CHFA Capital Plan Property Assessment - Zbikowski Park Section 8

Property Identification

Zbikowski Park Section 8
BRISTOL, CT

Total Current Unit Count:	32
Census Tract:	4055.00
Connecticut Congressional District:	1

<u>CHFA Property Identification #:</u> 85009D
<u>Current State Sponsored Housing Program:</u> 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:	Duplex
Number of buildings:	16
Maximum # of Stories:	2
Elevator?	None

<u>Summary property description:</u>
The Zbikowski Park Section 8 property has 12 one-bedroom, 14 two-bedroom and 6 three-bedroom units. Generally, the property consists of reasonably sized units. It features amenities such as in-unit laundry hook-ups and semi-private outdoor space.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$	460,101
Capital Needs per Unit:	$	14,378
Projected Year 1 (2014) Operating Income:	$	2,561

Current operations at the property are projected to generate roughly $2,600 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 results in negative NOI beginning in 2015. As a result, the property is not sustainable and cannot adequately address its future basic capital needs, projected to be approximately $0.46 million ($14,378 per unit) over the next 20 years.

Current average income relative to the Area Median Income (AMI): 17%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:	563	35%
Two-bedroom unit:	611	32%
Three-bedroom unit:	675	30%
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:	563	35%
Two-bedroom unit:	608	32%
Three-bedroom unit:	675	30%
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: $ 535

Additional rental assistance payments subsidy over a 20 year period due to revised base rent: $ 12,216

In order for the property to operate in a sustainable manner into the foreseeable future, the property would benefit from greater revenues. This property currently has a project-based voucher contract with the State, which allow the residents to pay an affordable rent based on their income, but generally only yields the base rent amount as revenue. Currently, base rents are set by the property owners in consultation with the State.

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	32	32
25-50% of AMI	0	0
50% of AMI or greater	0	0
Total number of units	32	32

	Pre-Trans. Base Rent	Post-Trans. Base Rent
Studio/efficiency unit:		
One-bedroom unit:	563	563
Two-bedroom unit:	608	608
Three-bedroom unit:	675	675
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: $ -

Property used for market reference: Zbikowski Park Section 8

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 countract for all units at the site. 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 PBV 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):	-	(729,996)
Recoverable Grant Scenario:	305,123	(1,015,340)
CHFA/FHA Scenario:	447,477	-
4% LIHTC Scenario:	471,854	-
9% LIHTC Scenario:	1,058,597	-

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:	CHFA/FHA
Recommended Transaction Year	2020
Replacement Reserve Deposit PUPY:	425
Debt Service Coverage in Transaction Year:	1.900
Debt Service Coverage in Transaction Year 15:	1.106
Pre-Transaction Capital Subsidy Needed:	-
Transaction Capital Subsidy Needed:	-

The capital plan recommends using the debt-only scenario to finance the capital needs at this property. The property has positive NOI which can leverage debt sufficient to cover the long-term capital needs without the complexity of a tax credit transaction.

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 1.106 throughout the first 15 years of the new financing, and assuming hard construction capital needs of $0.46 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 CHFA/FHA scenario, the property yields $58,908 in NOI in the transaction completion year, which includes $425 per unit per year in replacement reserve deposits. After debt service, the property generates $27,904 in cash flow in the capital transaction's completion year, trending to $3,297 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 $539,000 in debt. The transaction results in a gap of $000, all of which would need to be covered by State capital subsidy. This compares to a needs gap of over $729,000 if no transaction takes place at the property and the capital needs are addressed through routine maintenance or a needs gap of over $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:	16,855

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	**16,855**	-	-	-	-	-
2014	**13,755**	-	-	-	535	-
2015	**14,168**	-	-	-	546	-
2016	**14,593**	-	-	-	556	-
2017	**18,092**	-	-	-	568	-
2018	**11,426**	-	-	-	579	-
2019	**11,768**	-	-	-	591	-
2020	**12,121**	-	-	-	602	-
2021	**25,079**	-	-	-	614	-
2022	**12,860**	-	-	-	627	-

		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	**29,805**	-	-	-	639	-
2024	**21,979**	-	-	-	652	-
2025	**22,616**	-	-	-	665	-
2026	**23,294**	-	-	-	678	-
2027	**23,993**	-	-	-	692	-
2028	**27,480**	-	-	-	706	-
2029	**28,304**	-	-	-	720	-
2030	**29,153**	-	-	-	734	-
2031	**54,619**	-	-	-	749	-
2032	**48,140**	-	-	-	764	-

