CHFA Capital Plan Property Assessment - New Horizons

Property Identification

New Horizons
MIDDLEBURY, CT

Total Current Unit Count:	5
Census Tract:	3441.00
Connecticut Congressional District:	5

CHFA Property Identification #: 96049D
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:	Elderly/Disabled
Structure Type:	Low rise (1-4 floors)
Number of buildings:	1
Maximum # of Stories:	1
Elevator?	None

Summary property description:

The New Horizons property has 4 one-bedroom and 1 two-bedroom units. Generally, the property consists of reasonably sized units. It features amenities such as in-unit laundry hookup, semi-private patios, and individual-unit water heaters.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$	226,747
Capital Needs per Unit:	$	45,349
Projected Year 1 (2014) Operating Income:	$	(2,885)

Current operations at the property are projected to generate negative $2,900 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 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 $0.23 million ($45,349 per unit) over the next 20 years.

Current average income relative to the Area Median Income (AMI): 5%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:	620	40%
Two-bedroom unit:	665	36%
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:	620	40%
Two-bedroom unit:	665	36%
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: 5

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

Total rental operating subsidy necessary assuming a turnover-based leasing strategy: $ -

In order for the property to operate in a sustainable manner into the foreseeable future, the property would benefit from greater revenues. This can happen in one of two ways - either the property could get operating subsidy from the state or federal government, or it could charge higher rents. A higher rent structure burdens low-income households to pay a greaterheir income for housing and it will require that the property serve tenants with modestly higher incomes.

Currently, base rents are set by the owner of each property, often in consultation with CHFA staff. While there varying definitions of affordability, this study considers a rent which exceeds 30% of a household's adjusted gross income to be burdensome on the household's monthly budget. In the table to the left, the base rent is identified for each unit size. The table also identifies the minimum household income level for which the base rent would be considered "affordable." The household income level is presented as a percentage of the local Area Median Income.

There are strong reasons to keep the base rents low, as low base rents provide affordable housing options for the state's lowest income residents and reduce the burden of operating subsidies on the State budget. However, if the property's revenue stream (including any available operating subsidy and any cross-subsidy from higher income residents) does not cover the cost of actually operating the property, including the cost of ongoing maintenance and capital improvements, the property itself is at risk.

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 and in order to implement programmatic consistency regarding base rent levels, 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. This base rent adjustment would represent a significant increase for some households. The analysis identifies the number of households that would be affected by such a change and the amount of operating subsidy needed to protect these households. If the owners elect not to raise the base rents as assumed in this analysis, the property is more likely to experience tight operating budgets towards the end of the Capital Plan subsidy period and will be less able to access leverage funding such as private debt.

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	5	2
25-50% of AMI	0	2
50% of AMI or greater	0	1
Total number of units	5	5

	Pre-Trans. Base Rent	Post-Trans. Base Rent
Studio/efficiency unit:		
One-bedroom unit:	620	620
Two-bedroom unit:	665	665
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: $ 597

Transitional rental operating subsidy necessary to protect current residents and permit a five-year transition to income tier occupancy: $ 1,523

Property used for market reference: Marino Manor

While the revenue generated by the increase in the base rent or the provision of an equivalent operating subsidy 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.) The capital plan has examined additional revenue adjustments based on an income-tier structure, which could supplement the revenue picture. However, the potential for additional revenue adjustments through income mixing is limited because the market will not support such a strategy.

An income-tier structure would require a specified number of units to pay a higher base rent, affordable to households with a higher (albeit still low) income. For example, a tier serving households in the 50%-60% of AMI would pay a base rent equal to 30% of the adjusted gross income of a household earning 55% of AMI. The capital plan has adopted income tiers which correspond to CHFA's commonly used affordability thresholds.

As is the case with the base rent analysis, above, in income tier structure makes the units allocated to a higher-income tier unaffordable to those currently served by this housing. As state funds for operating subsidy are limited, the capital plan analysis has assumed that any available operating subsidy will be focused on protecting current residents until they move away from the property. On turnover, households earning incomes consistent with the income tier structure will be offered units on a preferential basis. However, additional operating subsidy beyond that reflected here would mitigate this loss of housing options for lower income households.

