

## CHFA Capital Plan Property Assessment - Orchard Hill Estates I

### Property Identification

Orchard Hill Estates I  
COVENTRY, CT

Total Current Unit Count: 40  
Census Tract: 8502.00  
Connecticut Congressional District: 2

CHFA Property Identification #: 85019D

Current State Sponsored Housing Program: SH Elderly Section 8

Orchard Hill Estates I shares a site with Orchard Hill Estates II and both are under common ownership. However, Recap has elected to analyze these properties separately due to different state-sponsored housing programs (SH Elderly Section 8 and SH Elderly) and revenue streams.

### Property Description

Tenancy Type: Elderly/Disabled  
Structure Type: Row House  
Number of buildings: 5  
Maximum # of Stories: 1  
Elevator? None

Summary property description:

The Orchard Hill Estates I property has 30 efficiency or studio and 10 one-bedroom units. Generally, the property consists of reasonably sized units. It features amenities such as air conditioning, common laundry, and a community room.

### Current Operating & Capital Needs Status

Aggregate Capital Needs  
(without market enhancements): \$ 1,558,381

Capital Needs per Unit: \$ 38,960

Projected Year 1 (2014) Net Operating Income: \$ 64,495

Current operations at the property are projected to generate roughly \$64,500 in net operating income (NOI, or revenue after operating expenses before debt service) 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. However, the property is currently servicing a CHFA first mortgage at a cost of approximately \$66,000 per year through 2019. Therefore, is projected to operate at a deficit through the end of 2019. The property cannot adequately address its future basic capital needs projected to be approximately \$1.56 million (\$38,960 per unit) over the next 20 years without additional assistance.

**Revenue Adjustments Prior to a Recapitalization Transaction**

Orchard Hill Estates I, continued

Current average income relative to  
the Area Median Income (AMI): 12%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:	382	26%
One-bedroom unit:	435	27%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:	382	26%
One-bedroom unit:	435	27%
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**

Orchard Hill Estates I, continued

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	40	40
25-50% of AMI	0	0
50% of AMI or greater	0	0
Total number of units	40	40

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:	382	382
One-bedroom unit:	435	435
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: \$ -

Property used for market reference: Orchard Hill Est.II

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(414,716)	(427,812)
Recoverable Grant Scenario:	(2,202,992)	(2,306,484)
CHFA/FHA Scenario:	(1,979,337)	(1,931,647)
4% LIHTC Scenario:	(1,400,533)	(1,925,124)
9% LIHTC Scenario:	(418,269)	(901,692)

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**

Orchard Hill Estates I, 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:	329	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 \$414,716 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:	414,716	
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 has a stable operating income and expense foundation and needs little or no additional operating support. Under the Current scenario, the property yields \$66,494 in NOI in the current year (though operates at a \$1,516 deficit after debt service), which includes \$329 per unit per year in replacement reserve deposits. NOI does remain positive over time though, trending to \$56,065 fifteen years thereafter. The transaction results in a capital subsidy need of \$414,716 and \$13,096 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**

Orchard Hill Estates I, continued

Immediate Emergency Capital Needs: 0  
 Current Deferred Capital Needs: 27,775  
 Current Routine Capital Needs: 120,690

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	148,465	31,009	-	-	-	-
2014	55,914	42,743	-	1,516	-	-
2015	45,738	32,040	-	1,712	-	-
2016	44,121	29,876	-	1,959	-	-
2017	44,286	29,471	-	2,260	-	-
2018	47,083	31,675	-	2,617	-	-
2019	33,994	17,970	-	3,033	-	-
2020	39,195	-	-	-	-	-
2021	40,371	-	-	-	-	-
2022	45,568	-	-	-	-	-

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	100,637	-	-	-	-	-
2024	51,534	-	-	-	-	-
2025	53,080	-	-	-	-	-
2026	78,228	-	-	-	-	-
2027	251,659	25,954	-	-	-	-
2028	89,442	10,569	-	-	-	-
2029	242,009	163,408	-	-	-	-
2030	65,134	-	-	-	-	-
2031	30,997	-	-	-	-	-
2032	50,926	-	-	-	-	-

