CHFA Capital Plan Property Assessment - Maple Court II

Property Identification

Maple Court II
KILLINGLY, CT

Total Current Unit Count:	43
Census Tract:	9044.00
Connecticut Congressional District:	2

CHFA Property Identification #: 94048D
Current State Sponsored Housing Program: SH Congregate

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:	Congregate
Structure Type:	Low rise (1-4 floors)
Number of buildings:	1
Maximum # of Stories:	3
Elevator?	Yes

Summary property description:
The Maple Court II property has 43 one-bedroom units. Generally, the property consists of relatively spacious units. It features amenities such as air conditioning, common laundry, a community room, and meal services.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$	3,101,785
Capital Needs per Unit:	$	72,135
Projected Year 1 (2014) Operating Income:	$	(2,825)

Current operations at the property are projected to generate negative $2,800 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 $3.1 million ($72,134 per unit) over the next 20 years.

Owner Comments to Property Assessment: *Please see Page 9 for Owner Comments*

Current average income relative to the Area Median Income (AMI): 29%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:	375	24%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:	466	30%
Two-bedroom unit:		
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: 0

Rental operating subsidy necessary in 2014 to generate revenue equal to raising the base rent as proposed: $ 46,763

Additional rental assistance payments subsidy over a 20 year period due to revised base rent: $ 1,068,082

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	40	43
25-50% of AMI	0	0
50% of AMI or greater	3	0
Total number of units	43	43

	Pre-Trans. Base Rent	Post-Trans. Base Rent
Studio/efficiency unit:		
One-bedroom unit:	466	750
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: $ -

Additional rental operating subsidy necessary to sustain Rental Assistance Payments based on the adjusted base rent: $ 2,587,939

Property used for market reference: Maple Courts

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):	(2,631,096)	(3,209,947)
Recoverable Grant Scenario:	(5,124,827)	(7,461,934)
CHFA/FHA Scenario:	(3,852,421)	(7,019,383)
4% LIHTC Scenario:	(2,539,660)	(5,766,767)
9% LIHTC Scenario:	(451,918)	(3,650,240)

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	2018
Replacement Reserve Deposit PUPY:	350
Debt Service Coverage in Transaction Year:	1.200
Debt Service Coverage in Transaction Year 15:	1.581
Pre-Transaction Capital Subsidy Needed:	-
Transaction Capital Subsidy Needed:	2,539,660

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 2018 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 $350 per unit per year, assuming debt service coverage is maintained over 1.581 throughout the first 15 years of the new financing, and assuming hard construction capital needs of $3.1 million.

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 4% LIHTC scenario, the property yields $162,036 in NOI in the transaction completion year, which includes $350 per unit per year in replacement reserve deposits. After debt service, the property generates $58,987 in cash flow in the capital transaction's completion year, trending to $59,906 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 $1,620,000 in debt and $1,918,000 in equity. The transaction results in a gap of $2,539,000, all of which would need to be covered by State capital subsidy. This compares to a needs gap of over $3,209,000 if no transaction takes place at the property and the capital needs are addressed through routine maintenance or a needs gap of over $5,124,000 if the capital needs are addressed in a consolidated transaction relying entirely on State capital subsidy.

Summary of Capital Needs & State Subsidy Needs

Maple Court II, continued

Immediate Emergency Capital Needs:	0
Current Deferred Capital Needs:	2,450
Current Routine Capital Needs:	99,202

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	**101,652**	-	-	-	-	-
2014	**257,185**	-	-	-	46,763	-
2015	**119,916**	-	-	-	47,698	-
2016	**78,325**	-	-	-	48,652	-
2017	**108,127**	-	-	-	49,625	-
2018	**112,292**	-	2,539,660	-	50,617	-
2019	**34,670**	-	-	-	213,640	-
2020	**104,743**	-	-	-	217,912	-
2021	**33,875**	-	-	-	222,271	-
2022	**121,957**	-	-	-	226,716	-

		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	**300,512**	-	-	-	231,250	-
2024	**163,862**	-	-	-	235,875	-
2025	**60,954**	-	-	-	240,593	-
2026	**211,430**	-	-	-	245,405	-
2027	**94,298**	-	-	-	250,313	-
2028	**102,040**	-	-	-	255,319	-
2029	**393,827**	-	-	-	260,426	-
2030	**306,182**	-	-	-	265,634	-
2031	**282,214**	-	-	-	270,947	-
2032	**113,724**	-	-	-	276,366	-

