

## CHFA Capital Plan Property Assessment - Freedom Village, Independence Village

### Property Identification

Freedom Village, Independence Village  
MONTVILLE, CT

CHFA Property Identification #: 85105D, 85104D

Current State Sponsored Housing Program: SH Elderly

Total Current Unit Count: 80  
Census Tract: 8705.01  
Connecticut Congressional District: 2

These properties were originally financed separately and appear in CHFA's records as two separate properties. However, lenders and investors are likely to favor larger transactions given the efficiencies of scale and Recap has elected to analyze these properties as a unitary whole. Recap also recommends that the owner and CHFA merge the properties for purposes of reporting, accounting and ownership.

### Property Description

Tenancy Type: Elderly/Disabled  
Structure Type: Low rise (1-4 floors)  
Number of buildings: 22  
Maximum # of Stories: 1  
Elevator? None

#### Summary property description:

The Freedom Village & Independence Village property has 58 efficiency or studio and 22 one-bedroom units. Generally, the property consists of reasonably sized units. It features amenities such as common laundry, a community room, and semi-private outdoor patios.

### Current Operating & Capital Needs Status

Aggregate Capital Needs  
(without market enhancements): \$ 3,054,754

Capital Needs per Unit: \$ 38,184

Projected Year 1 (2014) Operating Income: \$ 29,725

#### Owner Comments to Property Assessment:

#### Owner Comments:

-Regarding base rent increases beyond \$150 and \$160, I have twelve persons whose rents are under \$200. The lowest of these has an income of \$663/month. If we raised the base rent to \$200, without a RAP subsidy (which is currently closed to new occupants), the person would be homeless. That would be defeating the purpose of the public housing program.

-As to the Capital Assessment Plan, I am not in agreement with all of the assessment items cited. Also, at some point, I would consider requesting the Municipality to reduce the PILOT percentage by 50% to an annual 5% instead of the current 10%. Given the current economy, that is not feasible at this time.

-Market Assessment Inconsistencies: Independence Village is located on ten (10) acres of land. It is in the village of Uncasville in the Town of Montville. The Executive Director is full time and devotes all but the 10 or less hours a week which she spends in the office at Freedom Village. The laundry facility has 2 washers and 2 dryers in a room at the Community center. There are 44 parking spaces, seven of which are earmarked for visitors and/or aides, but can be used by a tenant. Shopping amenities within 2 miles of the complex includes a supermarket and a pharmacy. There is bus service to the complex by a senior citizens bus five weekdays, excluding holidays. I did not receive a Market Assessment for Freedom Village. It is also served by the Senior bus and Medical vans. It is located in the village of Oakdale in the Town of Montville and is within one mile of a grocery store. There are many more apartment complexes in Montville than are listed and the rental cost for most is more than that cited.

-Frankly, if the Authority was to receive a grant to modernize and bring up to current codes, the fire alarm system at both sites, I believe the Authority would have sufficient resources of its own to sustain the properties over the 20-year look-ahead. That opinion, of course, is tied to the present Social Security system. This writer has seen a considerable difference between occupancy incomes in 1979 and the present, mainly due to higher working incomes prior to retirement and to the fact that a majority of women have retirement incomes now which was not the case in 1979.

**Revenue Adjustments Prior to a Recapitalization Transaction**

Freedom Village, Independence Village, continued

Current average income relative to  
the Area Median Income (AMI): 26%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:	150	10%
One-bedroom unit:	160	10%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:	150	10%
One-bedroom unit:	160	10%
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**

Freedom Village, Independence Village, continued

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	47	47
25-50% of AMI	30	30
50% of AMI or greater	3	3
Total number of units	80	80

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:	150	150
One-bedroom unit:	160	160
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: n/a

Property used for market reference: Independence Village

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(623,831)	(982,140)
Recoverable Grant Scenario:	(4,877,547)	(7,058,654)
CHFA/FHA Scenario:	(3,477,223)	(6,120,888)
4% LIHTC Scenario:	(2,125,861)	(4,830,706)
9% LIHTC Scenario:	58,362	(2,678,793)

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**

Freedom Village, Independence Village, 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:	858	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 \$623,831 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 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:	623,831	
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 does not have a stable operating revenue and expense picture and is at-risk of experiencing long term structural operating deficits unless it is able to access significant operating subsidy. Under the Current scenario, the property yields \$29,725 in NOI in the current year, which includes \$858 per unit per year in replacement reserve deposits, trending to negative \$37,559 fifteen years thereafter. The transaction results in a capital subsidy need of \$623,831 and \$358,310 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**