**Scenario Pro Formas**

Orchard Hill Estates I, 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	235,893	5,897	273,325	6,833	273,325	6,833	273,325	6,833	273,325	6,833
Vacancy/Loss	-	-	-	-	(13,666)	(342)	(19,133)	(478)	(19,133)	(478)
Other Income	3,009	75	3,009	75	3,009	75	3,009	75	3,009	75
<b>Effective Gross Income</b>	<b>238,902</b>	<b>5,973</b>	<b>276,334</b>	<b>6,908</b>	<b>262,667</b>	<b>6,567</b>	<b>257,201</b>	<b>6,430</b>	<b>257,201</b>	<b>6,430</b>
<b>2023 ANNUAL EXPENSES</b>										
Operating Expenses	159,492	3,987	173,308	4,333	170,257	4,256	169,983	4,250	169,983	4,250
Replacement Reserve Deposits	18,746	469	18,746	469	19,926	498	19,926	498	19,926	498
<b>Total Operating Expenses</b>	<b>178,237</b>	<b>4,456</b>	<b>192,054</b>	<b>4,801</b>	<b>190,183</b>	<b>4,755</b>	<b>189,910</b>	<b>4,748</b>	<b>189,910</b>	<b>4,748</b>
<b>2023 NET OPERATING INCOME</b>	<b>60,664</b>	<b>1,517</b>	<b>84,279</b>	<b>2,107</b>	<b>72,484</b>	<b>1,812</b>	<b>67,291</b>	<b>1,682</b>	<b>67,291</b>	<b>1,682</b>
Debt Service	-	-	-	-	51,903	1,298	53,372	1,334	48,810	1,220
<b>2023 CASH FLOW</b>	<b>60,664</b>	<b>1,517</b>	<b>84,279</b>	<b>2,107</b>	<b>20,581</b>	<b>515</b>	<b>13,919</b>	<b>348</b>	<b>18,481</b>	<b>462</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	-	-	-	-	903,188	22,580	799,404	19,985	849,367	21,234
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	854,989	21,375	854,989	21,375
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	28,812	720	42,812	1,070	42,812	1,070	42,812	1,070
Cash Escrows	-	-	117,456	2,936	117,456	2,936	117,456	2,936	117,456	2,936
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	137,870	3,447	145,132	3,628	144,517	3,613
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	950,003	23,750	1,879,622	46,991
Other	-	-	-	-	-	-	-	-	-	-
<b>Total Sources of Funds</b>	<b>-</b>	<b>-</b>	<b>146,268</b>	<b>3,657</b>	<b>1,201,326</b>	<b>30,033</b>	<b>2,909,796</b>	<b>72,745</b>	<b>3,888,763</b>	<b>97,219</b>
<b>USES</b>										
Acquisition Costs	-	-	-	-	345,011	8,625	1,200,000	30,000	1,200,000	30,000
Construction Costs	-	-	1,828,736	45,718	1,828,736	45,718	1,849,002	46,225	1,849,002	46,225
Soft Costs - Design & Construction	-	-	207,400	5,185	204,517	5,113	209,325	5,233	209,325	5,233
Soft Costs - Due Diligence	-	-	11,694	292	21,608	540	24,659	616	24,659	616
Soft Costs - Transaction Costs	-	-	49,312	1,233	129,312	3,233	251,953	6,299	251,953	6,299
Soft Costs - Financing	-	-	57,349	1,434	211,218	5,280	240,019	6,000	238,562	5,964
Soft Costs - Other	-	-	23,000	575	26,000	650	26,000	650	26,000	650
Soft Cost Contingency	-	-	17,438	436	29,633	741	33,569	839	33,048	826
Reserves	-	-	-	-	39,952	999	112,971	2,824	113,191	2,830
Developer Fee	-	-	154,331	3,858	344,675	8,617	362,830	9,071	361,292	9,032
<b>Total Uses of Funds</b>	<b>-</b>	<b>-</b>	<b>2,349,260</b>	<b>58,731</b>	<b>3,180,662</b>	<b>79,517</b>	<b>4,310,329</b>	<b>107,758</b>	<b>4,307,032</b>	<b>107,676</b>
<b>TRANSACTION SURPLUS (GAP)</b>	<b>-</b>	<b>-</b>	<b>(2,202,992)</b>	<b>(55,075)</b>	<b>(1,979,337)</b>	<b>(49,483)</b>	<b>(1,400,533)</b>	<b>(35,013)</b>	<b>(418,269)</b>	<b>(10,457)</b>

