CHFA Capital Plan Property Assessment - Wolcott Place

Property Identification

Wolcott Place
HARTFORD, CT

Total Current Unit Count:	18
Census Tract:	5028.00
Connecticut Congressional District:	1

CHFA Property Identification #: 85078D
Current State Sponsored Housing Program: SH Moderate Rental 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:	Family
Structure Type:	Low rise (1-4 floors)
Number of buildings:	4
Maximum # of Stories:	3
Elevator?	None

Summary property description:
The Wolcott Place property has 6 one-bedroom, 6 two-bedroom, 2 three-bedroom and 4 four-bedroom units. Generally, the property consists of reasonably sized units. It features amenities such as in-unit refrigerators and stoves, as well as outdoor decks.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$ 978,776
Capital Needs per Unit:	$ 54,376
Projected Year 1 (2014) Operating Income:	$ 100,962

Current operations at the property are projected to generate roughly $101,000 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. The property is rare in the portfolio, in that the NOI is sufficient to leverage debt financing and the property is able to adequately address its future basic capital needs, projected to be approximately $0.98 million ($54,376 per unit) over the next 20 years without dramatic changes to the property's operations.

Current average income relative to the Area Median Income (AMI): 14%

In order for the property to operate in a sustainable manner into the foreseeable future, the property needs to benefit from greater revenues. This property currently benefits from project-based vouchers, which allow the residents to pay an affordable rent based on their income. Currently, base rents are set in consultation with HUD.

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:	767	48%
Two-bedroom unit:	1,107	58%
Three-bedroom unit:	1,090	49%
Four-bedroom unit:	1,151	46%
Five-bedroom unit:		
Six-bedroom unit:		

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.

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:	778	49%
Two-bedroom unit:	1,107	58%
Three-bedroom unit:	1,090	49%
Four-bedroom unit:	1,134	46%
Five-bedroom unit:		
Six-bedroom unit:		

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.

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: $ 684

Additional rental assistance payments subsidy over a 20 year period due to revised base rent: $ 15,623

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	18	18
25-50% of AMI	0	0
50% of AMI or greater	0	0
Total number of units	18	18

	Pre-Trans. Base Rent	Post-Trans. Base Rent
Studio/efficiency unit:		
One-bedroom unit:	778	778
Two-bedroom unit:	1,107	1,107
Three-bedroom unit:	1,090	1,090
Four-bedroom unit:	1,134	1,134
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: $ -

Property used for market reference: 95 Vine St

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 property receives a project-based voucher (PBV) assistance payment. A PBV 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 PBV 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):	(117,086)	(117,086)
Recoverable Grant Scenario:	(1,779,751)	(1,147,195)
CHFA/FHA Scenario:	(1,414,829)	(1,012,450)
4% LIHTC Scenario:	(823,241)	(673,888)
9% LIHTC Scenario:	203,660	183,246

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:	4% LIHTC
Recommended Transaction Year	2020
Replacement Reserve Deposit PUPY:	425
Debt Service Coverage in Transaction Year:	1.200
Debt Service Coverage in Transaction Year 15:	1.498
Pre-Transaction Capital Subsidy Needed:	22,247
Transaction Capital Subsidy Needed:	823,241

The capital plan recommends using the 4% low income housing tax credit scenario to finance the capital needs at this property. The debt-only scenario leaves significant capital needs unaddressed, while the use of 9% tax credits at this property would be an inefficient use of the scarce 9% resource given the competing needs within the portfolio and within the State as a whole. The 4% LIHTC scenario, however, covers the capital needs appropriately while minimizing the need for State capital subsidies.
This analysis has suggested a potential transaction year of 2020 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.

This property has been underwritten assuming replacement reserve deposits of $425 per unit per year, assuming debt service coverage is maintained over 1.498 throughout the first 15 years of the new financing, and assuming hard construction capital needs of $0.98 million.

