CHFA Capital Plan Property Assessment - Herbert Clark House

Property Identification

Herbert Clark House
GLASTONBURY, CT

Total Current Unit Count:	45
Census Tract:	5203.02
Connecticut Congressional District:	1

CHFA Property Identification #: 91071D
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:	2
Maximum # of Stories:	2
Elevator?	Yes

Summary property description:

The Herbert Clark House property has 45 one-bedroom units. Generally, the property consists of reasonably sized units. It features amenities such as common laundry, a community room, and meal service.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$ 1,344,564
Capital Needs per Unit:	$ 29,879
Projected Year 1 (2014) Operating Income:	$ (18,269)

Current operations at the property are projected to generate negative $18,300 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 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 $1.34 million ($29,879 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): 33%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:	545	34%
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:	545	34%
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	45	45
25-50% of AMI	0	0
50% of AMI or greater	0	0
Total number of units	45	45

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:	545	545
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: Herbert Clark House

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(324,576)	(1,625,080)
Recoverable Grant Scenario:	(2,073,048)	(3,418,328)
CHFA/FHA Scenario:	(1,698,556)	(2,696,732)
4% LIHTC Scenario:	(1,425,500)	(2,425,475)
9% LIHTC Scenario:	(482,468)	(1,481,777)

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	Herbert Clark House, continued

Recommended Transaction Option:	Current
Recommended Transaction Year	n/a
Replacement Reserve Deposit PUPY:	1,311
Debt Service Coverage in Transaction Year:	-
Debt Service Coverage in Transaction Year 15:	-
Pre-Transaction Capital Subsidy Needed:	324,576
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 $324,576 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 negative $18,269 in NOI in the current year, which includes $1,311 per unit per year in replacement reserve deposits, trending to negative $99,175 fifteen years thereafter. The transaction results in a capital subsidy need of $324,000 and $1,300,000 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:	4,050
Current Deferred Capital Needs:	0
Current Routine Capital Needs:	218,360

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	**222,410**	222,410	-	-	-	-
2014	**23,745**	-	-	18,269	-	-
2015	**68,847**	-	-	22,443	-	-
2016	**19,718**	-	-	26,825	-	-
2017	**64,488**	-	-	31,426	-	-
2018	**40,886**	-	-	36,254	-	-
2019	**73,593**	-	-	41,317	-	-
2020	**276,954**	102,167	-	46,626	-	-
2021	**63,012**	-	-	52,189	-	-
2022	**35,682**	-	-	58,018	-	-

		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	**59,911**	-	-	64,122	-	-
2024	**19,756**	-	-	70,513	-	-
2025	**146,189**	-	-	77,202	-	-
2026	**11,358**	-	-	84,200	-	-
2027	**54,949**	-	-	91,521	-	-
2028	**51,839**	-	-	99,175	-	-
2029	**21,302**	-	-	107,177	-	-
2030	**47,395**	-	-	115,540	-	-
2031	**26,345**	-	-	124,278	-	-
2032	**16,186**	-	-	133,406	-	-

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	365,776	8,128.35	475,509	10,566.86	475,509	10,567	475,509	10,567	475,509	10,567
Vacancy/Loss	(4,656)	(103.48)	(6,053)	(134.52)	(23,775)	(528)	(33,286)	(740)	(33,286)	(740)
Other Income	1,617	35.93	1,617	35.93	1,617	36	1,617	36	1,617	36
Effective Gross Income	**362,736**	**8,060.81**	**471,072**	**10,468.27**	**453,350**	**10,074**	**443,840**	**9,863**	**443,840**	**9,863**
2023 ANNUAL EXPENSES										
Operating Expenses	342,872	7,619	366,425	8,143	357,687	7,949	357,211	7,938	357,211	7,938
Replacement Reserve Deposits	83,987	1,866	83,987	1,866	22,417	498	22,417	498	22,417	498
Total Operating Expenses	**426,859**	**9,486**	**450,412**	**10,009**	**380,104**	**8,447**	**379,628**	**8,436**	**379,628**	**8,436**
2023 NET OPERATING INCOME	**(64,122)**	**(1,425)**	**20,660**	**459**	**73,247**	**1,628**	**64,212**	**1,427**	**64,212**	**1,427**
Debt Service	-	-	-	-	37,747	839	27,778	617	27,689	615
2023 CASH FLOW	**(64,122)**	**(1,425)**	**20,660**	**459**	**35,499**	**789**	**36,434**	**810**	**36,523**	**812**

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	-	-	-	-	656,857	14,597	376,430	8,365	481,830	10,707
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	1,350,000	30,000	1,350,000	30,000
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	40,162	892	55,912	1,242	55,912	1,242	55,912	1,242
Cash Escrows	-	-	-	-	-	-	-	-	-	-
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	123,287	2,740	130,890	2,909	130,407	2,898
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	910,356	20,230	1,749,203	38,871
Other	-		-		-		-		-	
Total Sources of Funds	**-**	**-**	**40,162**	892	**836,056**	18,579	**2,823,588**	62,746	**3,767,351**	83,719
USES										
Acquisition Costs	-	-	-	-	-	-	1,350,000	30,000	1,350,000	30,000
Construction Costs	-	-	1,622,147	36,048	1,622,147	36,048	1,640,123	36,447	1,640,123	36,447
Soft Costs - Design & Construction	-	-	185,382	4,120	182,825	4,063	187,090	4,158	187,090	4,158
Soft Costs - Due Diligence	-	-	11,697	260	21,447	477	25,338	563	25,338	563
Soft Costs - Transaction Costs	-	-	60,662	1,348	140,662	3,126	261,310	5,807	261,310	5,807
Soft Costs - Financing	-	-	51,850	1,152	168,316	3,740	206,311	4,585	206,204	4,582
Soft Costs - Other	-	-	25,875	575	29,250	650	29,250	650	29,250	650
Soft Cost Contingency	-	-	16,773	373	27,125	603	31,544	701	31,134	692
Reserves	-	-	-	-	34,624	769	190,897	4,242	193,352	4,297
Developer Fee	-	-	138,824	3,085	308,218	6,849	327,226	7,272	326,017	7,245
Total Uses of Funds	**-**	**-**	**2,113,209**	46,960	**2,534,612**	56,325	**4,249,088**	94,424	**4,249,818**	94,440
TRANSACTION SURPLUS (GAP)	**-**	-	**(2,073,048)**	(46,068)	**(1,698,556)**	(37,746)	**(1,425,500)**	(31,678)	**(482,468)**	(10,722)

