CHFA Capital Plan Property Assessment - James Devlin Court

Property Identification

James Devlin Court
WETHERSFIELD, CT

Total Current Unit Count:	50
Census Tract:	4922.00
Connecticut Congressional District:	1

CHFA Property Identification #: 85221D
Current State Sponsored Housing Program: SH Elderly

This is a single, stand-alone property. This property is part of a consolidated budget and reports its financial data together with other Wethersfield Housing Authority properties. The capital needs are separate as is rent structure.

Property Description

Tenancy Type:	Elderly/Disabled
Structure Type:	Garden/Townhouse
Number of buildings:	10
Maximum # of Stories:	1
Elevator?	None

Summary property description:
The James Devlin Court property has 50 one-bedroom units. Generally, the property consists of relatively small units. It features amenities such as common laundry, central air conditioning, a business center/computer room and a common room.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$	2,024,872
Capital Needs per Unit:	$	40,497
Projected Year 1 (2014) Operating Income:	$	40,935

Current operations at the property are projected to generate roughly $40,900 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 2031. As a result, the property is not sustainable and cannot adequately address its future basic capital needs, projected to be approximately $2.02 million ($40,497 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): 25%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:	315	20%
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:	315	20%
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	27	27
25-50% of AMI	22	22
50% of AMI or greater	1	1
Total number of units	50	50

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:	315	315
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: James Devlin Court

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(743,599)	(749,084)
Recoverable Grant Scenario:	(3,051,746)	(3,997,651)
CHFA/FHA Scenario:	(1,875,917)	(3,483,375)
4% LIHTC Scenario:	(1,105,442)	(2,773,005)
9% LIHTC Scenario:	206,804	(1,635,857)

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	James Devlin Court, continued

Recommended Transaction Option:	Current
Recommended Transaction Year	n/a
Replacement Reserve Deposit PUPY:	494
Debt Service Coverage in Transaction Year:	-
Debt Service Coverage in Transaction Year 15:	-
Pre-Transaction Capital Subsidy Needed:	743,599
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 $599,282 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 of the property 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 has a stable operating income and expense foundation and needs little or no additional operating support. Under the Current scenario, the property yields $40,935 in NOI in the current year, which includes $494 per unit per year in replacement reserve deposits, trending to $9,746 fifteen years thereafter. The transaction results in a capital subsidy need of $744,000, 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:	26,676
Current Routine Capital Needs:	528,026

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	**554,702**	376,409	-	-	-	-
2014	**89,135**	23,495	-	-	-	-
2015	**105,353**	40,165	-	-	-	-
2016	**40,304**	-	-	-	-	-
2017	**41,507**	-	-	-	-	-
2018	**50,186**	-	-	-	-	-
2019	**33,396**	-	-	-	-	-
2020	**115,292**	-	-	-	-	-
2021	**36,204**	-	-	-	-	-
2022	**69,687**	-	-	-	-	-

		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	**52,638**	-	-	-	-	-
2024	**45,596**	-	-	-	-	-
2025	**179,995**	52,919	-	-	-	-
2026	**186,190**	130,744	-	-	-	-
2027	**54,103**	65	-	-	-	-
2028	**139,247**	86,720	-	-	-	-
2029	**30,965**	-	-	-	-	-
2030	**55,738**	-	-	-	-	-
2031	**35,906**	-	-	795	-	-
2032	**108,728**	33,083	-	4,690	-	-

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	259,031	5,181	405,731	8,115	405,731	8,115	405,731	8,115	405,731	8,115
Vacancy/Loss	(5,910)	(118)	(5,810)	(116)	(20,287)	(406)	(28,401)	(568)	(28,401)	(568)
Other Income	36,256	725	36,256	725	36,256	725	36,256	725	36,256	725
Effective Gross Income	**289,377**	**5,788**	**436,177**	**8,724**	**421,701**	**8,434**	**413,586**	**8,272**	**413,586**	**8,272**
2023 ANNUAL EXPENSES										
Operating Expenses	230,289	4,606	252,098	5,042	246,474	4,929	246,068	4,921	246,068	4,921
Replacement Reserve Deposits	35,163	703	35,163	703	24,908	498	24,908	498	24,908	498
Total Operating Expenses	**265,452**	**5,309**	**287,261**	**5,745**	**271,382**	**5,428**	**270,976**	**5,420**	**270,976**	**5,420**
2023 NET OPERATING INCOME	**23,925**	**479**	**148,916**	**2,978**	**150,319**	**3,006**	**142,610**	**2,852**	**142,610**	**2,852**
Debt Service	-	-	-	-	90,339	1,807	90,303	1,806	86,076	1,722
2023 CASH FLOW	**23,925**	**479**	**148,916**	**2,978**	**59,980**	**1,200**	**52,307**	**1,046**	**56,534**	**1,131**