Freedom Village, Independence Village, continued

Immediate Emergency Capital Needs: 0  
 Current Deferred Capital Needs: 1,500  
 Current Routine Capital Needs: 410,628

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	412,128	15,124	-	-	-	-
2014	415,424	317,042	-	-	-	-
2015	48,807	-	-	-	-	-
2016	14,371	-	-	-	-	-
2017	18,441	-	-	-	-	-
2018	11,593	-	-	-	-	-
2019	175,183	-	-	-	-	-
2020	14,701	-	-	-	-	-
2021	41,807	-	-	-	-	-
2022	97,276	-	-	2,569	-	-

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	70,924	-	-	7,680	-	-
2024	241,230	-	-	13,063	-	-
2025	17,934	-	-	18,731	-	-
2026	31,818	-	-	24,695	-	-
2027	367,034	-	-	30,966	-	-
2028	176,305	-	-	37,559	-	-
2029	447,816	241,113	-	44,485	-	-
2030	49,592	-	-	51,759	-	-
2031	46,592	-	-	59,395	-	-
2032	355,778	50,551	-	67,407	-	-

**Scenario Pro Formas**

Freedom Village, Independence Village, 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	391,036	4,888	581,957	7,274	581,957	7,274	581,957	7,274	581,957	7,274
Vacancy/Loss	(2,941)	(37)	(2,941)	(37)	(29,098)	(364)	(40,737)	(509)	(40,737)	(509)
Other Income	29,508	369	29,508	369	29,508	369	29,508	369	29,508	369
<b>Effective Gross Income</b>	<b>417,604</b>	<b>5,220</b>	<b>608,524</b>	<b>7,607</b>	<b>582,367</b>	<b>7,280</b>	<b>570,728</b>	<b>7,134</b>	<b>570,728</b>	<b>7,134</b>
<b>2023 ANNUAL EXPENSES</b>										
Operating Expenses	327,564	4,095	357,991	4,475	350,874	4,386	350,292	4,379	350,292	4,379
Replacement Reserve Deposits	97,719	1,221	97,719	1,221	39,853	498	39,853	498	39,853	498
<b>Total Operating Expenses</b>	<b>425,283</b>	<b>5,316</b>	<b>455,710</b>	<b>5,696</b>	<b>390,727</b>	<b>4,884</b>	<b>390,145</b>	<b>4,877</b>	<b>390,145</b>	<b>4,877</b>
<b>2023 NET OPERATING INCOME</b>	<b>(7,680)</b>	<b>(96)</b>	<b>152,815</b>	<b>1,910</b>	<b>191,640</b>	<b>2,396</b>	<b>180,583</b>	<b>2,257</b>	<b>180,583</b>	<b>2,257</b>
Debt Service	-	-	-	-	116,901	1,461	114,547	1,432	110,539	1,382
<b>2023 CASH FLOW</b>	<b>(7,680)</b>	<b>(96)</b>	<b>152,815</b>	<b>1,910</b>	<b>74,739</b>	<b>934</b>	<b>66,036</b>	<b>825</b>	<b>70,044</b>	<b>876</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	-	-	-	-	2,034,238	25,428	1,810,382	22,630	1,923,531	24,044
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	2,400,000	30,000	2,400,000	30,000
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	52,522	657	80,522	1,007	80,522	1,007	80,522	1,007
Cash Escrows	-	-	531,503	6,644	448,565	5,607	448,565	5,607	448,565	5,607
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	308,858	3,861	321,433	4,018	320,060	4,001
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	2,057,415	25,718	4,122,435	51,530
Other	-	-	-	-	-	-	-	-	-	-
<b>Total Sources of Funds</b>	<b>-</b>	<b>-</b>	<b>584,025</b>	<b>7,300</b>	<b>2,872,182</b>	<b>35,902</b>	<b>7,118,317</b>	<b>88,979</b>	<b>9,295,113</b>	<b>116,189</b>
<b>USES</b>										
Acquisition Costs	-	-	-	-	-	-	2,400,000	30,000	2,400,000	30,000
Construction Costs	-	-	4,323,655	54,046	4,321,712	54,021	4,369,604	54,620	4,369,604	54,620
Soft Costs - Design & Construction	-	-	473,299	5,916	466,280	5,828	477,641	5,971	477,641	5,971
Soft Costs - Due Diligence	-	-	16,688	209	28,186	352	35,124	439	35,124	439
Soft Costs - Transaction Costs	-	-	73,022	913	153,022	1,913	299,713	3,746	299,713	3,746
Soft Costs - Financing	-	-	133,017	1,663	413,939	5,174	484,179	6,052	480,848	6,011
Soft Costs - Other	-	-	46,000	575	52,000	650	52,000	650	52,000	650
Soft Cost Contingency	-	-	37,101	464	55,671	696	61,177	765	60,016	750
Reserves	-	-	-	-	86,451	1,081	261,159	3,264	261,655	3,271
Developer Fee	-	-	358,789	4,485	772,145	9,652	803,581	10,045	800,151	10,002
<b>Total Uses of Funds</b>	<b>-</b>	<b>-</b>	<b>5,461,572</b>	<b>68,270</b>	<b>6,349,405</b>	<b>79,368</b>	<b>9,244,178</b>	<b>115,552</b>	<b>9,236,751</b>	<b>115,459</b>
<b>TRANSACTION SURPLUS (GAP)</b>	<b>-</b>	<b>-</b>	<b>(4,877,547)</b>	<b>(60,969)</b>	<b>(3,477,223)</b>	<b>(43,465)</b>	<b>(2,125,861)</b>	<b>(26,573)</b>	<b>58,362</b>	<b>730</b>

