CHFA Capital Plan Property Assessment - River Mill Village (fka Three Rows)

Property Identification

River Mill Village (fka Three Rows)
THOMPSON, CT

Total Current Unit Count:	53
Census Tract:	9002.00
Connecticut Congressional District:	2

CHFA Property Identification #: 95056D
Current State Sponsored Housing Program: SH Affordable Housing

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:	Row House
Number of buildings:	10
Maximum # of Stories:	2
Elevator?	None

Summary property description:
The River Mill Village (fka Three Rows) property has 3 efficiency or studio, 17 one-bedroom, 17 two-bedroom, 13 three-bedroom and 3 four-bedroom units. Generally, the property consists of relatively spacious units. It features amenities such as in-unit laundry hook-ups, semi-private outdoor space, and a common room.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$	3,002,199
Capital Needs per Unit:	$	56,645
Projected Year 1 (2014) Operating Income:	$	(112,162)

Current operations at the property are projected to generate negative $112,200 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 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 $3 million ($56,645 per unit) over the next 20 years.

Current average income relative to the Area Median Income (AMI): 47%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:	450	31%
One-bedroom unit:	600	39%
Two-bedroom unit:	640	34%
Three-bedroom unit:	723	34%
Four-bedroom unit:	805	34%
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:	478	33%
One-bedroom unit:	595	38%
Two-bedroom unit:	638	34%
Three-bedroom unit:	727	34%
Four-bedroom unit:	805	34%
Five-bedroom unit:		
Six-bedroom unit:		

Number of current households that would be impacted by the proposed increase in Base Rent: 0

Rental operating subsidy necessary in 2014 to generate revenue equal to raising the base rent as proposed: $ 4,365

Additional rental assistance payments subsidy over a 20 year period due to revised base rent: $ 99,704

In order for the property to operate in a sustainable manner into the foreseeable future, the property would benefit from greater revenues. The Capital Plan is modeled with the assumption that the State will be making new rental assistance payment contracts available and this analysis recommends that a RAP contract be established for this property. The RAP allows the residents to pay an affordable rent based on their income and pays the difference up to an agreed revenue level which this Capital Plan recommends be set high enough to generate a sustainable revenue stream.

Low base rent levels maximize affordability for households in the community. However, if the property's revenue stream (including any available operating subsidy) does not cover the cost of actually operating the property, including the cost of ongoing maintenance and capital improvements, necessary repairs and maintenance will get deferred. An extended period of deferred maintenance can put the property itself at risk, which would be a significant blow to the availability of affordable housing in the area.

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, 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.

The figures to the left indicate the additional rental operating subsidy which would be necessary in 2014 to cover this base rent increase as well as the total 20 year impact given that this subsidy need will recur annually, with inflation increases. Since the rental assistance payment protects the residents of the property, none of the actual households would be impacted by the increase in the base rent and the property would continue to serve the current resident demographic.

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	49	49
25-50% of AMI	0	0
50% of AMI or greater	4	4
Total number of units	53	53

	Pre-Trans. Base Rent	Post-Trans. Base Rent
Studio/efficiency unit:	478	750
One-bedroom unit:	595	750
Two-bedroom unit:	638	750
Three-bedroom unit:	727	750
Four-bedroom unit:	805	750
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: $ -

Additional rental operating subsidy necessary to sustain Rental Assistance Payments based on the adjusted base rent: $ 1,483,411

Property used for market reference: River Mill Village

While the revenue generated by the increase in the base rent 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.) However, as noted above, the analysis assumes the property will receive a project-based rental assistance payment contract. A RAP arrangement provides operating support to the property while permitting residents to pay based on what they can afford, so income mixing is neither needed nor appropriate. For extremely low income households, properties with a RAP are their only viable option. In order to ensure long-term stability, a post-transaction base rent increase, which would be covered by the RAP subsidy, is used to generate enough income for the property to operate at a sustainable level.

The rental assistance payment ensures that the property receives the base rent. However, since the base rent increase suggested above is insufficient over the long term, the only alternative is to increase the base rent again in conjunction with the recapitalization transaction. (An income-tier structure in this situation would only serve to reduce housing options to the lowest income households, without increasing revenue to the property.)

An increase in the base rent at a property with a rental assistance payment translates into an increase in the operating subsidy necessary to sustain the property over time.

