CHFA Capital Plan Property Assessment - SugarLoaf Terrace

Property Identification

SugarLoaf Terrace
MIDDLEFIELD, CT

Total Current Unit Count:	30
Census Tract:	5801.00
Connecticut Congressional District:	3

CHFA Property Identification #: 85097D
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:	Garden/Townhouse
Number of buildings:	3
Maximum # of Stories:	1
Elevator?	None

Summary property description:

The SugarLoaf Terrace property has 2 efficiency or studio and 28 one-bedroom units. Generally, the property consists of reasonably sized units. It features amenities such as a community room and kitchen, as well as common laundry.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$	1,900,811
Capital Needs per Unit:	$	63,360
Projected Year 1 (2014) Operating Income:	$	60,194

Current operations at the property are projected to generate roughly $60,200 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. However, the property cannot leverage debt financing or adequately address its future basic capital needs, projected to be approximately $1.9 million ($63,360 per unit) over the next 20 years.

Current average income relative to the Area Median Income (AMI): 30%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:	518	35%
One-bedroom unit:	588	37%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:	518	35%
One-bedroom unit:	588	37%
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	1	1
25-50% of AMI	29	29
50% of AMI or greater	0	0
Total number of units	30	30

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:	518	518
One-bedroom unit:	588	588
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: Marino Manor

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(827,064)	(827,064)
Recoverable Grant Scenario:	(2,959,097)	(2,599,659)
CHFA/FHA Scenario:	(3,105,796)	(2,624,871)
4% LIHTC Scenario:	(2,500,695)	(2,375,186)
9% LIHTC Scenario:	(1,202,869)	(1,077,573)

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	SugarLoaf Terrace, continued

Recommended Transaction Option:	Current
Recommended Transaction Year	n/a
Replacement Reserve Deposit PUPY:	347
Debt Service Coverage in Transaction Year:	-
Debt Service Coverage in Transaction Year 15:	-
Pre-Transaction Capital Subsidy Needed:	827,064
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 $827,064 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 $60,194 in NOI in the current year, which includes $347 per unit per year in replacement reserve deposits, trending to negative $46,878 fifteen years thereafter. The transaction results in a capital subsidy need of $827,000, 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:	373,468

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	**373,468**	253,844	-	-	-	-
2014	**96,976**	74,054	-	-	-	-
2015	**117,673**	94,803	-	-	-	-
2016	**109,615**	86,842	-	-	-	-
2017	**39,841**	17,212	-	-	-	-
2018	**47,737**	25,302	-	-	-	-
2019	**26,965**	4,775	-	-	-	-
2020	**24,804**	-	-	-	-	-
2021	**25,548**	-	-	-	-	-
2022	**26,315**	-	-	-	-	-

		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	**41,036**	-	-	-	-	-
2024	**16,121**	-	-	-	-	-
2025	**124,152**	-	-	-	-	-
2026	**196,185**	-	-	-	-	-
2027	**80,456**	-	-	-	-	-
2028	**175,924**	102,696	-	-	-	-
2029	**95,340**	31,377	-	-	-	-
2030	**119,060**	56,097	-	-	-	-
2031	**141,937**	80,064	-	-	-	-
2032	**21,659**	-	-	-	-	-

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	255,989	8,532.96	273,692	9,123.08	273,692	9,123	273,692	9,123	273,692	9,123
Vacancy/Loss	(155)	(5.16)	(152)	(5.08)	(13,685)	(456)	(19,158)	(639)	(19,158)	(639)
Other Income	3,430	114.34	3,430	114.34	3,430	114	3,430	114	3,430	114
Effective Gross Income	**259,264**	**8,642.14**	**276,970**	**9,232.34**	**263,438**	**8,781**	**257,964**	**8,599**	**257,964**	**8,599**
2023 ANNUAL EXPENSES										
Operating Expenses	190,955	6,365	204,804	6,827	201,496	6,717	201,222	6,707	201,222	6,707
Replacement Reserve Deposits	14,795	493	14,795	493	14,945	498	14,945	498	14,945	498
Total Operating Expenses	**205,751**	**6,858**	**219,599**	**7,320**	**216,441**	**7,215**	**216,167**	**7,206**	**216,167**	**7,206**
2023 NET OPERATING INCOME	**53,514**	**1,784**	**57,371**	**1,912**	**46,997**	**1,567**	**41,797**	**1,393**	**41,797**	**1,393**
Debt Service	-	-	-	-	27,052	902	21,343	711	21,371	712
2023 CASH FLOW	**53,514**	**1,784**	**57,371**	**1,912**	**19,945**	**665**	**20,454**	**682**	**20,426**	**681**