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	-	-	-	-	1,572,020	31,440	1,409,727	28,195	1,497,835	29,957
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	1,762,158	35,243	1,762,158	35,243
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	33,359	667	50,859	1,017	50,859	1,017	50,859	1,017
Cash Escrows	-	-	55,370	1,107	55,370	1,107	55,370	1,107	55,370	1,107
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	181,115	3,622	190,464	3,809	189,679	3,794
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	1,284,925	25,698	2,506,081	50,122
Other	-		-		-		-		-	
Total Sources of Funds	**-**	-	**88,729**	1,775	**1,859,364**	37,187	**4,753,503**	95,070	**6,061,981**	121,240
USES										
Acquisition Costs	-	-	-	-	-	-	1,762,158	35,243	1,762,158	35,243
Construction Costs	-	-	2,464,467	49,289	2,464,467	49,289	2,491,778	49,836	2,491,778	49,836
Soft Costs - Design & Construction	-	-	275,154	5,503	271,269	5,425	277,748	5,555	277,748	5,555
Soft Costs - Due Diligence	-	-	12,957	259	22,957	459	27,605	552	27,605	552
Soft Costs - Transaction Costs	-	-	53,859	1,077	133,859	2,677	262,633	5,253	262,633	5,253
Soft Costs - Financing	-	-	76,612	1,532	258,802	5,176	310,470	6,209	308,945	6,179
Soft Costs - Other	-	-	28,750	575	32,500	650	32,500	650	32,500	650
Soft Cost Contingency	-	-	22,367	447	35,969	719	40,927	819	40,262	805
Reserves	-	-	-	-	62,669	1,253	176,964	3,539	177,350	3,547
Developer Fee	-	-	206,309	4,126	452,788	9,056	476,160	9,523	474,197	9,484
Total Uses of Funds	**-**	-	**3,140,475**	62,809	**3,735,282**	74,706	**5,858,944**	117,179	**5,855,178**	117,104
TRANSACTION SURPLUS (GAP)	**-**	-	**(3,051,746)**	(61,035)	**(1,875,917)**	(37,518)	**(1,105,442)**	(22,109)	**206,804**	4,136

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	-	-	1,901,948	38,039	1,901,948	38,039	1,901,948	38,039	1,901,948	38,039
Capital Needs Funded Using Subsidy	743,599	14,872	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	178,294	3,566	178,294	3,566	178,294	3,566	178,294	3,566	178,294	3,566
Replacement Reserves	1,102,979	22,060	683,611	13,672	484,247	9,685	484,247	9,685	484,247	9,685
Total Funds	**2,024,872**	**40,497**	**2,763,853**	**55,277**	**2,564,488**	**51,290**	**2,564,488**	**51,290**	**2,564,488**	**51,290**
USES										
Estimated Capital Needs	2,024,872	40,497	2,024,872	40,497	2,024,872	40,497	2,024,872	40,497	2,024,872	40,497
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**2,024,872**	**40,497**	**2,024,872**	**40,497**	**2,024,872**	**40,497**	**2,024,872**	**40,497**	**2,024,872**	**40,497**
YEAR 20 REPLACEMENT RESERVE BALANCE	**-**	**-**	**738,981**	**14,780**	**539,616**	**10,792**	**539,616**	**10,792**	**539,616**	**10,792**

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	2,054,383	41,088	2,054,383	41,088	2,054,383	41,088	2,054,383	41,088
Operating Deficit Subsidy Needed	5,485	110	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	**5,485**	**110**	**2,054,383**	**41,088**	**2,054,383**	**41,088**	**2,054,383**	**41,088**	**2,054,383**	**41,088**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	743,599	14,872	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(1,108,478)	(22,170)	(446,925)	(8,938)	(386,819)	(7,736)	(418,526)	(8,371)
Transaction Capital Subsidy Needed	n/a	n/a	3,051,746	61,035	1,875,917	37,518	1,105,442	22,109	-	-
Total Capital Subsidy	**743,599**	**14,872**	**1,943,268**	**38,865**	**1,428,992**	**28,580**	**718,622**	**14,372**	**(418,526)**	**(8,371)**
TOTAL SUBSIDY NEEDED	**749,084**	**14,982**	**3,997,651**	**79,953**	**3,483,375**	**69,668**	**2,773,005**	**55,460**	**1,635,857**	**32,717**

Owner Comments

Owner Comments to the Property Assessment:

-Under Property Identification it states this property is a single, stand-alone property and that there are no opportunities for consolidation with other adjacent properties. This property is part of a consolidated budget and reports its financial data together. However, capital needs are separate as is rent structure.

-The property assessment uses a base rent of $285 yet the market assessment uses $296. Rents are currently $303 and $315 bringing the average to $305.64. This affects the income stream by $12,600 per year.

-The proposed income mix is 37 units @ 0-25% AMI and 13 units at 26-50% AMI. Currently, residents average 28% AMI. Waiting lists indicate no one is over 25% AMI. With the large increases each year in the younger disabled the income is trending downward.

RECAP Response: The property description, base rents, and income mix have been revised with updated information provided by the owner.

Owner Comments to the Capital Needs Assessment:

-Did not correctly consider the work being done (now done) on the property. Items to remove from capital needs: Apartment vinyl siding, apartment windows, apartment roofs, administration bldg roof including roof drainage, Admin bldg – ADA renovations to laundry room and bathrooms plus fixtures, walls, floors, accessories, Alarm system upgrades, building mounted alarm lights/horns. This reduces the capital needs by $349,509. The photograph comments are incorrect: admin bldg siding was not to be done; the community kitchen was not to be done.

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.

Owner Comments to the Market Assessment:

-Describes a cluster of duplexes, but does not mention that these are Housing Authority-owned. It also uses only two units in the complex as governmentally assisted. These are former HUD housing units that are now owned by the WHA with no government oversight. However, they are operating like a state moderate rental with two rule exceptions. There are 132 units in this property consisting of both duplexes and single family homes.

-Describes access to the property. I can’t find a Route 297 on any maps. It appears you are describing Route 3 instead.

-States no utilities are provided. We provide cold water and trash.

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 area, as well as to inform revitalization options and any marketability issues at the site.

Other Comments:

-No base rent adjustments were recommended nor was a stratification of the rent structure yet it can’t afford its capital needs over 20 years. It appears that this is the case due to the large number of subsidized units in the town and the smaller size of these units. Is this correct? Note the applicants on the current waiting lists for all elderly properties contain no one over 25% AMI.

RECAP Response: The financial analysis found that this property has a stable operating income and expense foundation and needs little or no additional operating support, and $744,000 in capital needs support. 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.