CHFA Capital Plan Property Assessment - Ella Grasso Manor

Property Identification

Ella Grasso Manor
ENFIELD, CT

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

CHFA Property Identification #: 85049D
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:	Low rise (1-4 floors)
Number of buildings:	11
Maximum # of Stories:	1
Elevator?	None

Summary property description:

The Ella Grasso Manor property has 40 one-bedroom units. Generally, the property consists of reasonably sized units. It features amenities such as air conditioning, common laundry, and a community room.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$ 1,382,349
Capital Needs per Unit:	$ 34,559
Projected Year 1 (2014) Operating Income:	$ 4,574

Current operations at the property are projected to generate roughly $4,600 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 2017. As a result, the property is not sustainable and cannot adequately address its future basic capital needs, projected to be approximately $1.38 million ($34,558 per unit) over the next 20 years.

Owner Comments to Property Assessment:

Please see Page 9 for Owner Comments

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

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:	264	16%
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:	264	16%
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	29	29
25-50% of AMI	11	11
50% of AMI or greater	0	0
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:	264	264
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):	(1,105,930)	(1,381,616)
Recoverable Grant Scenario:	(2,049,805)	(3,145,095)
CHFA/FHA Scenario:	(1,454,275)	(3,117,602)
4% LIHTC Scenario:	(950,531)	(2,619,667)
9% LIHTC Scenario:	(37,762)	(1,667,947)

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:	-
Debt Service Coverage in Transaction Year:	-
Debt Service Coverage in Transaction Year 15:	-
Pre-Transaction Capital Subsidy Needed:	1,105,930
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 $1,148,836 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 low rental revenue 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.

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 $3,657 in NOI in the current year, which includes $0 per unit per year in replacement reserve deposits, trending to negative $25,965 fifteen years thereafter. The transaction results in a capital subsidy need of $1,148,000 and $285,000 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:	138,487
Current Routine Capital Needs:	100,053

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	**238,540**	146,433	-	-	-	-
2014	**41,110**	30,202	-	-	-	-
2015	**33,644**	24,014	-	-	-	-
2016	**34,654**	26,372	-	-	-	-
2017	**45,489**	38,364	-	264	-	-
2018	**55,553**	48,144	-	2,047	-	-
2019	**45,182**	37,476	-	3,919	-	-
2020	**166,224**	158,210	-	5,886	-	-
2021	**50,020**	41,685	-	7,950	-	-
2022	**34,066**	25,398	-	10,116	-	-

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	**44,625**	35,610	-	12,386	-	-
2024	**36,141**	26,766	-	14,766	-	-
2025	**40,785**	31,035	-	17,259	-	-
2026	**69,475**	59,334	-	19,870	-	-
2027	**130,406**	119,860	-	22,603	-	-
2028	**66,623**	55,655	-	25,463	-	-
2029	**94,899**	83,492	-	28,454	-	-
2030	**72,800**	60,937	-	31,582	-	-
2031	**30,654**	18,317	-	34,852	-	-
2032	**51,457**	38,626	-	38,268	-	-

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	183,361	4,584.03	307,638	7,690.96	307,638	7,691	307,638	7,691	307,638	7,691
Vacancy/Loss	(5,455)	(136.38)	(5,455)	(136.38)	(15,382)	(385)	(21,535)	(538)	(21,535)	(538)
Other Income	13,904	347.60	13,904	347.60	13,904	348	13,904	348	13,904	348
Effective Gross Income	**191,810**	**4,795.26**	**316,087**	**7,902.18**	**306,160**	**7,654**	**300,008**	**7,500**	**300,008**	**7,500**
2023 ANNUAL EXPENSES										
Operating Expenses	195,182	4,880	210,986	5,275	205,251	5,131	204,943	5,124	204,943	5,124
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**	**220,001**	**5,500**	**225,177**	**5,629**	**224,869**	**5,622**	**224,869**	**5,622**
2023 NET OPERATING INCOME	**(12,386)**	**(310)**	**96,086**	**2,402**	**80,984**	**2,025**	**75,138**	**1,878**	**75,138**	**1,878**
Debt Service	-	-	-	-	51,058	1,276	52,521	1,313	47,951	1,199
2023 CASH FLOW	**(12,386)**	**(310)**	**96,086**	**2,402**	**29,926**	**748**	**22,618**	**565**	**27,187**	**680**

