

### CHFA Capital Plan Property Assessment - East Side Terrace

#### Property Identification

East Side Terrace  
WALLINGFORD, CT

Total Current Unit Count: 30  
Census Tract: 1759.00  
Connecticut Congressional District: 3

CHFA Property Identification #: 85206D  
Current State Sponsored Housing Program: SH Elderly

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: Row House  
Number of buildings: 10  
Maximum # of Stories: 1  
Elevator? None

#### Summary property description:

The East Side Terrace property has 10 efficiency or studio and 20 one-bedroom units. Generally, the property consists of relatively small units. It features amenities such as common laundry, owner-provided air conditioning, and a common room.

#### Current Operating & Capital Needs Status

Aggregate Capital Needs  
(without market enhancements): \$ 1,107,648  
  
Capital Needs per Unit: \$ 36,922  
  
Projected Year 1 (2014) Operating Income: \$ (7,275)

Current operations at the property are projected to generate negative \$7,300 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 \$1.11 million (\$36,921 per unit) over the next 20 years.

**Revenue Adjustments Prior to a Recapitalization Transaction**

East Side Terrace, continued

Current average income relative to  
the Area Median Income (AMI): 24%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:	230	16%
One-bedroom unit:	240	15%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:	230	16%
One-bedroom unit:	240	15%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

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.

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

**Revenue Adjustments Concurrent with a Recapitalization Transaction**

East Side Terrace, continued

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	20	20
25-50% of AMI	9	9
50% of AMI or greater	1	1
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:	230	230
One-bedroom unit:	240	240
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: East Side Terrace

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(684,992)	(1,177,028)
Recoverable Grant Scenario:	(1,977,933)	(2,945,667)
CHFA/FHA Scenario:	(1,692,041)	(2,816,922)
4% LIHTC Scenario:	(1,336,453)	(2,460,107)
9% LIHTC Scenario:	(405,796)	(1,529,122)

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**

East Side Terrace, continued

Recommended Transaction Option:	Current	
Recommended Transaction Year	n/a	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.
Replacement Reserve Deposit PUPY:	445	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 \$684,992 over the course of the next 20 years.
Debt Service Coverage in Transaction Year:	-	
Debt Service Coverage in Transaction Year 15:	-	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.
Pre-Transaction Capital Subsidy Needed:	684,992	
Transaction Capital Subsidy Needed:	-	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 \$7,275 in NOI in the current year, which includes \$445 per unit per year in replacement reserve deposits, trending to negative \$37,276 fifteen years thereafter. The transaction results in a capital subsidy need of \$684,000 and \$492,000 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.

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

East Side Terrace, continued

Immediate Emergency Capital Needs: 0  
 Current Deferred Capital Needs: 47,685  
 Current Routine Capital Needs: 92,508

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	140,193	86,674	-	-	-	-
2014	41,301	27,961	-	7,275	-	-
2015	42,540	28,666	-	8,836	-	-
2016	43,242	28,813	-	10,473	-	-
2017	37,649	22,643	-	12,189	-	-
2018	15,546	-	-	13,988	-	-
2019	16,013	-	-	15,873	-	-
2020	16,493	-	-	17,846	-	-
2021	23,969	5,750	-	19,912	-	-
2022	21,906	3,649	-	22,074	-	-

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	37,858	18,871	-	24,335	-	-
2024	38,994	19,248	-	26,700	-	-
2025	40,164	19,628	-	29,173	-	-
2026	77,540	56,182	-	31,757	-	-
2027	71,009	48,797	-	34,456	-	-
2028	45,664	22,564	-	37,276	-	-
2029	101,898	77,873	-	40,221	-	-
2030	48,445	23,460	-	43,295	-	-
2031	137,756	111,770	-	46,504	-	-
2032	109,468	82,444	-	49,852	-	-