Based on the market conditions reflected in the most closely applicable property market condition assessment, tenants in the 25% to 80% of AMI range are available in the market. This analysis has increased the number of households at the property with incomes between 25% and 80% of AMI from 0 in 2014 to 3 post-transaction, which results in an increase in property revenue. The remaining units would continue to serve residents with incomes below 25% of AMI.

In order to attract the additional households in the 25% to 80% of AMI income tiers, the property condition must meet the market conditions these households would expect. Fortunately, this property would not require significant physical enhancements beyond routine capital improvements in order to attract these potential tenants.

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(226,747)	(372,915)
Recoverable Grant Scenario:	(456,555)	(499,139)
CHFA/FHA Scenario:	(606,477)	(703,830)
4% LIHTC Scenario:	(552,358)	(727,783)
9% LIHTC Scenario:	(317,545)	(427,971)

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 gehe 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 re 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 bee for all properties.

Recommended Transaction and Transaction Assumptions

Recommended Transaction Option:	Recoverable Grant
Recommended Transaction Year	2019
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:	456,555

The capital plan recommends using the recoverable grant scenario to finance the capital needs at this property. Given the small size of the property, the transaction costs associated with any of the other financing structures outweigh the additional funds which could be achieved by leveraging FHA debt or low income housing tax credit equity.

This analysis has suggested a potential transaction year of 2019 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 $67 in NOI in the transaction completion year, which includes $0 per unit per year in replacement reserve deposits. The property generates negative $67 in cash flow in the capital transaction's completion year, trending to negative $9,021 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 $456,000, all of which would need to be covered by State capital subsidy. This compares to a needs gap of over $372,000 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:	1,350

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	**1,350**	-	-	-	-	-
2014	**2,691**	-	-	-	-	-
2015	**2,217**	-	-	-	-	-
2016	**-**	-	-	-	-	(0)
2017	**957**	-	-	-	-	(0)
2018	**1,333**	-	-	101	-	(0)
2019	**5,702**	-	456,555	500	-	(0)
2020	**11,312**	-	-	67	-	597
2021	**3,156**	-	-	490	-	457
2022	**2,141**	-	-	933	-	311

		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	**2,609**	-	-	1,399	-	158
2024	**13,618**	-	-	1,887	-	-
2025	**63,943**	-	-	2,398	-	-
2026	**3,789**	-	-	2,934	-	-
2027	**3,902**	-	-	3,496	-	-
2028	**4,487**	-	-	4,083	-	-
2029	**26,248**	-	-	4,698	-	-
2030	**16,427**	-	-	5,342	-	-
2031	**1,583**	-	-	6,014	-	-
2032	**59,282**	-	-	6,717	-	-

Scenario Pro Formas

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	46,005	9,200.97	46,956	9,391.13	46,956	9,391	46,956	9,391	46,956	9,391
Vacancy/Loss	-	-	-	-	(2,348)	(470)	(3,287)	(657)	(3,287)	(657)
Other Income	-	-	-	-	-	-	-	-	-	-
Effective Gross Income	**46,005**	**9,200.97**	**46,956**	**9,391.13**	**44,608**	**8,922**	**43,669**	**8,734**	**43,669**	**8,734**
2023 ANNUAL EXPENSES										
Operating Expenses	53,321	10,664	48,354	9,671	46,478	9,296	46,431	9,286	46,431	9,286
Replacement Reserve Deposits	-	-	-	-	2,491	498	2,491	498	2,491	498
Total Operating Expenses	**53,321**	**10,664**	**48,354**	**9,671**	**48,968**	**9,794**	**48,921**	**9,784**	**48,921**	**9,784**
2023 NET OPERATING INCOME	**(7,316)**	**(1,463)**	**(1,399)**	**(280)**	**(4,360)**	**(872)**	**(5,253)**	**(1,051)**	**(5,253)**	**(1,051)**
Debt Service	-	-	-	-	-	-	5,000	1,000	-	-
2023 CASH FLOW	**(7,316)**	**(1,463)**	**(1,399)**	**(280)**	**(4,360)**	**(872)**	**(10,253)**	**(2,051)**	**(5,253)**	**(1,051)**