Given the 2020 transaction year, the property will struggle to meet its capital needs purely from its own resources prior to that date. The capital plan recommends that the State establish an interim recoverable grant structure to cover the needs until the transaction year. This interim recoverable grant would be repaid to the State to the extent possible from cash flow, but has not been included as a required repayment in the proposed transaction.

Summary of Recommended Transaction

Under the 4% LIHTC scenario, the property yields $89,593 in NOI in the transaction completion year, which includes $425 per unit per year in replacement reserve deposits. After debt service, the property generates $30,380 in cash flow in the capital transaction's completion year, trending to $29,487 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. The transaction raises $895,000 in debt and $950,000 in equity. The transaction results in a gap of $823,000, plus the pre-transaction need of $22,000, all of which would need to be covered by State capital subsidy. This compares to a needs gap of over $117,000 if no transaction takes place at the property and the capital needs are addressed through routine maintenance or a needs gap of over $1,779,000, plus the pre-transaction need of $22,000, if the capital needs are addressed in a consolidated transaction relying entirely on State capital subsidy.

Immediate Emergency Capital Needs:	0
Current Deferred Capital Needs:	0
Current Routine Capital Needs:	133,660

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	**133,660**	22,247	-	-	-	-
2014	**18,580**	-	-	-	684	-
2015	**19,135**	-	-	-	698	-
2016	**15,229**	-	-	-	712	-
2017	**49,207**	-	-	-	726	-
2018	**50,030**	-	-	-	740	-
2019	**60,489**	-	-	-	755	-
2020	**100,496**	-	823,241	-	770	-
2021	**36,430**	-	-	-	786	-
2022	**51,144**	-	-	-	801	-

		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	**55,900**	-	-	-	817	-
2024	**19,290**	-	-	-	834	-
2025	**32,137**	-	-	-	850	-
2026	**20,468**	-	-	-	867	-
2027	**62,110**	-	-	-	885	-
2028	**24,311**	-	-	-	903	-
2029	**50,281**	-	-	-	921	-
2030	**54,501**	-	-	-	939	-
2031	**70,435**	-	-	-	958	-
2032	**54,943**	-	-	-	977	-

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	268,927	14,940.39	268,927	14,940.39	268,927	14,940	268,927	14,940	268,927	14,940
Vacancy/Loss	(5,120)	(284.46)	(5,120)	(284.46)	(13,446)	(747)	(18,825)	(1,046)	(18,825)	(1,046)
Other Income	-	-	-	-	-	-	-	-	-	-
Effective Gross Income	**263,807**	**14,655.93**	**263,807**	**14,655.93**	**255,481**	**14,193**	**250,102**	**13,895**	**250,102**	**13,895**
2023 ANNUAL EXPENSES										
Operating Expenses	154,937	8,608	153,427	8,524	149,322	8,296	149,054	8,281	149,054	8,281
Replacement Reserve Deposits	-	-	-	-	10,888	605	10,888	605	8,967	498
Total Operating Expenses	**154,937**	**8,608**	**153,427**	**8,524**	**160,211**	**8,901**	**159,942**	**8,886**	**158,020**	**8,779**
2023 NET OPERATING INCOME	**108,870**	**6,048**	**110,380**	**6,132**	**95,270**	**5,293**	**90,160**	**5,009**	**92,082**	**5,116**
Debt Service	-	-	-	-	57,703	3,206	59,214	3,290	55,789	3,099
2023 CASH FLOW	**108,870**	**6,048**	**110,380**	**6,132**	**37,566**	**2,087**	**30,946**	**1,719**	**36,292**	**2,016**