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	-	-	-	-	888,478	22,212	785,330	19,633	834,413	20,860
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	-	-	9,663	242	23,663	592	23,663	592	23,663	592
Cash Escrows	-	-	92,107	2,303	92,107	2,303	92,107	2,303	92,107	2,303
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	125,481	3,137	133,124	3,328	132,554	3,314
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	897,697	22,442	1,758,911	43,973
Other	-		-		-		-		-	
Total Sources of Funds	**-**	**-**	**101,770**	2,544	**1,129,729**	28,243	**3,131,920**	78,298	**4,041,648**	101,041
USES										
Acquisition Costs	-	-	-	-	-	-	1,200,000	30,000	1,200,000	30,000
Construction Costs	-	-	1,684,794	42,120	1,684,794	42,120	1,703,464	42,587	1,703,464	42,587
Soft Costs - Design & Construction	-	-	192,059	4,801	189,403	4,735	193,833	4,846	193,833	4,846
Soft Costs - Due Diligence	-	-	11,522	288	21,022	526	24,484	612	24,484	612
Soft Costs - Transaction Costs	-	-	30,163	754	110,163	2,754	231,416	5,785	231,416	5,785
Soft Costs - Financing	-	-	53,196	1,330	173,392	4,335	210,949	5,274	209,599	5,240
Soft Costs - Other	-	-	23,000	575	26,000	650	26,000	650	26,000	650
Soft Cost Contingency	-	-	15,497	387	25,999	650	30,414	760	29,931	748
Reserves	-	-	-	-	39,529	988	129,081	3,227	129,296	3,232
Developer Fee	-	-	141,344	3,534	313,702	7,843	332,811	8,320	331,386	8,285
Total Uses of Funds	**-**	**-**	**2,151,575**	53,789	**2,584,004**	64,600	**4,082,452**	102,061	**4,079,410**	101,985
TRANSACTION SURPLUS (GAP)	**-**	**-**	**(2,049,805)**	(51,245)	**(1,454,275)**	(36,357)	**(950,531)**	(23,763)	**(37,762)**	(944)

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	-	-	1,300,237	32,506	1,300,237	32,506	1,300,237	32,506	1,300,237	32,506
Capital Needs Funded Using Subsidy	1,105,930	27,648	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	92,107	2,303	92,107	2,303	92,107	2,303	92,107	2,303	92,107	2,303
Replacement Reserves	184,312	4,608	175,264	4,382	387,397	9,685	387,397	9,685	387,397	9,685
Total Funds	**1,382,349**	**34,559**	**1,567,607**	**39,190**	**1,779,741**	**44,494**	**1,779,741**	**44,494**	**1,779,741**	**44,494**
USES										
Estimated Capital Needs	1,382,349	34,559	1,382,349	34,559	1,382,349	34,559	1,382,349	34,559	1,382,349	34,559
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**1,382,349**	**34,559**	**1,382,349**	**34,559**	**1,382,349**	**34,559**	**1,382,349**	**34,559**	**1,382,349**	**34,559**
YEAR 20 REPLACEMENT RESERVE BALANCE	**-**	**-**	**185,259**	**4,631**	**397,392**	**9,935**	**397,392**	**9,935**	**397,392**	**9,935**

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	1,903,053	47,576	1,903,053	47,576	1,903,053	47,576	1,903,053	47,576
Operating Deficit Subsidy Needed	275,686	6,892	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	**275,686**	**6,892**	**1,903,053**	**47,576**	**1,903,053**	**47,576**	**1,903,053**	**47,576**	**1,903,053**	**47,576**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	1,105,930	27,648	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(807,762)	(20,194)	(239,725)	(5,993)	(233,917)	(5,848)	(272,867)	(6,822)
Transaction Capital Subsidy Needed	n/a	n/a	2,049,805	51,245	1,454,275	36,357	950,531	23,763	37,762	944
Total Capital Subsidy	**1,105,930**	**27,648**	**1,242,043**	**31,051**	**1,214,550**	**30,364**	**716,614**	**17,915**	**(235,105)**	**(5,878)**
TOTAL SUBSIDY NEEDED	**1,381,616**	**34,540**	**3,145,095**	**78,627**	**3,117,602**	**77,940**	**2,619,667**	**65,492**	**1,667,947**	**41,699**

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