CHFA Capital Plan Property Assessment - Reynold`s Ridge 133

Property Identification

Reynold`s Ridge 133
BETHEL, CT

Total Current Unit Count:	40
Census Tract:	2002.00
Connecticut Congressional District:	5

CHFA Property Identification #: 85004D
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.

Property Description

Tenancy Type:	Elderly/Disabled
Structure Type:	Low rise (1-4 floors)
Number of buildings:	10
Maximum # of Stories:	1
Elevator?	None

Summary property description:

The Reynold`s Ridge 133 property has 26 efficiency or studio and 14 one-bedroom units. Generally, the property consists of relatively small units. It features amenities such as common laundry, owner-provided air conditioning and a common room.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$	2,094,009
Capital Needs per Unit:	$	52,350
Projected Year 1 (2014) Operating Income:	$	90,330

Current operations at the property are projected to generate roughly $90,300 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 yet remains positive through the time horizon studied. The property is rare in the portfolio, in that the NOI is sufficient to leverage debt financing and the property is able to adequately address its future basic capital needs, projected to be approximately $2.09 million ($52,350 per unit) over the next 20 years without dramatic changes to the property's operations.

Owner Comments to Property Assessment:

The Reynold's Ridge Owner made the following recommendations:

- Provide the Property with a 100% subsidy to help maintain its viability; also support a cash reserve to pay for comprehensive improvements.

- This community has very little subsidized housing and to abandon the support of the units currently available would result in many of the resident elderly and disable to relocate to neighboring towns and communities.

- Finally, as both our properties share the same topography, and because our population is living longer and making use of their cars, we must address the parking situation as a priority, as well as the emergency response systems that are currently not tied into the Police and Fire Departments. It seems that DOH and CHFA could offer the smaller Housing Authorities with a capital grant, based on a formula for the completion of those items denoted in the Capital Plan utilizing the money that the Governor has allocated for this cause. It would reduce the amount of work associated getting our project off the ground, and would assure that those authorities with lesser needs could address their concerns and would be able to opt out, while those with the greater need would be funded. The whole idea is to reduce our need to watch the clock for funding announcements and compete with our peers for funding.

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

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:	728	39%
One-bedroom unit:	853	42%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:	728	39%
One-bedroom unit:	853	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	40	40
25-50% of AMI	0	0
50% of AMI or greater	0	0
Total number of units	40	40

As noted above, the property is operating under a sustainable revenue picture for the foreseeable future. No revenue adjustments are recommended either prior to the recapitalization transaction or in connection with the transaction.

	Pre-Trans. Base Rent	Post-Trans. Base Rent
Studio/efficiency unit:	728	728
One-bedroom unit:	853	853
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

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.

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: $ -

Property used for market reference: Reynolds Ridge 133 & 166

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	-	-
Recoverable Grant Scenario:	(1,298,704)	(1,055,147)
CHFA/FHA Scenario:	(301,744)	-
4% LIHTC Scenario:	546,684	-
9% LIHTC Scenario:	1,919,388	-

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	2015
Replacement Reserve Deposit PUPY:	350
Debt Service Coverage in Transaction Year:	1.200
Debt Service Coverage in Transaction Year 15:	1.662
Pre-Transaction Capital Subsidy Needed:	-
Transaction Capital Subsidy Needed:	-

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 2015 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 1.662 throughout the first 15 years of the new financing, and assuming hard construction capital needs of $2.09 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 $159,299 in NOI in the transaction completion year, which includes $350 per unit per year in replacement reserve deposits. After debt service, the property generates $57,906 in cash flow in the capital transaction's completion year, trending to $67,142 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 $1,592,000 in debt and $1,368,000 in equity. The transaction results in a gap of $000, all of which would need to be covered by State capital subsidy. This compares to a needs gap of over $000 if no transaction takes place at the property and the capital needs are addressed through routine maintenance or a needs gap of over $1,298,000 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:	110,000
Current Routine Capital Needs:	273,876

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	**383,876**	-	-	-	-	-
2014	**164,814**	-	-	-	-	-
2015	**230,779**	-	-	-	-	-
2016	**125,953**	-	-	-	-	-
2017	**93,871**	-	-	-	-	-
2018	**132,949**	-	-	-	-	-
2019	**19,474**	-	-	-	-	-
2020	**68,023**	-	-	-	-	-
2021	**54,863**	-	-	-	-	-
2022	**56,508**	-	-	-	-	-

		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	**102,896**	-	-	-	-	-
2024	**66,172**	-	-	-	-	-
2025	**74,748**	-	-	-	-	-
2026	**26,772**	-	-	-	-	-
2027	**111,076**	-	-	-	-	-
2028	**137,567**	-	-	-	-	-
2029	**117,235**	-	-	-	-	-
2030	**42,735**	-	-	-	-	-
2031	**42,421**	-	-	-	-	-
2032	**41,276**	-	-	-	-	-