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	240,593	5,595.18	481,186	11,190.37	481,186	11,190	481,186	11,190	481,186	11,190
Vacancy/Loss	(1,399)	(32.53)	(2,201)	(51.18)	(24,059)	(560)	(33,683)	(783)	(33,683)	(783)
Other Income	9,349	217.43	9,349	217.43	9,349	217	9,349	217	9,349	217
Effective Gross Income	**248,543**	**5,780.08**	**488,335**	**11,356.62**	**466,476**	**10,848**	**456,852**	**10,624**	**456,852**	**10,624**
2023 ANNUAL EXPENSES										
Operating Expenses	257,417	5,986	281,834	6,554	271,623	6,317	271,142	6,306	271,142	6,306
Replacement Reserve Deposits	19,223	447	19,223	447	21,421	498	21,421	498	21,421	498
Total Operating Expenses	**276,640**	**6,433**	**301,057**	**7,001**	**293,044**	**6,815**	**292,563**	**6,804**	**292,563**	**6,804**
2023 NET OPERATING INCOME	**(28,097)**	**(653)**	**187,278**	**4,355**	**173,432**	**4,033**	**164,290**	**3,821**	**164,290**	**3,821**
Debt Service	-	-	-	-	104,094	2,421	103,049	2,396	98,937	2,301
2023 CASH FLOW	**(28,097)**	**(653)**	**187,278**	**4,355**	**69,338**	**1,613**	**61,240**	**1,424**	**65,353**	**1,520**

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	-	-	-	-	1,811,380	42,125	1,620,365	37,683	1,721,638	40,038
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	2,025,457	47,104	2,025,457	47,104
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	14,981	348	30,031	698	30,031	698	30,031	698
Cash Escrows	-	-	62,464	1,453	64,008	1,489	64,008	1,489	64,008	1,489
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	295,197	6,865	306,798	7,135	305,473	7,104
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	1,918,146	44,608	3,898,603	90,665
Other	-		-		-		-		-	
Total Sources of Funds	-	-	**77,444**	1,801	**2,200,615**	51,177	**5,964,804**	138,716	**8,045,209**	187,098
USES										
Acquisition Costs	-	-	-	-	-	-	2,025,457	47,104	2,025,457	47,104
Construction Costs	-	-	4,170,625	96,991	4,167,451	96,917	4,213,633	97,991	4,213,633	97,991
Soft Costs - Design & Construction	-	-	456,990	10,628	450,082	10,467	461,039	10,722	461,039	10,722
Soft Costs - Due Diligence	-	-	14,655	341	24,301	565	28,937	673	28,937	673
Soft Costs - Transaction Costs	-	-	35,481	825	115,481	2,686	260,683	6,062	260,683	6,062
Soft Costs - Financing	-	-	125,189	2,911	411,230	9,563	469,163	10,911	465,816	10,833
Soft Costs - Other	-	-	24,725	575	27,950	650	27,950	650	27,950	650
Soft Cost Contingency	-	-	32,852	764	51,452	1,197	56,521	1,314	55,399	1,288
Reserves	-	-	-	-	67,097	1,560	194,087	4,514	194,531	4,524
Developer Fee	-	-	341,755	7,948	737,992	17,163	766,995	17,837	763,682	17,760
Total Uses of Funds	-	-	**5,202,271**	120,983	**6,053,036**	140,768	**8,504,464**	197,778	**8,497,127**	197,608
TRANSACTION SURPLUS (GAP)	-	-	**(5,124,827)**	(119,182)	**(3,852,421)**	(89,591)	**(2,539,660)**	(59,062)	**(451,918)**	(10,510)

