CHFA Capital Plan Property Assessment - John P. Savage

Property Identification

John P. Savage
WALLINGFORD, CT

Total Current Unit Count:	35
Census Tract:	1759.00
Connecticut Congressional District:	3

CHFA Property Identification #: 92082D
Current State Sponsored Housing Program: SH Elderly

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:	Row House
Number of buildings:	9
Maximum # of Stories:	1
Elevator?	None

Summary property description:

The John P. Savage property has 35 one-bedroom units. Generally, the property consists of relatively spacious units. It features amenities such as common laundry, owner-provided air conditioning, outdoor space, and a common room.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$	1,736,293
Capital Needs per Unit:	$	49,608
Projected Year 1 (2014) Operating Income:	$	22,381

Current operations at the property are projected to generate roughly $22,400 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 2027. As a result, the property is not sustainable and cannot adequately address its future basic capital needs, projected to be approximately $1.74 million ($49,608 per unit) over the next 20 years.

Current average income relative to the Area Median Income (AMI): 29%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:	270	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:	270	17%
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: 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

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.

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	15	15
25-50% of AMI	18	18
50% of AMI or greater	2	2
Total number of units	35	35

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:	270	270
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: John P. Savage

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(1,070,537)	(1,112,180)
Recoverable Grant Scenario:	(2,575,565)	(2,925,687)
CHFA/FHA Scenario:	(1,986,759)	(2,739,508)
4% LIHTC Scenario:	(1,371,676)	(2,133,294)
9% LIHTC Scenario:	(276,921)	(999,719)

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:	Current
Recommended Transaction Year	n/a
Replacement Reserve Deposit PUPY:	445
Debt Service Coverage in Transaction Year:	-
Debt Service Coverage in Transaction Year 15:	-
Pre-Transaction Capital Subsidy Needed:	1,070,537
Transaction Capital Subsidy Needed:	-

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.

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 $1,070,537 over the course of the next 20 years.

At this time, the "Current Scenario" is the only approach which reasonably covers the property's capital needs given 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.

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 has a stable operating income and expense foundation and needs little or no additional operating support. Under the Current scenario, the property yields $22,381 in NOI in the current year, which includes $445 per unit per year in replacement reserve deposits, trending to negative $2,758 fifteen years thereafter. The transaction results in a capital subsidy need of $1,070,000 and $41,000 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.

Immediate Emergency Capital Needs:	0
Current Deferred Capital Needs:	5,785
Current Routine Capital Needs:	116,245

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	**122,030**	59,591	-	-	-	-
2014	**79,517**	41,573	-	-	-	-
2015	**121,390**	84,027	-	-	-	-
2016	**93,996**	57,265	-	-	-	-
2017	**269,184**	233,141	-	-	-	-
2018	**61,231**	25,930	-	-	-	-
2019	**37,697**	3,198	-	-	-	-
2020	**89,273**	55,638	-	-	-	-
2021	**96,801**	64,093	-	-	-	-
2022	**60,564**	28,849	-	-	-	-

		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	**45,478**	14,826	-	-	-	-
2024	**39,144**	9,628	-	-	-	-
2025	**44,793**	16,487	-	-	-	-
2026	**94,782**	67,765	-	-	-	-
2027	**107,024**	81,109	-	267	-	-
2028	**71,839**	44,888	-	2,758	-	-
2029	**70,541**	42,512	-	5,379	-	-
2030	**110,329**	81,179	-	8,135	-	-
2031	**42,004**	11,688	-	11,031	-	-
2032	**78,678**	47,149	-	14,072	-	-

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	209,379	5,982.26	296,162	8,461.78	296,162	8,462	296,162	8,462	296,162	8,462
Vacancy/Loss	(10,909)	(311.69)	(10,909)	(311.69)	(14,808)	(423)	(20,731)	(592)	(20,731)	(592)
Other Income	7,005	200.14	7,005	200.14	7,005	200	7,005	200	7,005	200
Effective Gross Income	**205,475**	**5,870.72**	**292,258**	**8,350.23**	**288,359**	**8,239**	**282,436**	**8,070**	**282,436**	**8,070**
2023 ANNUAL EXPENSES										
Operating Expenses	174,824	4,995	189,437	5,412	185,269	5,293	184,973	5,285	184,973	5,285
Replacement Reserve Deposits	22,152	633	22,152	633	17,436	498	17,436	498	17,436	498
Total Operating Expenses	**196,975**	**5,628**	**211,588**	**6,045**	**202,704**	**5,792**	**202,408**	**5,783**	**202,408**	**5,783**
2023 NET OPERATING INCOME	**8,500**	**243**	**80,670**	**2,305**	**85,655**	**2,447**	**80,028**	**2,287**	**80,028**	**2,287**
Debt Service	-	-	-	-	52,703	1,506	54,266	1,550	49,712	1,420
2023 CASH FLOW	**8,500**	**243**	**80,670**	**2,305**	**32,952**	**941**	**25,762**	**736**	**30,316**	**866**

