

## CHFA Capital Plan Property Assessment - Dodge Farms

### Property Identification

Dodge Farms  
WASHINGTON, CT

Total Current Unit Count: 14  
Census Tract: 2671.00  
Connecticut Congressional District: 5

CHFA Property Identification #: 95124D  
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: Garden/Townhouse  
Number of buildings: 4  
Maximum # of Stories: 2  
Elevator? None

Summary property description:

The Dodge Farms property has 1 one-bedroom, 8 two-bedroom, 4 three-bedroom and 1 four-bedroom units. Generally, the property consists of relatively spacious units. It features amenities such as in-unit laundry hook-ups and semi-private outdoor space.

### Current Operating & Capital Needs Status

Aggregate Capital Needs  
(without market enhancements): \$ 711,340  
  
Capital Needs per Unit: \$ 50,810  
  
Projected Year 1 (2014) Operating Income: \$ (9,088)

Current operations at the property are projected to generate negative \$9,100 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 \$0.71 million (\$50,810 per unit) over the next 20 years.

Current average income relative to  
the Area Median Income (AMI): 33%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:	594	36%
Two-bedroom unit:	654	33%
Three-bedroom unit:	724	32%
Four-bedroom unit:	799	31%
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:	594	36%
Two-bedroom unit:	591	30%
Three-bedroom unit:	724	32%
Four-bedroom unit:	799	31%
Five-bedroom unit:		
Six-bedroom unit:		

Number of current households that would be  
impacted by the proposed increase in Base Rent: 11

Rental operating subsidy necessary in 2014 to  
generate revenue equal to raising the base rent  
as proposed: \$ 7,095

Total rental operating subsidy necessary  
assuming a turnover-based leasing strategy: \$ 41,460

In order for the property to operate in a sustainable manner into the foreseeable future, the property would benefit from greater revenues. This can happen in one of two ways - either the property could get operating subsidy from the state or federal government, or it could charge higher rents. A higher rent structure burdens low-income households to pay a greater share of their income for housing and it will require that the property serve tenants with modestly higher incomes.

Currently, base rents are set by the owner of each property, often in consultation with CHFA staff. While there are varying definitions of affordability, this study considers a rent which exceeds 30% of a household's adjusted gross income to be burdensome on the household's monthly budget. In the table to the left, the base rent is identified for each unit size. The table also identifies the minimum household income level for which the base rent would be considered "affordable." The household income level is presented as a percentage of the local Area Median Income.

There are strong reasons to keep the base rents low, as low base rents provide affordable housing options for the state's lowest income residents and reduce the burden of operating subsidies on the State budget. However, if the property's revenue stream (including any available operating subsidy and any cross-subsidy from higher income residents) does not cover the cost of actually operating the property, including the cost of ongoing maintenance and capital improvements, the property itself is at risk.

The Capital Plan is intended to identify the real estate needs of the State Sponsored Housing Portfolio. In order to ensure a minimum revenue stream and in order to implement programmatic consistency regarding base rent levels, this analysis assumes that all base rents are adjusted in 2014 to equal the greater of a) the current base rent or b) 30% of the adjusted gross income of a household at 30% of AMI for the applicable household size, provided these levels do not exceed the local market. This base rent adjustment would represent a significant increase for some households. The analysis identifies the number of households that would be affected by such a change and the amount of operating subsidy needed to protect these households. If the owners elect not to raise the base rents as assumed in this analysis, the property is more likely to experience tight operating budgets towards the end of the Capital Plan subsidy period and will be less able to access leverage funding such as private debt.

Protecting the 11 Family Households at risk in the event of a base rent increase is clearly a major concern. In 2014, the base rent increase creates the need for operating subsidy of \$7,095 to protect these households while generating the revenue equivalent to the proposed increase in the base rent.

This 2014 rental operating subsidy would recur annually, with inflation increases, for the next 20 years if the State determines that, as a policy matter, the property should continue serving households with an income profile equivalent to the current residents at the property. An alternative formulation assumes that, upon turnover, new residents would move in for whom the proposed base rent is affordable and tenant protection operating subsidies would no longer be necessary. This turnover strategy requires less operating subsidy from the State, but also reduces the number of units of housing available to the lowest income residents of the community. The total tenant protection operating subsidy associated with the increase in the base rent assuming that, on turnover, the units are leased to households able to pay the new base rent without assistance is \$41,460.