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	288,145	9,004.52	288,145	9,004.52	288,145	9,005	288,145	9,005	288,145	9,005
Vacancy/Loss	(225)	(7.03)	(225)	(7.03)	(14,407)	(450)	(20,170)	(630)	(20,170)	(630)
Other Income	578	18.07	578	18.07	578	18	578	18	578	18
Effective Gross Income	**288,498**	**9,015.56**	**288,498**	**9,015.56**	**274,316**	**8,572**	**268,553**	**8,392**	**268,553**	**8,392**
2023 ANNUAL EXPENSES										
Operating Expenses	187,883.92	5,871	202,309	6,322	197,968	6,186	197,680	6,177	197,680	6,177
Replacement Reserve Deposits	134,992	4,218	134,992	4,218	19,357	605	19,357	605	15,941	498
Total Operating Expenses	**322,875**	**10,090**	**337,300**	**10,541**	**217,325**	**6,791**	**217,037**	**6,782**	**213,621**	**6,676**
2023 NET OPERATING INCOME	**(34,378)**	**(1,074)**	**(48,803)**	**(1,525)**	**56,991**	**1,781**	**51,516**	**1,610**	**54,932**	**1,717**
Debt Service	-	-	-	-	31,004	969	24,508	766	29,897	934
2023 CASH FLOW	**(34,378)**	**(1,074)**	**(48,803)**	**(1,525)**	**25,986**	**812**	**27,008**	**844**	**25,035**	**782**

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	-	-	-	-	539,520	16,860	322,387	10,075	520,251	16,258
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	960,000	30,000	960,000	30,000
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	19,883	621	33,483	1,046	33,483	1,046	31,083	971
Cash Escrows	-	-	1,230,904	38,466	977,295	30,540	977,295	30,540	969,803	30,306
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	55,697	1,741	61,605	1,925	61,839	1,932
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	502,045	15,689	910,437	28,451
Other	-		-		-		-		-	
Total Sources of Funds	**-**	**-**	**1,250,787**	39,087	**1,605,996**	50,187	**2,856,815**	89,275	**3,453,414**	107,919
USES										
Acquisition Costs	-	-	-	-	-	-	960,000	30,000	960,000	30,000
Construction Costs	-	-	695,341	21,729	695,341	21,729	703,047	21,970	703,047	21,970
Soft Costs - Design & Construction	-	-	86,607	2,706	85,511	2,672	87,339	2,729	87,339	2,729
Soft Costs - Due Diligence	-	-	9,934	310	19,034	595	21,796	681	21,796	681
Soft Costs - Transaction Costs	-	-	40,383	1,262	120,383	3,762	232,091	7,253	232,091	7,253
Soft Costs - Financing	-	-	23,913	747	35,063	1,096	62,182	1,943	70,039	2,189
Soft Costs - Other	-	-	18,400	575	20,800	650	20,800	650	20,800	650
Soft Cost Contingency	-	-	8,962	280	14,040	439	18,100	566	18,298	572
Reserves	-	-	-	-	29,102	909	125,593	3,925	126,809	3,963
Developer Fee	-	-	62,124	1,941	139,243	4,351	154,013	4,813	154,598	4,831
Total Uses of Funds	**-**	**-**	**945,665**	29,552	**1,158,518**	36,204	**2,384,961**	74,530	**2,394,817**	74,838
TRANSACTION SURPLUS (GAP)	**-**	**-**	**305,123**	9,535	**447,477**	13,984	**471,854**	14,745	**1,058,597**	33,081

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	-	-	536,629	16,770	536,629	16,770	536,629	16,770	536,629	16,770
Capital Needs Funded Using Subsidy	-	-	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	934,841	29,214	934,841	29,214	934,841	29,214	934,841	29,214	934,841	29,214
Replacement Reserves	2,626,990	82,093	2,624,429	82,013	376,329	11,760	376,329	11,760	309,918	9,685
Total Funds	**3,561,831**	**111,307**	**4,095,899**	**127,997**	**1,847,798**	**57,744**	**1,847,798**	**57,744**	**1,781,387**	**55,668**
USES										
Estimated Capital Needs	460,101	14,378	460,101	14,378	460,101	14,378	460,101	14,378	460,101	14,378
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**460,101**	**14,378**	**460,101**	**14,378**	**460,101**	**14,378**	**460,101**	**14,378**	**460,101**	**14,378**
YEAR 20 REPLACEMENT RESERVE BALANCE	**3,101,730**	**96,929**	**3,635,798**	**113,619**	**1,387,697**	**43,366**	**1,387,697**	**43,366**	**1,321,286**	**41,290**

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	12,216	382	12,216	382	12,216	382	12,216	382
Operating Deficit Subsidy Needed	729,996	22,812	1,003,123	31,348	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	**729,996**	**22,812**	**1,015,340**	**31,729**	**12,216**	**382**	**12,216**	**382**	**12,216**	**382**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	0	-	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	-	-	(12,216)	(382)	(12,216)	(382)	(12,216)	(382)
Transaction Capital Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Capital Subsidy	**-**	**-**	**-**	**-**	**(12,216)**	**(382)**	**(12,216)**	**(382)**	**(12,216)**	**(382)**
TOTAL SUBSIDY NEEDED	**729,996**	**22,812**	**1,015,340**	**31,729**	**-**	**-**	**-**	**-**	**-**	**-**