

CHFA Capital Plan Property Assessment - Windsor Court, Windsor Court Extension

Property Identification

Windsor Court, Windsor Court Extension
ENFIELD, CT

Total Current Unit Count: 40
Census Tract: 4806.00
Connecticut Congressional District: 2

CHFA Property Identification #: 85046D, 85047D

Current State Sponsored Housing Program: SH Elderly

This property was originally financed in phases and appears in CHFA's records as two separate properties. However, lenders and investors are likely to favor larger transactions given the efficiencies of scale and Recap has elected to analyze these properties as a unitary whole. Recap also recommends that the owner and CHFA merge the properties for purposes of reporting, accounting and ownership.

Property Description

Tenancy Type: Elderly/Disabled
Structure Type: Low rise (1-4 floors)
Number of buildings: 20
Maximum # of Stories: 1
Elevator? None

Summary property description:

The Windsor Court property has 40 one-bedroom units. Generally, the property consists of reasonably sized units. It features amenities such as common laundry and a community room.

Current Operating & Capital Needs Status

Aggregate Capital Needs
(without market enhancements): \$ 1,612,381

Capital Needs per Unit: \$ 40,310

Projected Year 1 (2014) Operating Income: \$ 17,597

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 2025. As a result, the property is not sustainable and cannot adequately address its future basic capital needs, projected to be approximately \$1.61 million (\$40,309 per unit) over the next 20 years.

Owner Comments to Property Assessment:

Please see Page 9 for Owner Comments

Revenue Adjustments Prior to a Recapitalization Transaction

Windsor Court, Windsor Court Extension, continued

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

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:	280	17%
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:	280	17%
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

Windsor Court, Windsor Court Extension, continued

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	27	27
25-50% of AMI	12	12
50% of AMI or greater	1	1
Total number of units	40	40

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:	280	280
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: Enfield Manor

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(1,234,818)	(1,314,187)
Recoverable Grant Scenario:	(2,543,008)	(3,506,735)
CHFA/FHA Scenario:	(1,921,007)	(3,418,992)
4% LIHTC Scenario:	(1,303,263)	(2,857,363)
9% LIHTC Scenario:	(207,538)	(1,727,593)

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 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 for all properties.

Recommended Transaction and Transaction Assumptions	Windsor Court, Windsor Court Extension, continued
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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	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 \$1,385,216 over the course of the next 20 years.
Replacement Reserve Deposit PUPY:	-	
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 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.
Pre-Transaction Capital Subsidy Needed:	1,234,818	
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 \$13,496 in NOI in the current year, which includes \$0 per unit per year in replacement reserve deposits, trending to negative \$48,599 fifteen years thereafter. The transaction results in a capital subsidy need of \$1,385,216 and \$671.072 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

Windsor Court, Windsor Court Extension, continued

Immediate Emergency Capital Needs: 0
 Current Deferred Capital Needs: 0
 Current Routine Capital Needs: 91,268

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	91,268	-	-	-	-	-
2014	27,012	2,240	-	-	-	-
2015	18,333	-	-	-	-	-
2016	216,216	189,804	-	-	-	-
2017	34,341	13,660	-	-	-	-
2018	74,935	55,475	-	-	-	-
2019	31,404	13,239	-	-	-	-
2020	25,525	8,730	-	-	-	-
2021	82,913	67,569	-	-	-	-
2022	153,435	139,623	-	-	-	-

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	142,368	130,175	-	-	-	-
2024	77,140	66,655	-	-	-	-
2025	82,552	72,801	-	1,066	-	-
2026	42,026	31,885	-	3,353	-	-
2027	58,580	48,034	-	5,756	-	-
2028	93,957	82,989	-	8,279	-	-
2029	41,911	30,504	-	10,927	-	-
2030	43,168	31,305	-	13,704	-	-
2031	62,589	50,252	-	16,616	-	-
2032	212,708	199,877	-	19,667	-	-