**Revenue Adjustments Concurrent with a Recapitalization Transaction**

Dodge Farms, continued

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	11	7
25-50% of AMI	1	4
50% of AMI or greater	2	3
Total number of units	14	14

While the revenue generated by the increase in the base rent or the provision of an equivalent operating subsidy improves the property's income and expense picture, it is insufficient for the property to operate sustainably for the foreseeable future. (The capital plan analysis considers sustainable operations to be a level of operating income sufficient to cover operating expenses and servicing of any capital leverage necessary to maintain the physical asset for the next 15-20 years without routine capital subsidies from the State.) The capital plan has examined additional revenue adjustments based on an income-tier structure, which could supplement the revenue picture. However, the potential for additional revenue adjustments through income mixing is limited because the property is too small to reach an ideal mix of 1/3 0-25% AMI, 1/3 25-50% AMI and 1/3 50-80% AMI.

	Pre-Trans. Base Rent	Post-Trans. Base Rent
Studio/efficiency unit:		
One-bedroom unit:	594	594
Two-bedroom unit:	591	591
Three-bedroom unit:	724	724
Four-bedroom unit:	799	799
Five-bedroom unit:		
Six-bedroom unit:		

An income-tier structure would require a specified number of units to pay a higher base rent, affordable to households with a higher (albeit still low) income. For example, a tier serving households in the 50%-60% of AMI would pay a base rent equal to 30% of the adjusted gross income of a household earning 55% of AMI. The capital plan has adopted income tiers which correspond to CHFA's commonly used affordability thresholds.

As is the case with the base rent analysis, above, in income tier structure makes the units allocated to a higher-income tier unaffordable to those currently served by this housing. As state funds for operating subsidy are limited, the capital plan analysis has assumed that any available operating subsidy will be focused on protecting current residents until they move away from the property. On turnover, households earning incomes consistent with the income tier structure will be offered units on a preferential basis. However, additional operating subsidy beyond that reflected here would mitigate this loss of housing options for lower income households.

Rental operating subsidy in the transaction year  
which would be necessary to generate additional  
revenue equal to that generated by income  
mixing: \$ 8,991

Transitional rental operating subsidy necessary  
to protect current residents and permit a five-  
year transition to income tier occupancy: \$ 22,931

Based on the market conditions reflected in the property market condition assessment, tenants in the 25% to 80% of AMI range are available in the market. This analysis has increased the number of households at the property with incomes between 25% and 80% of AMI from 3 in 2014 to 7 post-transaction, which results in an increase in property revenue. The remaining units would continue to serve residents with incomes below 25% of AMI.

In order to attract the additional households in the 25% to 80% of AMI income tiers, the property condition must meet the market conditions these households would expect. Fortunately, this property would not require significant physical enhancements beyond routine capital improvements in order to attract these potential tenants.

Property used for market reference: Dodge Farms

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(644,039)	(1,484,330)
Recoverable Grant Scenario:	(1,078,292)	(1,487,501)
CHFA/FHA Scenario:	(1,623,770)	(1,674,301)
4% LIHTC Scenario:	(1,403,964)	(1,731,636)
9% LIHTC Scenario:	(934,122)	(1,155,382)

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**

Dodge Farms, continued

Recommended Transaction Option:	Recoverable Grant
Recommended Transaction Year	2015
Replacement Reserve Deposit PUPY:	174
Debt Service Coverage in Transaction Year:	-
Debt Service Coverage in Transaction Year 15:	-
Pre-Transaction Capital Subsidy Needed:	-
Transaction Capital Subsidy Needed:	1,078,292

The capital plan recommends using the recoverable grant scenario to finance the capital needs at this property. Given the small size of the property, the transaction costs associated with any of the other financing structures outweigh the additional funds which could be achieved by leveraging FHA debt or low income housing tax credit equity.

This analysis has suggested a potential transaction year of 2015 based on a series of criteria outlined in the capital plan report. In short, the transaction year has been informed by the distribution of critical capital needs year-by-year at the property (i.e. roof, mechanical, structural components) and by the need to distribute the timing of capital transaction for properties within the State Sponsored Housing Portfolio over a period of years in order to manage scarce State-wide resources.

The property is able to cover its capital needs from current replacement reserves through the date of the capital transaction, so no interim State support is needed.

**Summary of Recommended Transaction**

Under the Recoverable Grant scenario, the property yields \$11,402 in NOI in the transaction completion year, which includes \$174 per unit per year in replacement reserve deposits. The property generates negative \$5,243 in cash flow in the capital transaction's completion year, trending to \$32,616 fifteen years thereafter. Post-transaction, distribution of cash flow is governed by the terms of the transaction documents and, to the extent not restricted by the documents, could be used at the owner's discretion for ongoing capital needs, owner's working capital or the owner's other priorities. If there is a recoverable grant, repayment of the recoverable grant would be specified in the transaction documents as a priority use of the funds. The transaction does not support debt or equity leverage. The transaction results in a gap of \$1,078,000, all of which would need to be covered by State capital subsidy. This compares to a needs gap of over \$1,484,000 if no transaction takes place at the property and the capital needs are addressed through routine maintenance.