**Scenario Pro Formas (continued)**

Freedom Village, Independence Village, 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	-	-	3,336,773	41,710	3,335,273	41,691	3,335,273	41,691	3,335,273	41,691
Capital Needs Funded Using Subsidy	623,831	7,798	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	397,004	4,963	397,004	4,963	397,004	4,963	397,004	4,963	397,004	4,963
Replacement Reserves	2,033,920	25,424	1,899,797	23,747	774,794	9,685	774,794	9,685	774,794	9,685
<b>Total Funds</b>	<b>3,054,754</b>	<b>38,184</b>	<b>5,633,574</b>	<b>70,420</b>	<b>4,507,072</b>	<b>56,338</b>	<b>4,507,072</b>	<b>56,338</b>	<b>4,507,072</b>	<b>56,338</b>
<b>USES</b>										
Estimated Capital Needs	3,054,754	38,184	3,054,754	38,184	3,054,754	38,184	3,054,754	38,184	3,054,754	38,184
Enhancements	-	-	-	-	-	-	-	-	-	-
<b>Total Uses</b>	<b>3,054,754</b>	<b>38,184</b>	<b>3,054,754</b>	<b>38,184</b>	<b>3,054,754</b>	<b>38,184</b>	<b>3,054,754</b>	<b>38,184</b>	<b>3,054,754</b>	<b>38,184</b>
<b>YEAR 20 REPLACEMENT RESERVE BALANCE</b>	<b>-</b>	<b>-</b>	<b>2,578,820</b>	<b>32,235</b>	<b>1,452,317</b>	<b>18,154</b>	<b>1,452,317</b>	<b>18,154</b>	<b>1,452,317</b>	<b>18,154</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	3,116,640	38,958	3,116,640	38,958	3,116,640	38,958	3,116,640	38,958
Operating Deficit Subsidy Needed	358,310	4,479	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
<b>Total Operating Subsidy</b>	<b>358,310</b>	<b>4,479</b>	<b>3,116,640</b>	<b>38,958</b>	<b>3,116,640</b>	<b>38,958</b>	<b>3,116,640</b>	<b>38,958</b>	<b>3,116,640</b>	<b>38,958</b>
<b>CAPITAL SUBSIDY</b>										
Pre-Transaction Capital Subsidy Needed	623,831	7,798	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(935,532)	(11,694)	(472,974)	(5,912)	(411,795)	(5,147)	(437,847)	(5,473)
Transaction Capital Subsidy Needed	n/a	n/a	4,877,547	60,969	3,477,223	43,465	2,125,861	26,573	-	-
<b>Total Capital Subsidy</b>	<b>623,831</b>	<b>7,798</b>	<b>3,942,015</b>	<b>49,275</b>	<b>3,004,248</b>	<b>37,553</b>	<b>1,714,066</b>	<b>21,426</b>	<b>(437,847)</b>	<b>(5,473)</b>
<b>TOTAL SUBSIDY NEEDED</b>	<b>982,140</b>	<b>12,277</b>	<b>7,058,654</b>	<b>88,233</b>	<b>6,120,888</b>	<b>76,511</b>	<b>4,830,706</b>	<b>60,384</b>	<b>2,678,793</b>	<b>33,485</b>