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	-	-	1,251,889	27,820	1,251,889	27,820	1,251,889	27,820	1,251,889	27,820
Capital Needs Funded Using Subsidy	324,576	7,213	96,725	2,149	96,725	2,149	96,725	2,149	96,725	2,149
Existing Replacement Reserve Balance	(4,050)	(90)	(4,050)	(90)	(4,050)	(90)	(4,050)	(90)	(4,050)	(90)
Replacement Reserves	1,632,829	36,285	1,632,829	36,285	435,822	9,685	435,822	9,685	435,822	9,685
Total Funds	**1,953,355**	**43,408**	**2,977,393**	**66,164**	**1,780,386**	**39,564**	**1,780,386**	**39,564**	**1,780,386**	**39,564**
USES										
Estimated Capital Needs	1,344,564	29,879	1,344,564	29,879	1,344,564	29,879	1,344,564	29,879	1,344,564	29,879
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**1,344,564**	**29,879**	**1,344,564**	**29,879**	**1,344,564**	**29,879**	**1,344,564**	**29,879**	**1,344,564**	**29,879**
YEAR 20 REPLACEMENT RESERVE BALANCE	**608,791**	**13,529**	**1,632,829**	**36,285**	**435,822**	**9,685**	**435,822**	**9,685**	**435,822**	**9,685**

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	1,104,028	24,534	1,104,028	24,534	1,104,028	24,534	1,104,028	24,534
Operating Deficit Subsidy Needed	1,300,503	28,900	253,959	5,644	15,324	341	21,139	470	21,139	470
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	**1,300,503**	**28,900**	**1,357,987**	**30,177**	**1,119,352**	**24,874**	**1,125,167**	**25,004**	**1,125,167**	**25,004**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	324,576	7,213	96,725	2,149	96,725	2,149	96,725	2,149	96,725	2,149
Recoverable Cash Flow	n/a	n/a	(109,432)	(2,432)	(217,901)	(4,842)	(221,917)	(4,931)	(222,582)	(4,946)
Transaction Capital Subsidy Needed	n/a	n/a	2,073,048	46,068	1,698,556	37,746	1,425,500	31,678	482,468	10,722
Total Capital Subsidy	**324,576**	**7,213**	**2,060,341**	**45,785**	**1,577,380**	**35,053**	**1,300,309**	**28,896**	**356,610**	**7,925**
TOTAL SUBSIDY NEEDED	**1,625,080**	**36,113**	**3,418,328**	**75,963**	**2,696,732**	**59,927**	**2,425,475**	**53,899**	**1,481,777**	**32,928**

Owner Comments

Herbert T Clark House

Property Assessment

- o Current base rent is $561. Higher than proposed on page 2 (understand you used older data)
- o Unsure how you calculated the $1.3 million operating subsidy and $324,000 capital subsidy need. Could you clarify. Agree NOI goes negative rapidly, we actually had higher figure in year one than you identified. Would you share your proforma spreadsheets so we can identify the calculations used to determine subsidy needs and NOI?

RECAP Response: The $1.3 million operating subsidy need was calculated as the gap between the projected income and expenses over the next 20 years. Based on the data provided, NOI is projected to go negative in 2014 and without revenue adjustments, that gap will widen continue to increase. The $324,000 capital subsidy needed was calculated as the difference between the current reserve balance and annual contributions and the annnual capital needs as determined by the CNA. Please refer to the chart on page 6 to see the annual capital and operating subsidy needs. Recap is not able to provide more detailed proformas for the property assessment, we encourage 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.

CNA

- o Since your review we have started to participate with CL&P small business energy incentive plan which has/is in progress replacing all of the exterior site lighting bulbs/fixture heads, replaced interior fixtures/bulbs, exit signs, emergency lighting. Will have some impact on reserve calculation.
- o Cost to remove underground storage tank seems low- we just recently started to evaluate the removal of our 2500 gallon diesel tank.

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. Given that some of the recent work completed has been included in the financial anaysis, the capital needs shortfall may be less than currently projected.

Market Assessment

- o Has references to Bristol CT on pages 10 & 11 unsure if it is just a name typo or if the data is for Bristol as well.
- o Table on page 7 what are the column headings (same question as on Center Village Market Assessment

RECAP Response: The Bristol reference is a typo, it should be replaced with Glastonbury. The column headings for this table should be: Property Name; Address; Property Phone Number; Government-Assisted Program; Occupancy Eligibility; Total Units; Total Assisted Units; Total Units Designed for Elderly; Total Units Designated for the Disabled; Total Units with Accessibility Features; Available Bedroom Sizes; Survey Date.