CHFA Capital Plan Property Assessment - Enfield-Magnolia

Property Identification

Enfield-Magnolia
HARTFORD, CT

Total Current Unit Count:	20
Census Tract:	5014.00
Connecticut Congressional District:	1

CHFA Property Identification #: 87003D
Current State Sponsored Housing Program: SH Moderate Rental

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:	Family
Structure Type:	Low rise (1-4 floors)
Number of buildings:	2
Maximum # of Stories:	3
Elevator?	

Summary property description:
The Enfield-Magnolia property has 10 two-bedroom, 7 three-bedroom and 3 four-bedroom units. Generally, the property consists of reasonably sized units. It features amenities such as in-unit dishwashers.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$ 1,079,587
Capital Needs per Unit:	$ 53,979
Projected Year 1 (2014) Operating Income:	$ 42,326

Current operations at the property are projected to generate roughly $42,300 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 results in negative NOI beginning in 2032. As a result, the property is not sustainable and cannot adequately address its future basic capital needs, projected to be approximately $1.08 million ($53,979 per unit) over the next 20 years.

Current average income relative to the Area Median Income (AMI): 13%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:		
Two-bedroom unit:	905	47%
Three-bedroom unit:	1,297	58%
Four-bedroom unit:	1,408	57%
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:		
Two-bedroom unit:	905	47%
Three-bedroom unit:	1,297	58%
Four-bedroom unit:	1,408	57%
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	20	20
25-50% of AMI	0	0
50% of AMI or greater	0	0
Total number of units	20	20

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:		
Two-bedroom unit:	905	905
Three-bedroom unit:	1,297	1,297
Four-bedroom unit:	1,408	1,408
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-Magnolia

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(614,885)	(614,909)
Recoverable Grant Scenario:	(2,050,597)	(2,522,128)
CHFA/FHA Scenario:	(2,879,601)	(3,313,939)
4% LIHTC Scenario:	(2,444,373)	(3,178,147)
9% LIHTC Scenario:	(1,214,066)	(1,952,044)

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:	614,885
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 $614,885 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 $42,326 in NOI in the current year, which includes $0 per unit per year in replacement reserve deposits, trending to $13,255 fifteen years thereafter. The transaction results in a capital subsidy need of $614,885 and $24 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:	0
Current Routine Capital Needs:	95,293

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	**95,293**	95,293	-	-	-	-
2014	**19,634**	-	-	-	-	-
2015	**20,667**	-	-	-	-	-
2016	**16,617**	-	-	-	-	-
2017	**22,228**	-	-	-	-	-
2018	**64,352**	-	-	-	-	-
2019	**17,612**	-	-	-	-	-
2020	**75,034**	-	-	-	-	-
2021	**61,322**	2,419	-	-	-	-
2022	**97,602**	68,988	-	-	-	-

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	**96,248**	69,856	-	-	-	-
2024	**62,297**	38,255	-	-	-	-
2025	**54,076**	32,517	-	-	-	-
2026	**43,393**	24,456	-	-	-	-
2027	**73,823**	57,653	-	-	-	-
2028	**91,492**	78,237	-	-	-	-
2029	**40,179**	29,995	-	-	-	-
2030	**53,078**	46,127	-	-	-	-
2031	**42,625**	39,074	-	-	-	-
2032	**32,015**	32,015	-	24	-	-

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	327,042	16,352.11	392,451	19,622.54	392,451	19,623	392,451	19,623	392,451	19,623
Vacancy/Loss	(3,514)	(175.69)	(4,217)	(210.83)	(19,623)	(981)	(27,472)	(1,374)	(27,472)	(1,374)
Other Income	23	1.14	23	1.14	23	1	23	1	23	1
Effective Gross Income	**323,551**	**16,177.57**	**388,257**	**19,412.85**	**372,851**	**18,643**	**365,002**	**18,250**	**365,002**	**18,250**
2023 ANNUAL EXPENSES										
Operating Expenses	297,159	14,858	307,198	15,360	297,382	14,869	296,990	14,850	296,990	14,850
Replacement Reserve Deposits	-	-	-	-	12,098	605	12,098	605	9,963	498
Total Operating Expenses	**297,159**	**14,858**	**307,198**	**15,360**	**309,481**	**15,474**	**309,088**	**15,454**	**306,953**	**15,348**
2023 NET OPERATING INCOME	**26,392**	**1,320**	**81,059**	**4,053**	**63,370**	**3,169**	**55,914**	**2,796**	**58,049**	**2,902**
Debt Service	-	-	-	-	26,090	1,305	17,341	867	20,514	1,026
2023 CASH FLOW	**26,392**	**1,320**	**81,059**	**4,053**	**37,280**	**1,864**	**38,572**	**1,929**	**37,535**	**1,877**