Scenario Pro Formas

Windsor Court, Windsor Court Extension, 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	198,925	4,973.13	315,314	7,882.86	315,314	7,883	315,314	7,883	315,314	7,883
Vacancy/Loss	(5,455)	(136.38)	(5,455)	(136.38)	(15,766)	(394)	(22,072)	(552)	(22,072)	(552)
Other Income	13,904	347.60	13,904	347.60	13,904	348	13,904	348	13,904	348
Effective Gross Income	207,374	5,184.36	323,763	8,094.08	313,453	7,836	307,146	7,679	307,146	7,679
2023 ANNUAL EXPENSES										
Operating Expenses	195,182	4,880	211,370	5,284	205,615	5,140	205,300	5,132	205,300	5,132
Replacement Reserve Deposits	9,015	225	9,015	225	19,926	498	19,926	498	19,926	498
Total Operating Expenses	204,197	5,105	220,385	5,510	225,542	5,639	225,226	5,631	225,226	5,631
2023 NET OPERATING INCOME	3,178	79	103,379	2,584	87,911	2,198	81,920	2,048	81,920	2,048
Debt Service	-	-	-	-	54,638	1,366	55,864	1,397	51,325	1,283
2023 CASH FLOW	3,178	79	103,379	2,584	33,273	832	26,056	651	30,596	765

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	-	-	-	-	950,772	23,769	840,582	21,015	893,119	22,328
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	-	-	10,251	256	24,251	606	24,251	606	24,251	606
Cash Escrows	-	-	88,908	2,223	88,908	2,223	88,908	2,223	88,908	2,223
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	152,695	3,817	160,793	4,020	160,097	4,002
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	1,034,455	25,861	2,074,469	51,862
Other	-	-	-	-	-	-	-	-	-	-
Total Sources of Funds	-	-	99,159	2,479	1,216,627	30,416	3,348,990	83,725	4,440,843	111,021
USES										
Acquisition Costs	-	-	-	-	-	-	1,200,000	30,000	1,200,000	30,000
Construction Costs	-	-	2,085,111	52,128	2,085,111	52,128	2,108,218	52,705	2,108,218	52,705
Soft Costs - Design & Construction	-	-	234,723	5,868	231,437	5,786	236,918	5,923	236,918	5,923
Soft Costs - Due Diligence	-	-	12,002	300	21,502	538	24,970	624	24,970	624
Soft Costs - Transaction Costs	-	-	30,751	769	110,751	2,769	235,866	5,897	235,866	5,897
Soft Costs - Financing	-	-	64,745	1,619	209,802	5,245	247,456	6,186	245,686	6,142
Soft Costs - Other	-	-	23,000	575	26,000	650	26,000	650	26,000	650
Soft Cost Contingency	-	-	18,261	457	29,975	749	34,343	859	33,753	844
Reserves	-	-	-	-	41,319	1,033	136,499	3,412	136,729	3,418
Developer Fee	-	-	173,573	4,339	381,737	9,543	401,984	10,050	400,242	10,006
Total Uses of Funds	-	-	2,642,167	66,054	3,137,634	78,441	4,652,253	116,306	4,648,382	116,210
TRANSACTION SURPLUS (GAP)	-	-	(2,543,008)	(63,575)	(1,921,007)	(48,025)	(1,303,263)	(32,582)	(207,538)	(5,188)

Scenario Pro Formas (continued)