**Summary of Capital Needs & State Subsidy Needs**

Dodge Farms, continued

Immediate Emergency Capital Needs: 0  
 Current Deferred Capital Needs: 0  
 Current Routine Capital Needs: 38,883

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	38,883	-	-	-	-	-
2014	1,842	-	-	15,266	7,095	-
2015	41,246	-	1,078,292	16,626	6,513	-
2016	42,483	-	-	5,243	5,905	8,991
2017	5,284	-	-	6,488	5,270	6,878
2018	18,414	-	-	7,802	4,608	4,677
2019	9,577	-	-	9,189	3,917	2,385
2020	20,195	-	-	10,650	3,196	-
2021	9,059	-	-	12,190	2,445	-
2022	14,223	-	-	13,811	1,663	-

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	32,757	-	-	15,517	848	-
2024	24,036	-	-	17,310	-	-
2025	9,858	-	-	19,194	-	-
2026	17,423	-	-	21,173	-	-
2027	79,485	-	-	23,250	-	-
2028	162,005	-	-	25,429	-	-
2029	80,558	-	-	27,713	-	-
2030	34,660	-	-	30,108	-	-
2031	18,633	-	-	32,616	-	-
2032	50,720	-	-	35,243	-	-

**Scenario Pro Formas**

Dodge Farms, continued

**Income and Expense 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
<b>2023 ANNUAL INCOME</b>										
Gross Potential Rent	139,372	9,955.17	167,706	11,979.02	167,706	11,979	167,706	11,979	167,706	11,979
Vacancy/Loss	-	-	-	-	(8,385)	(599)	(11,739)	(839)	(11,739)	(839)
Other Income	20,970	1,497.83	20,970	1,497.83	20,970	1,498	20,970	1,498	20,970	1,498
<b>Effective Gross Income</b>	<b>160,342</b>	<b>11,452.99</b>	<b>188,676</b>	<b>13,476.85</b>	<b>180,291</b>	<b>12,878</b>	<b>176,936</b>	<b>12,638</b>	<b>176,936</b>	<b>12,638</b>
<b>2023 ANNUAL EXPENSES</b>										
Operating Expenses	182,978	13,070	184,085	13,149	178,517	12,751	178,350	12,739	178,350	12,739
Replacement Reserve Deposits	3,462	247	3,462	247	8,469	605	8,469	605	6,974	498
<b>Total Operating Expenses</b>	<b>186,439</b>	<b>13,317</b>	<b>187,547</b>	<b>13,396</b>	<b>186,986</b>	<b>13,356</b>	<b>186,818</b>	<b>13,344</b>	<b>185,324</b>	<b>13,237</b>
<b>2023 NET OPERATING INCOME</b>	<b>(26,097)</b>	<b>(1,864)</b>	<b>1,129</b>	<b>81</b>	<b>(6,696)</b>	<b>(478)</b>	<b>(9,882)</b>	<b>(706)</b>	<b>(8,387)</b>	<b>(599)</b>
Debt Service	16,646	1,189	16,646	1,189	48	3	5,021	359	32	2
<b>2023 CASH FLOW</b>	<b>(42,743)</b>	<b>(3,053)</b>	<b>(15,517)</b>	<b>(1,108)</b>	<b>(6,744)</b>	<b>(482)</b>	<b>(14,903)</b>	<b>(1,064)</b>	<b>(8,420)</b>	<b>(601)</b>