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	-	-	-	-	1,004,117	55,784	895,939	49,774	970,811	53,934
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	771,340	42,852	793,546	44,086
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	28,359	1,576	36,009	2,001	36,009	2,001	34,659	1,926
Cash Escrows	-	-	-	-	16,917	940	16,917	940	12,703	706
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	108,248	6,014	114,591	6,366	114,037	6,335
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	950,108	52,784	1,904,757	105,820
Other	-		-		-		-		-	
Total Sources of Funds	**-**	**-**	**28,359**	1,576	**1,165,292**	64,738	**2,784,905**	154,717	**3,830,513**	212,806
USES										
Acquisition Costs	-	-	-	-	348,584	19,366	1,119,924	62,218	1,142,130	63,452
Construction Costs	-	-	1,401,474	77,860	1,401,474	77,860	1,417,005	78,722	1,417,005	78,722
Soft Costs - Design & Construction	-	-	161,864	8,992	159,655	8,870	163,339	9,074	163,339	9,074
Soft Costs - Due Diligence	-	-	10,082	560	18,900	1,050	20,744	1,152	20,771	1,154
Soft Costs - Transaction Costs	-	-	48,859	2,714	128,859	7,159	247,379	13,743	247,379	13,743
Soft Costs - Financing	-	-	42,993	2,388	178,924	9,940	202,768	11,265	202,549	11,253
Soft Costs - Other	-	-	10,350	575	11,700	650	11,700	650	11,700	650
Soft Cost Contingency	-	-	13,707	762	24,902	1,383	28,652	1,592	28,183	1,566
Reserves	-	-	-	-	36,502	2,028	110,155	6,120	108,705	6,039
Developer Fee	-	-	118,781	6,599	270,621	15,034	286,478	15,915	285,091	15,838
Total Uses of Funds	**-**	**-**	**1,808,110**	100,451	**2,580,121**	143,340	**3,608,145**	200,453	**3,626,852**	201,492
TRANSACTION SURPLUS (GAP)	**-**	**-**	**(1,779,751)**	(98,875)	**(1,414,829)**	(78,602)	**(823,241)**	(45,736)	**203,660**	11,314

Scenario Pro Formas (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	-	-	1,081,585	60,088	1,081,585	60,088	1,081,585	60,088	1,081,585	60,088
Capital Needs Funded Using Subsidy	117,086	6,505	29,210	1,623	22,247	1,236	22,247	1,236	22,247	1,236
Existing Replacement Reserve Balance	16,574	921	16,574	921	16,574	921	16,574	921	16,574	921
Replacement Reserves	2,061,364	114,520	-	-	211,685	11,760	211,685	11,760	174,329	9,685
Total Funds	**2,195,024**	**121,946**	**1,127,369**	**62,632**	**1,332,091**	**74,005**	**1,332,091**	**74,005**	**1,294,735**	**71,930**
USES										
Estimated Capital Needs	978,776	54,376	978,776	54,376	978,776	54,376	978,776	54,376	978,776	54,376
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**978,776**	**54,376**	**978,776**	**54,376**	**978,776**	**54,376**	**978,776**	**54,376**	**978,776**	**54,376**
YEAR 20 REPLACEMENT RESERVE BALANCE	**1,216,248**	**67,569**	**148,593**	**8,255**	**353,315**	**19,629**	**353,315**	**19,629**	**315,959**	**17,553**

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	15,623	868	15,623	868	15,623	868	15,623	868
Operating Deficit Subsidy Needed	0	-	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	**-**	**-**	**15,623**	**868**	**15,623**	**868**	**15,623**	**868**	**15,623**	**868**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	117,086	6,505	29,210	1,623	22,247	1,236	22,247	1,236	22,247	1,236
Recoverable Cash Flow	n/a	n/a	(677,389)	(37,633)	(440,249)	(24,458)	(187,223)	(10,401)	(221,116)	(12,284)
Transaction Capital Subsidy Needed	n/a	n/a	1,779,751	98,875	1,414,829	78,602	823,241	45,736	-	-
Total Capital Subsidy	**117,086**	**6,505**	**1,131,572**	**62,865**	**996,827**	**55,379**	**658,265**	**36,570**	**(198,869)**	**(11,048)**
TOTAL SUBSIDY NEEDED	**117,086**	**6,505**	**1,147,195**	**63,733**	**1,012,450**	**56,247**	**673,888**	**37,438**	**(183,246)**	**(10,180)**