**Scenario Pro Formas**

East Side Terrace, 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	147,847	4,928.24	230,044	7,668.14	230,044	7,668	230,044	7,668	230,044	7,668
Vacancy/Loss	(9,351)	(311.69)	(9,351)	(311.69)	(11,502)	(383)	(16,103)	(537)	(16,103)	(537)
Other Income	6,004	200.14	6,004	200.14	6,004	200	6,004	200	6,004	200
<b>Effective Gross Income</b>	<b>144,501</b>	<b>4,816.69</b>	<b>226,698</b>	<b>7,556.59</b>	<b>224,546</b>	<b>7,485</b>	<b>219,945</b>	<b>7,332</b>	<b>219,945</b>	<b>7,332</b>
<b>2023 ANNUAL EXPENSES</b>										
Operating Expenses	149,849	4,995	161,184	5,373	157,671	5,256	157,441	5,248	157,441	5,248
Replacement Reserve Deposits	18,987	633	18,987	633	14,945	498	14,945	498	14,945	498
<b>Total Operating Expenses</b>	<b>168,836</b>	<b>5,628</b>	<b>180,171</b>	<b>6,006</b>	<b>172,616</b>	<b>5,754</b>	<b>172,386</b>	<b>5,746</b>	<b>172,386</b>	<b>5,746</b>
<b>2023 NET OPERATING INCOME</b>	<b>(24,335)</b>	<b>(811)</b>	<b>46,527</b>	<b>1,551</b>	<b>51,930</b>	<b>1,731</b>	<b>47,559</b>	<b>1,585</b>	<b>47,559</b>	<b>1,585</b>
Debt Service	-	-	-	-	32,471	1,082	27,571	919	27,517	917
<b>2023 CASH FLOW</b>	<b>(24,335)</b>	<b>(811)</b>	<b>46,527</b>	<b>1,551</b>	<b>19,459</b>	<b>649</b>	<b>19,988</b>	<b>666</b>	<b>20,043</b>	<b>668</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	-	-	-	-	565,047	18,835	373,015	12,434	478,828	15,961
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	900,000	30,000	900,000	30,000
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	9,547	318	20,047	668	20,047	668	20,047	668
Cash Escrows	-	-	78,218	2,607	69,352	2,312	69,352	2,312	69,352	2,312
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	120,333	4,011	127,286	4,243	126,812	4,227
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	810,997	27,033	1,637,139	54,571
Other	-	-	-	-	-	-	-	-	-	-
<b>Total Sources of Funds</b>	<b>-</b>	<b>-</b>	<b>87,765</b>	<b>2,925</b>	<b>774,779</b>	<b>25,826</b>	<b>2,300,698</b>	<b>76,690</b>	<b>3,232,179</b>	<b>107,739</b>
<b>USES</b>										
Acquisition Costs	-	-	-	-	-	-	900,000	30,000	900,000	30,000
Construction Costs	-	-	1,621,318	54,044	1,621,318	54,044	1,639,285	54,643	1,639,285	54,643
Soft Costs - Design & Construction	-	-	185,294	6,176	182,738	6,091	187,001	6,233	187,001	6,233
Soft Costs - Due Diligence	-	-	10,946	365	19,946	665	22,547	752	22,547	752
Soft Costs - Transaction Costs	-	-	30,047	1,002	110,047	3,668	230,688	7,690	230,688	7,690
Soft Costs - Financing	-	-	50,442	1,681	161,040	5,368	188,294	6,276	188,232	6,274
Soft Costs - Other	-	-	17,250	575	19,500	650	19,500	650	19,500	650
Soft Cost Contingency	-	-	14,699	490	24,664	822	28,622	954	28,221	941
Reserves	-	-	-	-	26,736	891	102,998	3,433	105,471	3,516
Developer Fee	-	-	135,703	4,523	300,832	10,028	318,216	10,607	317,031	10,568
<b>Total Uses of Funds</b>	<b>-</b>	<b>-</b>	<b>2,065,698</b>	<b>68,857</b>	<b>2,466,820</b>	<b>82,227</b>	<b>3,637,151</b>	<b>121,238</b>	<b>3,637,975</b>	<b>121,266</b>
<b>TRANSACTION SURPLUS (GAP)</b>	<b>-</b>	<b>-</b>	<b>(1,977,933)</b>	<b>(65,931)</b>	<b>(1,692,041)</b>	<b>(56,401)</b>	<b>(1,336,453)</b>	<b>(44,548)</b>	<b>(405,796)</b>	<b>(13,527)</b>

**Scenario Pro Formas (continued)**

East Side Terrace, 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	-	-	1,251,249	41,708	1,251,249	41,708	1,251,249	41,708	1,251,249	41,708
Capital Needs Funded Using Subsidy	684,992	22,833	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	53,519	1,784	53,519	1,784	53,519	1,784	53,519	1,784	53,519	1,784
Replacement Reserves	369,136	12,305	369,136	12,305	290,548	9,685	290,548	9,685	290,548	9,685
<b>Total Funds</b>	<b>1,107,648</b>	<b>36,922</b>	<b>1,673,905</b>	<b>55,797</b>	<b>1,595,316</b>	<b>53,177</b>	<b>1,595,316</b>	<b>53,177</b>	<b>1,595,316</b>	<b>53,177</b>
<b>USES</b>										
Estimated Capital Needs	1,107,648	36,922	1,107,648	36,922	1,107,648	36,922	1,107,648	36,922	1,107,648	36,922
Enhancements	-	-	-	-	-	-	-	-	-	-
<b>Total Uses</b>	<b>1,107,648</b>	<b>36,922</b>	<b>1,107,648</b>	<b>36,922</b>	<b>1,107,648</b>	<b>36,922</b>	<b>1,107,648</b>	<b>36,922</b>	<b>1,107,648</b>	<b>36,922</b>
<b>YEAR 20 REPLACEMENT RESERVE BALANCE</b>	<b>-</b>	<b>-</b>	<b>566,257</b>	<b>18,875</b>	<b>487,668</b>	<b>16,256</b>	<b>487,668</b>	<b>16,256</b>	<b>487,668</b>	<b>16,256</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	1,221,707	40,724	1,221,707	40,724	1,221,707	40,724	1,221,707	40,724
Operating Deficit Subsidy Needed	492,036	16,401	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
<b>Total Operating Subsidy</b>	<b>492,036</b>	<b>16,401</b>	<b>1,221,707</b>	<b>40,724</b>	<b>1,221,707</b>	<b>40,724</b>	<b>1,221,707</b>	<b>40,724</b>	<b>1,221,707</b>	<b>40,724</b>
<b>CAPITAL SUBSIDY</b>										
Pre-Transaction Capital Subsidy Needed	684,992	22,833	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(253,974)	(8,466)	(96,826)	(3,228)	(98,054)	(3,268)	(98,381)	(3,279)
Transaction Capital Subsidy Needed	n/a	n/a	1,977,933	65,931	1,692,041	56,401	1,336,453	44,548	405,796	13,527
<b>Total Capital Subsidy</b>	<b>684,992</b>	<b>22,833</b>	<b>1,723,960</b>	<b>57,465</b>	<b>1,595,215</b>	<b>53,174</b>	<b>1,238,400</b>	<b>41,280</b>	<b>307,415</b>	<b>10,247</b>
<b>TOTAL SUBSIDY NEEDED</b>	<b>1,177,028</b>	<b>39,234</b>	<b>2,945,667</b>	<b>98,189</b>	<b>2,816,922</b>	<b>93,897</b>	<b>2,460,107</b>	<b>82,004</b>	<b>1,529,122</b>	<b>50,971</b>