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	-	-	3,218,673	74,853	3,216,223	74,796	3,216,223	74,796	3,216,223	74,796
Capital Needs Funded Using Subsidy	2,631,096	61,188	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	96,959	2,255	96,959	2,255	96,959	2,255	96,959	2,255	96,959	2,255
Replacement Reserves	373,731	8,691	373,731	8,691	416,452	9,685	416,452	9,685	416,452	9,685
Total Funds	**3,101,785**	**72,135**	**3,689,362**	**85,799**	**3,729,634**	**86,736**	**3,729,634**	**86,736**	**3,729,634**	**86,736**
USES										
Estimated Capital Needs	3,101,785	72,135	3,101,785	72,135	3,101,785	72,135	3,101,785	72,135	3,101,785	72,135
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**3,101,785**	**72,135**	**3,101,785**	**72,135**	**3,101,785**	**72,135**	**3,101,785**	**72,135**	**3,101,785**	**72,135**
YEAR 20 REPLACEMENT RESERVE BALANCE	**-**	**-**	**587,577**	**13,665**	**627,848**	**14,601**	**627,848**	**14,601**	**627,848**	**14,601**

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	3,656,020	85,024	3,656,020	85,024	3,656,020	85,024	3,656,020	85,024
Operating Deficit Subsidy Needed	578,851	13,462	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	**578,851**	**13,462**	**3,656,020**	**85,024**	**3,656,020**	**85,024**	**3,656,020**	**85,024**	**3,656,020**	**85,024**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	2,631,096	61,188	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(1,318,913)	(30,672)	(489,058)	(11,373)	(428,913)	(9,975)	(457,698)	(10,644)
Transaction Capital Subsidy Needed	n/a	n/a	5,124,827	119,182	3,852,421	89,591	2,539,660	59,062	451,918	10,510
Total Capital Subsidy	**2,631,096**	**61,188**	**3,805,913**	**88,510**	**3,363,363**	**78,218**	**2,110,746**	**49,087**	**(5,780)**	**(134)**
TOTAL SUBSIDY NEEDED	**3,209,947**	**74,650**	**7,461,934**	**173,533**	**7,019,383**	**163,241**	**5,766,767**	**134,111**	**3,650,240**	**84,889**

Owner Comments

Maple Court II
KILLINGLY, CT
94048D

In reference to the **Capital Needs Assessment & Replacement Reserve Analysis**, the receipt of a $1,500,000 grant from the State of CT, DECD to expand this congregate facility by six new apartments will improve our financial position by increasing our rent structure as well as eliminating the refurbishing of the retaining walls where the construction will take place. In addition:

1. The large hot water heater was replaced in Sept., 2013.
2. The domestic hot water heaters within the apartments are replaced as needed with twenty of forty-three having been replaced to date.
3. Fire detection and security systems were updated in June, 2008 therefore, I believe the recommendation to replace in 2014 in error

RECAP Response: The comment period for issues related to the CNAs occurred when the draft CNAs were distributed to the person designated by the owner to review the CNA several months ago, so we are not able to revise CNAs at this time. However, given that the CNA impacts the property anaysis, Recap has included the owner comments regarding the CNA to the property assessment so their concerns will be noted.

Regarding the **Capital Plan Property Assessment**, I must stress that the report is not written for the majority of Executive Directors of smaller housing authorities to understand and is “over my head”.

I am extremely frustrated by the recommendations regarding the suggestion of drastic rent increases and the establishment of a RAP contract. We already have a RAP contract and the State has not been able to increase the subsidy lately due to a lack of funding. Increasing the rents as suggested would eliminate close to 25% of my waiting list from being eligible to rent as they could not demonstrate the ability to pay and RAP funding would not be available to them.

I have been informed that with the use of tax credits, RAP funding would no longer be made available to our residents and in addition, the recertification process is a nightmare requiring all third party verification. Killingly Housing is a one person operation for 163 apartments which would create a hardship. Danielson, CT is a low income and high unemployment area. It has been classified as a distressed community. Fair Market rent for a one bedroom apartment is $700 in Windham County. The recommendation to increase rents to $466 per month is unreasonable for this area.

RECAP Response: Recap acknowledges property recapitalizations may be complex for and new to many property owners. We have tried to explain some of the concepts in the guidance documents and owner webinars. In additional, the Capital Plan Final Report has made recommendations for technical assistance for owners as necessary. With respect to the concerns regarding RAP, Recap has also put forth recommendations to address RAP funding issues in the Capital Plan Final Report. Generally speaking, Recap encourages property owners to develop their own recapitalization solutions that work for their specific situation, with the Capital Plan Property Assessment to be used as a starting point for discussions internally and with the State.