt Service Coverage in Transaction Year:	2.060
Debt Service Coverage in Transaction Year 15:	1.104
Pre-Transaction Capital Subsidy Needed:	-
Transaction Capital Subsidy Needed:	1,073,544

The capital plan recommends using the debt-only scenario to finance the capital needs at this property. The property has positive NOI which can leverage debt sufficient to cover the long-term capital needs without the complexity of a tax credit transaction.

This analysis has suggested a potential transaction year of 2018 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 1.104 throughout the first 15 years of the new financing, and assuming hard construction capital needs of $0.74 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 CHFA/FHA scenario, the property yields $47,453 in NOI in the transaction completion year, which includes $350 per unit per year in replacement reserve deposits. After debt service, the property generates $24,418 in cash flow in the capital transaction's completion year, trending to $2,396 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 $400,000 in debt. The transaction results in a gap of $1,073,000, all of which would need to be covered by State capital subsidy. This compares to a needs gap of over $1,263,000 if no transaction takes place at the property and the capital needs are addressed through routine maintenance or a needs gap of over $1,248,000 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:	3,540
Current Routine Capital Needs:	61,184

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	**64,724**	-	-	-	-	-
2014	**16,036**	-	-	5,005	-	-
2015	**17,197**	-	-	3,624	-	-
2016	**1,000**	-	-	5,335	-	-
2017	**43,078**	-	-	7,132	-	-
2018	**128,174**	-	1,073,544	17,361	-	-
2019	**40,345**	-	-	-	51,240	-
2020	**5,369**	-	-	-	52,265	-
2021	**10,403**	-	-	-	53,311	-
2022	**5,188**	-	-	-	54,377	-

		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	**229,346**	-	-	-	55,464	-
2024	**19,211**	-	-	-	56,574	-
2025	**6,871**	-	-	-	57,705	-
2026	**9,450**	-	-	-	58,859	-
2027	**15,014**	-	-	-	60,036	-
2028	**86,768**	-	-	-	61,237	-
2029	**17,778**	-	-	-	62,462	-
2030	**7,214**	-	-	-	63,711	-
2031	**7,431**	-	-	-	64,985	-
2032	**6,971**	-	-	-	66,285	-

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	193,966	9,698.32	261,855	13,092.73	261,855	13,093	261,855	13,093	261,855	13,093
Vacancy/Loss	(5,910)	(295.49)	(7,978)	(398.91)	(13,093)	(655)	(18,330)	(916)	(18,330)	(916)
Other Income	660	32.98	660	32.98	660	33	660	33	660	33
Effective Gross Income	**188,716**	**9,435.81**	**254,536**	**12,726.80**	**249,421**	**12,471**	**244,184**	**12,209**	**244,184**	**12,209**
2023 ANNUAL EXPENSES										
Operating Expenses	204,123	10,206	201,929	10,096	195,856	9,793	195,594	9,780	195,594	9,780
Replacement Reserve Deposits	37,327	1,866	37,327	1,866	9,963	498	9,963	498	9,963	498
Total Operating Expenses	**241,450**	**12,073**	**239,256**	**11,963**	**205,819**	**10,291**	**205,557**	**10,278**	**205,557**	**10,278**
2023 NET OPERATING INCOME	**(52,734)**	**(2,637)**	**15,280**	**764**	**43,602**	**2,180**	**38,627**	**1,931**	**38,627**	**1,931**
Debt Service	-	-	-	-	23,036	1,152	17,495	875	17,493	875
2023 CASH FLOW	**(52,734)**	**(2,637)**	**15,280**	**764**	**20,567**	**1,028**	**21,132**	**1,057**	**21,134**	**1,057**