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(2,989,958)	(6,594,198)
Recoverable Grant Scenario:	(3,620,253)	(7,346,445)
CHFA/FHA Scenario:	(7,852,399)	(11,937,366)
4% LIHTC Scenario:	(6,868,226)	(10,818,157)
9% LIHTC Scenario:	(5,395,790)	(9,152,984)

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:	Recoverable Grant
Recommended Transaction Year	2014
Replacement Reserve Deposit PUPY:	-
Debt Service Coverage in Transaction Year:	-
Debt Service Coverage in Transaction Year 15:	-
Pre-Transaction Capital Subsidy Needed:	-
Transaction Capital Subsidy Needed:	3,620,253

The capital plan recommends using the recoverable grant scenario to finance the capital needs at this property. Given the market conditions around the property, and the limited potential to generate revenue from repositioning the property relative to the market, there is very little potential leverage to be generated by FHA debt or low income housing tax credit equity.

This analysis has suggested a potential transaction year of 2014 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 negative $51,500 in NOI in the transaction completion year, which includes $0 per unit per year in replacement reserve deposits. The property generates negative $51,500 in cash flow in the capital transaction's completion year, trending to negative $169,352 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 $3,620,000, all of which would need to be covered by State capital subsidy. This compares to a needs gap of over $6,594,000 if no transaction takes place at the property and the capital needs are addressed through routine maintenance.

Immediate Emergency Capital Needs:	0
Current Deferred Capital Needs:	0
Current Routine Capital Needs:	54,011

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	**54,011**	-	-	-	-	-
2014	**85,416**	-	3,620,253	96,004	4,365	-
2015	**142,684**	-	-	51,500	73,731	-
2016	**307,030**	-	-	57,247	75,206	-
2017	**298,441**	-	-	63,250	76,710	-
2018	**280,607**	-	-	69,519	78,244	-
2019	**170,464**	-	-	76,063	79,809	-
2020	**176,737**	-	-	82,893	81,405	-
2021	**88,576**	-	-	90,019	83,033	-
2022	**59,436**	-	-	97,451	84,694	-

		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	**109,484**	-	-	105,201	86,388	-
2024	**48,439**	-	-	113,280	88,115	-
2025	**93,225**	-	-	121,700	89,878	-
2026	**66,346**	-	-	130,473	91,675	-
2027	**114,171**	-	-	139,611	93,509	-
2028	**76,413**	-	-	149,128	95,379	-
2029	**56,154**	-	-	159,037	97,286	-
2030	**96,830**	-	-	169,352	99,232	-
2031	**309,633**	-	-	180,088	101,217	-
2032	**368,103**	-	-	191,259	103,241	-

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	511,400	9,649.05	594,582	11,218.52	594,582	11,219	594,582	11,219	594,582	11,219
Vacancy/Loss	(70,553)	(1,331.18)	(80,387)	(1,516.73)	(80,387)	(1,517)	(80,387)	(1,517)	(80,387)	(1,517)
Other Income	4,006	75.59	4,006	75.59	4,006	76	4,006	76	4,006	76
Effective Gross Income	**444,853**	**8,393.46**	**518,201**	**9,777.38**	**518,201**	**9,777**	**518,201**	**9,777**	**518,201**	**9,777**
2023 ANNUAL EXPENSES										
Operating Expenses	629,124	11,870	623,402	11,762	607,969	11,471	607,969	11,471	607,969	11,471
Replacement Reserve Deposits	-	-	-	-	32,060	605	32,060	605	26,402	498
Total Operating Expenses	**629,124**	**11,870**	**623,402**	**11,762**	**640,029**	**12,076**	**640,029**	**12,076**	**634,371**	**11,969**
2023 NET OPERATING INCOME	**(184,270)**	**(3,477)**	**(105,201)**	**(1,985)**	**(121,828)**	**(2,299)**	**(121,828)**	**(2,299)**	**(116,171)**	**(2,192)**
Debt Service	-	-	-	-	-	-	5,000	94	-	-
2023 CASH FLOW	**(184,270)**	**(3,477)**	**(105,201)**	**(1,985)**	**(121,828)**	**(2,299)**	**(126,828)**	**(2,393)**	**(116,171)**	**(2,192)**