Windsor Court, Windsor Court Extension, 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	-	-	1,609,181	40,230	1,609,181	40,230	1,609,181	40,230	1,609,181	40,230
Capital Needs Funded Using Subsidy	1,234,818	30,870	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	92,108	2,303	92,108	2,303	92,108	2,303	92,108	2,303	92,108	2,303
Replacement Reserves	285,455	7,136	175,264	4,382	387,397	9,685	387,397	9,685	387,397	9,685
Total Funds	1,612,381	40,310	1,876,552	46,914	2,088,686	52,217	2,088,686	52,217	2,088,686	52,217
USES										
Estimated Capital Needs	1,612,381	40,310	1,612,381	40,310	1,612,381	40,310	1,612,381	40,310	1,612,381	40,310
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	1,612,381	40,310	1,612,381	40,310	1,612,381	40,310	1,612,381	40,310	1,612,381	40,310
YEAR 20 REPLACEMENT RESERVE BALANCE	-	-	264,172	6,604	476,305	11,908	476,305	11,908	476,305	11,908

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	1,732,639	43,316	1,732,639	43,316	1,732,639	43,316	1,732,639	43,316
Operating Deficit Subsidy Needed	79,369	1,984	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	79,369	1,984	1,732,639	43,316	1,732,639	43,316	1,732,639	43,316	1,732,639	43,316
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	1,234,818	30,870	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(768,912)	(19,223)	(234,655)	(5,866)	(178,539)	(4,463)	(212,585)	(5,315)
Transaction Capital Subsidy Needed	n/a	n/a	2,543,008	63,575	1,921,007	48,025	1,303,263	32,582	207,538	5,188
Total Capital Subsidy	1,234,818	30,870	1,774,096	44,352	1,686,353	42,159	1,124,724	28,118	(5,046)	(126)
TOTAL SUBSIDY NEEDED	1,314,187	32,855	3,506,735	87,668	3,418,992	85,475	2,857,363	71,434	1,727,593	43,190

Owner Comments

General Comments

This "30,000 foot view" as referred to by Recap contains broad information that may provide some guidance in making decisions regarding the EHA's State Financed Housing Programs. However, the reports appear to lack the depth and accuracy needed to be used as a basis for funding decisions.

The acknowledgement that the rent rates need to increase confirms what many owners and CHFA has stated for many years. This is appreciated.

The individual reports do not address the impact of programmatic and policy issues on the sustainability of the portfolio. The reports do not give enough consideration to repositioning properties and/or bifurcating portions of the portfolio.

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.

There are significant errors and omissions in the market report data and should not be relied upon.

RECAP Response: While it is important to note the owner comments to the market assessments, the market analysis was used primarily to determine the maximum market rents for the property's market area, as well as to inform revitalization options and any marketability issues at the site. If the owner chooses to undertake a tax credit transaction, an updated market analysis will be required to meet IRS and State guidelines.

The financial information used in the financial analysis was not provided. This makes it difficult to verify the information in the reports to justify the conclusions and recommendations. It is my understanding that just one year's data was used. Any anomalies in that one year could significantly skew the information. I believe this to be the case for our Green Valley and Laurel Park developments.

RECAP Response: The property was remodeled with 2012 operating data and 2013 rent rolls provided by the owner.

The period allowed to review and comment was not sufficient to allow for a detailed verification of the information contained within the reports.

RECAP Response: The two week turnaround for owner review was constrained by the Capital Plan project schedule. Since the property analysis is the starting point, owners will have a great deal more time to formulate your own plans and policy directions for funding awards.

The analyses do not appear to recognize that all operating income, in absence of debt, is treated as deposits to reserves.

The elderly reports do not recognize that the ongoing ERAP is an indirect operating subsidy.

RECAP Response: The policy recommendations in the Capital Plan Final Report include strategies to improve the revenue potential of elderly properties with ERAPs by supplementing the budget authority with new RAP units and greater flexibility with regards to SSHP program regulations.

The capital needs assessments vary from the ones the EHA had performed and may misstate the actual financial needs of the portfolio. There are several areas of the C.N.A.'s that we disagree with.

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 analysis, Recap has included the owner comments regarding the CNA to the property assessment so their concerns will be noted.

Property Specific Comments

Please see the general concerns. Property description is not accurate.

RECAP Response: Property description revised per owner comments.