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	-	-	-	-	917,099	26,203	814,165	23,262	865,051	24,716
	Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
	Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
	Other	-	-	-	-	-	-	-	-	-	-
Soft Debt											
	Seller Financing/Take Back Note	-	-	-	-	-	-	1,050,000	30,000	1,050,000	30,000
	State	-	-	-	-	-	-	-	-	-	-
	Local	-	-	-	-	-	-	-	-	-	-
	Other	-	-	-	-	-	-	-	-	-	-
Other											
	From Operations	-	-	9,608	275	21,858	625	21,858	625	21,858	625
	Cash Escrows	-	-	62,439	1,784	62,439	1,784	62,439	1,784	62,439	1,784
	Grant	-	-	-	-	-	-	-	-	-	-
	Other	-	-	-	-	-	-	-	-	-	-
	Other	-	-	-	-	-	-	-	-	-	-
	Deferred Developer Fee	-	-	-	-	153,003	4,372	160,867	4,596	160,167	4,576
Equity											
	GP Contribution	-	-	-	-	-	-	-	-	-	-
	LIHTC	-	-	-	-	-	-	1,005,062	28,716	2,045,707	58,449
	Other	-		-		-		-		-	
Total Sources of Funds		**-**	**-**	**72,047**	2,058	**1,154,399**	32,983	**3,114,390**	88,983	**4,205,222**	120,149
USES											
	Acquisition Costs	-	-	-	-	-	-	1,050,000	30,000	1,050,000	30,000
	Construction Costs	-	-	2,093,444	59,813	2,093,444	59,813	2,116,643	60,476	2,116,643	60,476
	Soft Costs - Design & Construction	-	-	235,611	6,732	232,312	6,637	237,815	6,795	237,815	6,795
	Soft Costs - Due Diligence	-	-	11,762	336	21,012	600	24,050	687	24,050	687
	Soft Costs - Transaction Costs	-	-	30,108	860	110,108	3,146	235,303	6,723	235,303	6,723
	Soft Costs - Financing	-	-	64,524	1,844	210,586	6,017	244,197	6,977	242,390	6,925
	Soft Costs - Other	-	-	20,125	575	22,750	650	22,750	650	22,750	650
	Soft Cost Contingency	-	-	18,107	517	29,838	853	34,028	972	33,437	955
	Reserves	-	-	-	-	38,601	1,103	119,113	3,403	119,336	3,410
	Developer Fee	-	-	173,931	4,969	382,507	10,929	402,166	11,490	400,419	11,441
Total Uses of Funds		**-**	**-**	**2,647,612**	75,646	**3,141,158**	89,747	**4,486,067**	128,173	**4,482,143**	128,061
TRANSACTION SURPLUS (GAP)		**-**	**-**	**(2,575,565)**	(73,588)	**(1,986,759)**	(56,765)	**(1,371,676)**	(39,191)	**(276,921)**	(7,912)

Scenario Pro Formas (continued)

John P. Savage, 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	-	-	1,615,612	46,160	1,615,612	46,160	1,615,612	46,160	1,615,612	46,160
Capital Needs Funded Using Subsidy	1,070,537	30,587	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	62,439	1,784	62,439	1,784	62,439	1,784	62,439	1,784	62,439	1,784
Replacement Reserves	603,318	17,238	430,659	12,305	338,973	9,685	338,973	9,685	338,973	9,685
Total Funds	**1,736,293**	**49,608**	**2,108,710**	**60,249**	**2,017,023**	**57,629**	**2,017,023**	**57,629**	**2,017,023**	**57,629**
USES										
Estimated Capital Needs	1,736,293	49,608	1,736,293	49,608	1,736,293	49,608	1,736,293	49,608	1,736,293	49,608
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**1,736,293**	**49,608**	**1,736,293**	**49,608**	**1,736,293**	**49,608**	**1,736,293**	**49,608**	**1,736,293**	**49,608**
YEAR 20 REPLACEMENT RESERVE BALANCE	**-**	**-**	**372,416**	**10,640**	**280,730**	**8,021**	**280,730**	**8,021**	**280,730**	**8,021**

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	1,022,515	29,215	1,022,515	29,215	1,022,515	29,215	1,022,515	29,215
Operating Deficit Subsidy Needed	41,643	1,190	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	**41,643**	**1,190**	**1,022,515**	**29,215**	**1,022,515**	**29,215**	**1,022,515**	**29,215**	**1,022,515**	**29,215**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	1,070,537	30,587	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(672,393)	(19,211)	(269,766)	(7,708)	(260,897)	(7,454)	(299,716)	(8,563)
Transaction Capital Subsidy Needed	n/a	n/a	2,575,565	73,588	1,986,759	56,765	1,371,676	39,191	276,921	7,912
Total Capital Subsidy	**1,070,537**	**30,587**	**1,903,172**	**54,376**	**1,716,994**	**49,057**	**1,110,780**	**31,737**	**(22,795)**	**(651)**
TOTAL SUBSIDY NEEDED	**1,112,180**	**31,777**	**2,925,687**	**83,591**	**2,739,508**	**78,272**	**2,133,294**	**60,951**	**999,719**	**28,563**