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	-	-	-	-	-	-	133,446	26,689	133,446	26,689
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	-	-	1,750	350	1,750	350	1,750	350
Cash Escrows	-	-	-	-	3,570	714	3,570	714	3,570	714
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	30,786	6,157	35,192	7,038	35,021	7,004
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	208,689	41,738	442,454	88,491
Other	-		-		-		-		-	
Total Sources of Funds	**-**	-	**-**	-	**36,106**	7,221	**382,647**	76,529	**616,240**	123,248
USES										
Acquisition Costs	-	-	-	-	16,554	3,311	150,000	30,000	150,000	30,000
Construction Costs	-	-	331,737	66,347	331,737	66,347	335,413	67,083	335,413	67,083
Soft Costs - Design & Construction	-	-	47,855	9,571	47,332	9,466	48,205	9,641	48,205	9,641
Soft Costs - Due Diligence	-	-	8,148	1,630	15,918	3,184	16,332	3,266	16,332	3,266
Soft Costs - Transaction Costs	-	-	20,500	4,100	100,500	20,100	208,700	41,740	208,700	41,740
Soft Costs - Financing	-	-	10,932	2,186	38,311	7,662	47,385	9,477	46,740	9,348
Soft Costs - Other	-	-	2,875	575	3,250	650	3,250	650	3,250	650
Soft Cost Contingency	-	-	4,516	903	10,266	2,053	13,607	2,721	13,462	2,692
Reserves	-	-	-	-	1,750	350	24,132	4,826	24,132	4,826
Developer Fee	-	-	29,993	5,999	76,966	15,393	87,979	17,596	87,551	17,510
Total Uses of Funds	**-**	-	**456,555**	91,311	**642,584**	128,517	**935,005**	187,001	**933,786**	186,757
TRANSACTION SURPLUS (GAP)	**-**	-	**(456,555)**	(91,311)	**(606,477)**	(121,295)	**(552,358)**	(110,472)	**(317,545)**	(63,509)

Scenario Pro Formas (continued)

New Horizons, 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	-	-	256,017	51,203	256,017	51,203	256,017	51,203	256,017	51,203
Capital Needs Funded Using Subsidy	226,747	45,349	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	-	-	-	-	-	-	-	-	-	-
Replacement Reserves	-	-	-	-	48,425	9,685	48,425	9,685	48,425	9,685
Total Funds	**226,747**	**45,349**	**256,017**	**51,203**	**304,442**	**60,888**	**304,442**	**60,888**	**304,442**	**60,888**
USES										
Estimated Capital Needs	226,747	45,349	226,747	45,349	226,747	45,349	226,747	45,349	226,747	45,349
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**226,747**	**45,349**	**226,747**	**45,349**	**226,747**	**45,349**	**226,747**	**45,349**	**226,747**	**45,349**
YEAR 20 REPLACEMENT RESERVE BALANCE	**-**	**-**	**29,271**	**5,854**	**77,695**	**15,539**	**77,695**	**15,539**	**77,695**	**15,539**

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	-	-	0	-	0	-	0	-
Operating Deficit Subsidy Needed	146,168	29,234	41,061	8,212	95,829	19,166	173,902	34,780	108,902	21,780
Income Mixing Operating Subsidy Needed	n/a	n/a	1,523	305	1,523	305	1,523	305	1,523	305
Total Operating Subsidy	**146,168**	**29,234**	**42,584**	**8,517**	**97,352**	**19,470**	**175,425**	**35,085**	**110,425**	**22,085**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	226,747	45,349	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	-	-	-	-	-	-	-	-
Transaction Capital Subsidy Needed	n/a	n/a	456,555	91,311	606,477	121,295	552,358	110,472	317,545	63,509
Total Capital Subsidy	**226,747**	**45,349**	**456,555**	**91,311**	**606,477**	**121,295**	**552,358**	**110,472**	**317,545**	**63,509**
TOTAL SUBSIDY NEEDED	**372,915**	**74,583**	**499,139**	**99,828**	**703,830**	**140,766**	**727,783**	**145,557**	**427,971**	**85,594**