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	460,596	11,514.89	460,596	11,514.89	460,596	11,515	460,596	11,515	460,596	11,515
Vacancy/Loss	(6,045)	(151.13)	(6,045)	(151.13)	(23,030)	(576)	(32,242)	(806)	(32,242)	(806)
Other Income	4,735	118.37	4,735	118.37	4,735	118	4,735	118	4,735	118
Effective Gross Income	**459,285**	**11,482.13**	**459,285**	**11,482.13**	**442,301**	**11,058**	**433,089**	**10,827**	**433,089**	**10,827**
2023 ANNUAL EXPENSES										
Operating Expenses	230,320	5,758	253,284	6,332	248,088	6,202	247,627	6,191	247,627	6,191
Replacement Reserve Deposits	167,180	4,179	167,180	4,179	19,926	498	19,926	498	19,926	498
Total Operating Expenses	**397,500**	**9,937**	**420,464**	**10,512**	**268,014**	**6,700**	**267,553**	**6,689**	**267,553**	**6,689**
2023 NET OPERATING INCOME	**61,786**	**1,545**	**38,821**	**971**	**174,287**	**4,357**	**165,535**	**4,138**	**165,535**	**4,138**
Debt Service	-	-	-	-	101,918	2,548	101,393	2,535	97,266	2,432
2023 CASH FLOW	**61,786**	**1,545**	**38,821**	**971**	**72,369**	**1,809**	**64,142**	**1,604**	**68,270**	**1,707**

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	-	-	-	-	1,773,505	44,338	1,592,996	39,825	1,692,558	42,314
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	1,557,386	38,935	1,557,386	38,935
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	48,878	1,222	62,878	1,572	62,878	1,572	62,878	1,572
Cash Escrows	-	-	1,974,119	49,353	1,974,119	49,353	1,974,119	49,353	1,974,119	49,353
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	187,440	4,686	196,498	4,912	195,691	4,892
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	1,368,100	34,202	2,638,364	65,959
Other	-		-		-		-		-	
Total Sources of Funds	**-**	-	**2,022,997**	50,575	**3,997,942**	99,949	**6,751,977**	168,799	**8,120,997**	203,025
USES										
Acquisition Costs	-	-	-	-	433,858	10,846	1,991,245	49,781	1,991,245	49,781
Construction Costs	-	-	2,604,881	65,122	2,604,881	65,122	2,633,747	65,844	2,633,747	65,844
Soft Costs - Design & Construction	-	-	290,118	7,253	286,012	7,150	292,861	7,322	292,861	7,322
Soft Costs - Due Diligence	-	-	12,626	316	22,646	566	26,550	664	26,550	664
Soft Costs - Transaction Costs	-	-	69,378	1,734	149,378	3,734	279,507	6,988	279,507	6,988
Soft Costs - Financing	-	-	79,741	1,994	208,714	5,218	253,819	6,345	252,398	6,310
Soft Costs - Other	-	-	23,000	575	26,000	650	26,000	650	26,000	650
Soft Cost Contingency	-	-	23,743	594	34,638	866	39,257	981	38,574	964
Reserves	-	-	-	-	64,959	1,624	171,062	4,277	171,498	4,287
Developer Fee	-	-	218,214	5,455	468,600	11,715	491,246	12,281	489,228	12,231
Total Uses of Funds	**-**	-	**3,321,701**	83,043	**4,299,686**	107,492	**6,205,294**	155,132	**6,201,609**	155,040
TRANSACTION SURPLUS (GAP)	**-**	-	**(1,298,704)**	(32,468)	**(301,744)**	(7,544)	**546,684**	13,667	**1,919,388**	47,985

Scenario Pro Formas (continued)

Reynold`s Ridge 133, 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	-	-	2,010,312	50,258	2,010,312	50,258	2,010,312	50,258	2,010,312	50,258
Capital Needs Funded Using Subsidy	-	-	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	1,974,119	49,353	1,974,119	49,353	1,974,119	49,353	1,974,119	49,353	1,974,119	49,353
Replacement Reserves	4,344,186	108,605	3,250,216	81,255	387,397	9,685	387,397	9,685	387,397	9,685
Total Funds	**6,318,305**	**157,958**	**7,234,647**	**180,866**	**4,371,828**	**109,296**	**4,371,828**	**109,296**	**4,371,828**	**109,296**
USES										
Estimated Capital Needs	2,094,009	52,350	2,094,009	52,350	2,094,009	52,350	2,094,009	52,350	2,094,009	52,350
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**2,094,009**	**52,350**	**2,094,009**	**52,350**	**2,094,009**	**52,350**	**2,094,009**	**52,350**	**2,094,009**	**52,350**
YEAR 20 REPLACEMENT RESERVE BALANCE	**4,224,296**	**105,607**	**5,140,639**	**128,516**	**2,277,820**	**56,945**	**2,277,820**	**56,945**	**2,277,820**	**56,945**

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	-	-	0	-	0	-	0	-
Operating Deficit Subsidy Needed	0	-	28,426	711	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	**-**	**-**	**28,426**	**711**	**-**	**-**	**-**	**-**	**-**	**-**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	0	-	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(271,983)	(6,800)	(301,744)	(7,544)	-	-	-	-
Transaction Capital Subsidy Needed	n/a	n/a	1,298,704	32,468	301,744	7,544	-	-	-	-
Total Capital Subsidy	**-**	**-**	**1,026,721**	**25,668**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL SUBSIDY NEEDED	**-**	**-**	**1,055,147**	**26,379**	**-**	**-**	**-**	**-**	**-**	**-**