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	-	-	-	-	470,745	15,691	270,080	9,003	371,887	12,396
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	635,816	21,194	635,816	21,194
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	20,918	697	31,418	1,047	31,418	1,047	31,418	1,047
Cash Escrows	-	-	104,382	3,479	104,382	3,479	104,382	3,479	104,382	3,479
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	177,621	5,921	185,101	6,170	184,351	6,145
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	1,093,613	36,454	2,289,220	76,307
Other	-		-		-		-		-	
Total Sources of Funds	**-**	**-**	**125,300**	4,177	**784,165**	26,139	**2,320,409**	77,347	**3,617,074**	120,569
USES										
Acquisition Costs	-	-	-	-	264,184	8,806	900,000	30,000	900,000	30,000
Construction Costs	-	-	2,443,244	81,441	2,443,244	81,441	2,470,319	82,344	2,470,319	82,344
Soft Costs - Design & Construction	-	-	272,892	9,096	269,041	8,968	275,464	9,182	275,464	9,182
Soft Costs - Due Diligence	-	-	11,932	398	21,249	708	23,544	785	23,544	785
Soft Costs - Transaction Costs	-	-	41,418	1,381	121,418	4,047	249,987	8,333	249,987	8,333
Soft Costs - Financing	-	-	74,155	2,472	249,227	8,308	270,118	9,004	268,951	8,965
Soft Costs - Other	-	-	17,250	575	19,500	650	19,500	650	19,500	650
Soft Cost Contingency	-	-	20,882	696	34,022	1,134	37,539	1,251	36,905	1,230
Reserves	-	-	-	-	24,026	801	111,879	3,729	114,393	3,813
Developer Fee	-	-	202,625	6,754	444,052	14,802	462,752	15,425	460,878	15,363
Total Uses of Funds	**-**	**-**	**3,084,397**	102,813	**3,889,962**	129,665	**4,821,104**	160,703	**4,819,943**	160,665
TRANSACTION SURPLUS (GAP)	**-**	**-**	**(2,959,097)**	(98,637)	**(3,105,796)**	(103,527)	**(2,500,695)**	(83,357)	**(1,202,869)**	(40,096)

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	-	-	1,885,569	62,852	1,885,569	62,852	1,885,569	62,852	1,885,569	62,852
Capital Needs Funded Using Subsidy	827,064	27,569	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	119,624	3,987	119,624	3,987	119,624	3,987	119,624	3,987	119,624	3,987
Replacement Reserves	993,155	33,105	287,646	9,588	290,548	9,685	290,548	9,685	290,548	9,685
Total Funds	**1,939,844**	**64,661**	**2,292,839**	**76,428**	**2,295,741**	**76,525**	**2,295,741**	**76,525**	**2,295,741**	**76,525**
USES										
Estimated Capital Needs	1,900,811	63,360	1,900,811	63,360	1,900,811	63,360	1,900,811	63,360	1,900,811	63,360
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**1,900,811**	**63,360**	**1,900,811**	**63,360**	**1,900,811**	**63,360**	**1,900,811**	**63,360**	**1,900,811**	**63,360**
YEAR 20 REPLACEMENT RESERVE BALANCE	**39,032**	**1,301**	**392,028**	**13,068**	**394,930**	**13,164**	**394,930**	**13,164**	**394,930**	**13,164**

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	-	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	827,064	27,569	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(359,438)	(11,981)	(480,925)	(16,031)	(125,510)	(4,184)	(125,296)	(4,177)
Transaction Capital Subsidy Needed	n/a	n/a	2,959,097	98,637	3,105,796	103,527	2,500,695	83,357	1,202,869	40,096
Total Capital Subsidy	**827,064**	**27,569**	**2,599,659**	**86,655**	**2,624,871**	**87,496**	**2,375,186**	**79,173**	**1,077,573**	**35,919**
TOTAL SUBSIDY NEEDED	**827,064**	**27,569**	**2,599,659**	**86,655**	**2,624,871**	**87,496**	**2,375,186**	**79,173**	**1,077,573**	**35,919**