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	-	-	-	-	454,002	22,700	203,956	10,198	356,969	17,848
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	(209,643)	(10,482)	(184,969)	(9,248)
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	40,011	2,001	48,511	2,426	48,511	2,426	47,011	2,351
Cash Escrows	-	-	-	-	18,798	940	18,798	940	14,115	706
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	125,932	6,297	130,872	6,544	130,325	6,516
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	974,006	48,700	2,058,981	102,949
Other	-		-		-		-		-	
Total Sources of Funds	**-**	**-**	**40,011**	2,001	**647,242**	32,362	**1,166,500**	58,325	**2,422,431**	121,122
USES										
Acquisition Costs	-	-	-	-	951,675	47,584	742,032	37,102	766,705	38,335
Construction Costs	-	-	1,620,283	81,014	1,620,283	81,014	1,638,239	81,912	1,638,239	81,912
Soft Costs - Design & Construction	-	-	185,184	9,259	182,630	9,131	186,889	9,344	186,889	9,344
Soft Costs - Due Diligence	-	-	10,444	522	20,086	1,004	20,856	1,043	20,886	1,044
Soft Costs - Transaction Costs	-	-	60,511	3,026	140,511	7,026	261,142	13,057	261,142	13,057
Soft Costs - Financing	-	-	49,490	2,475	232,831	11,642	229,363	11,468	230,517	11,526
Soft Costs - Other	-	-	11,500	575	13,000	650	13,000	650	13,000	650
Soft Cost Contingency	-	-	15,856	793	29,453	1,473	31,768	1,588	31,304	1,565
Reserves	-	-	-	-	21,545	1,077	160,404	8,020	162,003	8,100
Developer Fee	-	-	137,339	6,867	314,830	15,742	327,181	16,359	325,811	16,291
Total Uses of Funds	**-**	**-**	**2,090,608**	104,530	**3,526,844**	176,342	**3,610,873**	180,544	**3,636,497**	181,825
TRANSACTION SURPLUS (GAP)	**-**	**-**	**(2,050,597)**	(102,530)	**(2,879,601)**	(143,980)	**(2,444,373)**	(122,219)	**(1,214,066)**	(60,703)

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	-	-	1,250,451	62,523	1,250,451	62,523	1,250,451	62,523	1,250,451	62,523
Capital Needs Funded Using Subsidy	614,885	30,744	10,166	508	2,430	122	2,430	122	2,430	122
Existing Replacement Reserve Balance	-	-	-	-	-	-	-	-	-	-
Replacement Reserves	464,702	23,235	-	-	235,205	11,760	235,205	11,760	193,699	9,685
Total Funds	**1,079,587**	**53,979**	**1,260,617**	**63,031**	**1,488,086**	**74,404**	**1,488,086**	**74,404**	**1,446,579**	**72,329**
USES										
Estimated Capital Needs	1,079,587	53,979	1,079,587	53,979	1,079,587	53,979	1,079,587	53,979	1,079,587	53,979
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**1,079,587**	**53,979**	**1,079,587**	**53,979**	**1,079,587**	**53,979**	**1,079,587**	**53,979**	**1,079,587**	**53,979**
YEAR 20 REPLACEMENT RESERVE BALANCE	**-**	**-**	**181,030**	**9,051**	**408,499**	**20,425**	**408,499**	**20,425**	**366,992**	**18,350**

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	913,898	45,695	913,898	45,695	913,898	45,695	913,898	45,695
Operating Deficit Subsidy Needed	24	1	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	**24**	**1**	**913,898**	**45,695**	**913,898**	**45,695**	**913,898**	**45,695**	**913,898**	**45,695**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	614,885	30,744	10,166	508	2,430	122	2,430	122	2,430	122
Recoverable Cash Flow	n/a	n/a	(452,533)	(22,627)	(481,990)	(24,099)	(182,554)	(9,128)	(178,349)	(8,917)
Transaction Capital Subsidy Needed	n/a	n/a	2,050,597	102,530	2,879,601	143,980	2,444,373	122,219	1,214,066	60,703
Total Capital Subsidy	**614,885**	**30,744**	**1,608,230**	**80,412**	**2,400,041**	**120,002**	**2,264,249**	**113,212**	**1,038,146**	**51,907**
TOTAL SUBSIDY NEEDED	**614,909**	**30,745**	**2,522,128**	**126,106**	**3,313,939**	**165,697**	**3,178,147**	**158,907**	**1,952,044**	**97,602**