**Sources and Uses 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
<b>SOURCES</b>										
Hard Debt										
Commercial Debt 1	-	-	-	-	844	60	343	24	559	40
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	81,645	5,832	81,645	5,832
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	19,402	1,386	25,352	1,811	25,352	1,811	24,302	1,736
Cash Escrows	-	-	-	-	-	-	-	-	-	-
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	67,728	4,838	72,662	5,190	72,323	5,166
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	440,893	31,492	907,930	64,852
Other	-	-	-	-	-	-	-	-	-	-
<b>Total Sources of Funds</b>	<b>-</b>	<b>-</b>	<b>19,402</b>	<b>1,386</b>	<b>93,923</b>	<b>6,709</b>	<b>620,894</b>	<b>44,350</b>	<b>1,086,758</b>	<b>77,626</b>
<b>USES</b>										
Acquisition Costs	-	-	-	-	338,355	24,168	420,000	30,000	420,000	30,000
Construction Costs	-	-	831,860	59,419	831,860	59,419	841,079	60,077	841,079	60,077
Soft Costs - Design & Construction	-	-	101,157	7,225	99,845	7,132	102,032	7,288	102,032	7,288
Soft Costs - Due Diligence	-	-	9,198	657	17,804	1,272	18,613	1,330	18,613	1,330
Soft Costs - Transaction Costs	-	-	39,902	2,850	119,902	8,564	232,926	16,638	232,926	16,638
Soft Costs - Financing	-	-	26,191	1,871	107,810	7,701	116,593	8,328	115,362	8,240
Soft Costs - Other	-	-	8,050	575	9,100	650	9,100	650	9,100	650
Soft Cost Contingency	-	-	9,225	659	17,723	1,266	20,919	1,494	20,633	1,474
Reserves	-	-	-	-	5,974	427	81,940	5,853	80,327	5,738
Developer Fee	-	-	72,111	5,151	169,319	12,094	181,654	12,975	180,808	12,915
<b>Total Uses of Funds</b>	<b>-</b>	<b>-</b>	<b>1,097,693</b>	<b>78,407</b>	<b>1,717,693</b>	<b>122,692</b>	<b>2,024,857</b>	<b>144,633</b>	<b>2,020,881</b>	<b>144,349</b>
<b>TRANSACTION SURPLUS (GAP)</b>	<b>-</b>	<b>-</b>	<b>(1,078,292)</b>	<b>(77,021)</b>	<b>(1,623,770)</b>	<b>(115,984)</b>	<b>(1,403,964)</b>	<b>(100,283)</b>	<b>(934,122)</b>	<b>(66,723)</b>

**Scenario Pro Formas (continued)**

Dodge Farms, 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
<b>FUNDS</b>										
Transaction Rehab	-	-	641,987	45,856	641,987	45,856	641,987	45,856	641,987	45,856
Capital Needs Funded Using Subsidy	644,039	46,003	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	-	-	-	-	-	-	-	-	-	-
Replacement Reserves	67,301	4,807	67,301	4,807	164,644	11,760	164,644	11,760	135,589	9,685
<b>Total Funds</b>	<b>711,340</b>	<b>50,810</b>	<b>709,288</b>	<b>50,663</b>	<b>806,631</b>	<b>57,616</b>	<b>806,631</b>	<b>57,616</b>	<b>777,576</b>	<b>55,541</b>
<b>USES</b>										
Estimated Capital Needs	711,340	50,810	711,340	50,810	711,340	50,810	711,340	50,810	711,340	50,810
Enhancements	-	-	-	-	-	-	-	-	-	-
<b>Total Uses</b>	<b>711,340</b>	<b>50,810</b>	<b>711,340</b>	<b>50,810</b>	<b>711,340</b>	<b>50,810</b>	<b>711,340</b>	<b>50,810</b>	<b>711,340</b>	<b>50,810</b>
<b>YEAR 20 REPLACEMENT RESERVE BALANCE</b>	<b>-</b>	<b>-</b>	<b>(2,053)</b>	<b>(147)</b>	<b>95,291</b>	<b>6,806</b>	<b>95,291</b>	<b>6,806</b>	<b>66,236</b>	<b>4,731</b>

**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
<b>OPERATING SUBSIDY</b>										
Base Rent Operating Subsidy Needed	n/a	n/a	41,460	2,961	41,460	2,961	41,460	2,961	41,460	2,961
Operating Deficit Subsidy Needed	840,291	60,021	344,819	24,630	52,891	3,778	284,082	20,292	183,507	13,108
Income Mixing Operating Subsidy Needed	n/a	n/a	22,931	1,638	22,931	1,638	22,931	1,638	22,931	1,638
<b>Total Operating Subsidy</b>	<b>840,291</b>	<b>60,021</b>	<b>409,209</b>	<b>29,229</b>	<b>117,282</b>	<b>8,377</b>	<b>348,473</b>	<b>24,891</b>	<b>247,898</b>	<b>17,707</b>
<b>CAPITAL SUBSIDY</b>										
Pre-Transaction Capital Subsidy Needed	644,039	46,003	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	-	-	(66,751)	(4,768)	(20,801)	(1,486)	(26,638)	(1,903)
Transaction Capital Subsidy Needed	n/a	n/a	1,078,292	77,021	1,623,770	115,984	1,403,964	100,283	934,122	66,723
<b>Total Capital Subsidy</b>	<b>644,039</b>	<b>46,003</b>	<b>1,078,292</b>	<b>77,021</b>	<b>1,557,019</b>	<b>111,216</b>	<b>1,383,163</b>	<b>98,797</b>	<b>907,484</b>	<b>64,820</b>
<b>TOTAL SUBSIDY NEEDED</b>	<b>1,484,330</b>	<b>106,024</b>	<b>1,487,501</b>	<b>106,250</b>	<b>1,674,301</b>	<b>119,593</b>	<b>1,731,636</b>	<b>123,688</b>	<b>1,155,382</b>	<b>82,527</b>