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	-	-	-	-	400,856	20,043	206,492	10,325	304,400	15,220
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	600,000	30,000	600,000	30,000
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	25,019	1,251	32,019	1,601	32,019	1,601	32,019	1,601
Cash Escrows	-	-	55,478	2,774	36,253	1,813	36,253	1,813	36,253	1,813
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	79,063	3,953	84,703	4,235	84,305	4,215
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	662,528	33,126	1,371,916	68,596
Other	-		-		-		-		-	
Total Sources of Funds	**-**	**-**	**80,498**	4,025	**548,191**	27,410	**1,621,996**	81,100	**2,428,894**	121,445
USES										
Acquisition Costs	-	-	-	-	-	-	600,000	30,000	600,000	30,000
Construction Costs	-	-	1,011,745	50,587	1,007,158	50,358	1,018,319	50,916	1,018,319	50,916
Soft Costs - Design & Construction	-	-	120,328	6,016	118,252	5,913	120,899	6,045	120,899	6,045
Soft Costs - Due Diligence	-	-	9,714	486	18,209	910	19,942	997	19,942	997
Soft Costs - Transaction Costs	-	-	45,519	2,276	125,519	6,276	240,235	12,012	240,235	12,012
Soft Costs - Financing	-	-	31,934	1,597	104,452	5,223	122,533	6,127	122,627	6,131
Soft Costs - Other	-	-	11,500	575	13,000	650	13,000	650	13,000	650
Soft Cost Contingency	-	-	10,950	547	18,972	949	22,541	1,127	22,204	1,110
Reserves	-	-	-	-	18,518	926	104,613	5,231	107,112	5,356
Developer Fee	-	-	87,306	4,365	197,657	9,883	211,758	10,588	210,762	10,538
Total Uses of Funds	**-**	**-**	**1,328,996**	66,450	**1,621,735**	81,087	**2,473,840**	123,692	**2,475,100**	123,755
TRANSACTION SURPLUS (GAP)	**-**	**-**	**(1,248,498)**	(62,425)	**(1,073,544)**	(53,677)	**(851,844)**	(42,592)	**(46,207)**	(2,310)

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	-	-	780,812	39,041	777,272	38,864	777,272	38,864	777,272	38,864
Capital Needs Funded Using Subsidy	216,742	10,837	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	29,253	1,463	29,253	1,463	29,253	1,463	29,253	1,463	29,253	1,463
Replacement Reserves	725,690	36,285	725,690	36,285	193,699	9,685	193,699	9,685	193,699	9,685
Total Funds	**971,686**	**48,584**	**1,535,756**	**76,788**	**1,000,224**	**50,011**	**1,000,224**	**50,011**	**1,000,224**	**50,011**
USES										
Estimated Capital Needs	737,570	36,878	737,570	36,878	737,570	36,878	737,570	36,878	737,570	36,878
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**737,570**	**36,878**	**737,570**	**36,878**	**737,570**	**36,878**	**737,570**	**36,878**	**737,570**	**36,878**
YEAR 20 REPLACEMENT RESERVE BALANCE	**234,116**	**11,706**	**798,186**	**39,909**	**262,654**	**13,133**	**262,654**	**13,133**	**262,654**	**13,133**

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	818,511	40,926	818,511	40,926	818,511	40,926	818,511	40,926
Operating Deficit Subsidy Needed	1,046,266	52,313	154,565	7,728	38,457	1,923	41,541	2,077	41,541	2,077
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	**1,046,266**	**52,313**	**973,075**	**48,654**	**856,968**	**42,848**	**860,051**	**43,003**	**860,051**	**43,003**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	216,742	10,837	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(67,954)	(3,398)	(117,268)	(5,863)	(119,344)	(5,967)	(119,358)	(5,968)
Transaction Capital Subsidy Needed	n/a	n/a	1,248,498	62,425	1,073,544	53,677	851,844	42,592	46,207	2,310
Total Capital Subsidy	**216,742**	**10,837**	**1,180,544**	**59,027**	**956,276**	**47,814**	**732,500**	**36,625**	**(73,152)**	**(3,658)**
TOTAL SUBSIDY NEEDED	**1,263,009**	**63,150**	**2,153,620**	**107,681**	**1,813,243**	**90,662**	**1,592,552**	**79,628**	**786,900**	**39,345**