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	-	-	-	-	-	-	-	-	-	-
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	-	-	-	-
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	85,696	1,617	108,221	2,042	108,221	2,042	104,246	1,967
Cash Escrows	-	-	12,241	231	12,241	231	12,241	231	12,241	231
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	227,481	4,292	234,783	4,430	233,723	4,410
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	1,436,541	27,105	2,900,583	54,728
Other	-	-	-	-	-	-	-	-	-	-
Total Sources of Funds	**-**	**-**	**97,937**	1,848	**347,944**	6,565	**1,791,786**	33,807	**3,250,793**	61,336
USES										
Acquisition Costs	-	-	-	-	3,565,000	67,264	3,565,000	67,264	3,565,000	67,264
Construction Costs	-	-	2,886,477	54,462	2,886,477	54,462	2,918,464	55,065	2,918,464	55,065
Soft Costs - Design & Construction	-	-	320,130	6,040	315,580	5,954	323,169	6,098	323,169	6,098
Soft Costs - Due Diligence	-	-	13,614	257	28,042	529	30,730	580	30,730	580
Soft Costs - Transaction Costs	-	-	106,196	2,004	186,196	3,513	319,042	6,020	319,042	6,020
Soft Costs - Financing	-	-	89,064	1,680	538,243	10,156	549,286	10,364	545,447	10,291
Soft Costs - Other	-	-	30,475	575	34,450	650	34,450	650	34,450	650
Soft Cost Contingency	-	-	27,974	528	55,126	1,040	57,877	1,092	56,980	1,075
Reserves	-	-	-	-	22,525	425	275,036	5,189	268,994	5,075
Developer Fee	-	-	244,261	4,609	568,703	10,730	586,958	11,075	584,307	11,025
Total Uses of Funds	**-**	**-**	**3,718,190**	70,155	**8,200,342**	154,723	**8,660,012**	163,396	**8,646,582**	163,143
TRANSACTION SURPLUS (GAP)	**-**	**-**	**(3,620,253)**	(68,307)	**(7,852,399)**	(148,158)	**(6,868,226)**	(129,589)	**(5,395,790)**	(101,807)

Scenario Pro Formas (continued)

River Mill Village (fka Three Rows), 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
FUNDS										
Transaction Rehab	-	-	2,227,634	42,031	2,227,634	42,031	2,227,634	42,031	2,227,634	42,031
Capital Needs Funded Using Subsidy	2,989,958	56,414	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balanc	12,241	231	12,241	231	12,241	231	12,241	231	12,241	231
Replacement Reserves	-	-	-	-	623,294	11,760	623,294	11,760	513,301	9,685
Total Funds	**3,002,199**	**56,645**	**2,239,875**	**42,262**	**2,863,169**	**54,022**	**2,863,169**	**54,022**	**2,753,176**	**51,947**
USES										
Estimated Capital Needs	3,002,199	56,645	3,002,199	56,645	3,002,199	56,645	3,002,199	56,645	3,002,199	56,645
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**3,002,199**	**56,645**	**3,002,199**	**56,645**	**3,002,199**	**56,645**	**3,002,199**	**56,645**	**3,002,199**	**56,645**
YEAR 20 REPLACEMENT RESERVE BALANCE	**-**	**-**	**(762,325)**	**(14,383)**	**(139,030)**	**(2,623)**	**(139,030)**	**(2,623)**	**(249,023)**	**(4,699)**

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 Needec	n/a	n/a	1,583,115	29,870	1,583,115	29,870	1,583,115	29,870	1,583,115	29,870
Operating Deficit Subsidy Needec	3,604,240	68,005	2,143,077	40,435	2,501,853	47,205	2,394,292	45,175	2,206,744	41,637
Income Mixing Operating Subsidy Needec	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	**3,604,240**	**68,005**	**3,726,192**	**70,306**	**4,084,967**	**77,075**	**3,977,407**	**75,045**	**3,789,859**	**71,507**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needec	2,989,958	56,414	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	-	-	-	-	(27,475)	(518)	(32,664)	(616)
Transaction Capital Subsidy Needec	n/a	n/a	3,620,253	68,307	7,852,399	148,158	6,868,226	129,589	5,395,790	101,807
Total Capital Subsidy	**2,989,958**	**56,414**	**3,620,253**	**68,307**	**7,852,399**	**148,158**	**6,840,750**	**129,071**	**5,363,125**	**101,191**
TOTAL SUBSIDY NEEDED	**6,594,198**	**124,419**	**7,346,445**	**138,612**	**11,937,366**	**225,233**	**10,818,157**	**204,116**	**9,152,984**	**172,698**