**Scenario Pro Formas (continued)**

Orchard Hill Estates I, 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	-	-	1,411,324	35,283	1,411,324	35,283	1,411,324	35,283	1,411,324	35,283
Capital Needs Funded Using Subsidy	414,716	10,368	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	117,456	2,936	117,456	2,936	117,456	2,936	117,456	2,936	117,456	2,936
Replacement Reserves	1,112,703	27,818	364,447	9,111	387,397	9,685	387,397	9,685	387,397	9,685
<b>Total Funds</b>	<b>1,644,875</b>	<b>41,122</b>	<b>1,893,227</b>	<b>47,331</b>	<b>1,916,177</b>	<b>47,904</b>	<b>1,916,177</b>	<b>47,904</b>	<b>1,916,177</b>	<b>47,904</b>
<b>USES</b>										
Estimated Capital Needs	1,558,381	38,960	1,558,381	38,960	1,558,381	38,960	1,558,381	38,960	1,558,381	38,960
Enhancements	-	-	-	-	-	-	-	-	-	-
<b>Total Uses</b>	<b>1,558,381</b>	<b>38,960</b>	<b>1,558,381</b>	<b>38,960</b>	<b>1,558,381</b>	<b>38,960</b>	<b>1,558,381</b>	<b>38,960</b>	<b>1,558,381</b>	<b>38,960</b>
<b>YEAR 20 REPLACEMENT RESERVE BALANCE</b>	<b>86,494</b>	<b>2,162</b>	<b>334,846</b>	<b>8,371</b>	<b>357,797</b>	<b>8,945</b>	<b>357,797</b>	<b>8,945</b>	<b>357,797</b>	<b>8,945</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	687,615	17,190	687,615	17,190	687,615	17,190	687,615	17,190
Operating Deficit Subsidy Needed	13,096	327	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
<b>Total Operating Subsidy</b>	<b>13,096</b>	<b>327</b>	<b>687,615</b>	<b>17,190</b>	<b>687,615</b>	<b>17,190</b>	<b>687,615</b>	<b>17,190</b>	<b>687,615</b>	<b>17,190</b>
<b>CAPITAL SUBSIDY</b>										
Pre-Transaction Capital Subsidy Needed	414,716	10,368	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(584,123)	(14,603)	(735,305)	(18,383)	(163,024)	(4,076)	(204,191)	(5,105)
Transaction Capital Subsidy Needed	n/a	n/a	2,202,992	55,075	1,979,337	49,483	1,400,533	35,013	418,269	10,457
<b>Total Capital Subsidy</b>	<b>414,716</b>	<b>10,368</b>	<b>1,618,869</b>	<b>40,472</b>	<b>1,244,032</b>	<b>31,101</b>	<b>1,237,509</b>	<b>30,938</b>	<b>214,077</b>	<b>5,352</b>
<b>TOTAL SUBSIDY NEEDED</b>	<b>427,812</b>	<b>10,695</b>	<b>2,306,484</b>	<b>57,662</b>	<b>1,931,647</b>	<b>48,291</b>	<b>1,925,124</b>	<b>48,128</b>	<b>901,692</b>	<b>22,542</b>