CHFA Capital Plan Property Assessment - Bantam Falls, Wells Run

Property Identification

Bantam Falls, Wells Run
LITCHFIELD, CT

Total Current Unit Count:	66
Census Tract:	3001.00
Connecticut Congressional District:	5

CHFA Property Identification #: 94052D, 85089D
Current State Sponsored Housing Program: SH Elderly

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:	9
Maximum # of Stories:	2
Elevator?	Yes

Summary property description:
The Bantam Falls, Wells Run property has 22 efficiency or studio and 44 one-bedroom units. Generally, the property consists of relatively small units. It features amenities such as common laundry, a community room, and meal service.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$ 1,960,853
Capital Needs per Unit:	$ 29,710
Projected Year 1 (2014) Operating Income:	$ (41,238)

Current operations at the property are projected to generate negative $41,200 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 $1.96 million ($29,709 per unit) over the next 20 years.

Owner Comments to Property Assessment:

Owner Comments:
-The Litchfield Housing Authority is made up of 66 units on two different properties (Wells Run and Bantam Falls). We have three types of units that are not specified in the report. There are 22 efficiency units at Wells Run with a current base rent of $85, there are 8 one bedroom units at Wells Run with a current base rent of $115, and there are 36 one bedroom units at Bantam Falls with a current base rent of $390.
-The Litchfield Housing Authority has recently submitted a rent increase to CHFA that would raise base rent. The proposed increase would raise a efficentcy unit at Wells Run from $85 to $100, raise a one bedroom at Wells Run from $115 to $130, and raise a one bedroom and Bantam Falls from $390 to $420. These rent increases should show in the Capital Plan.

RECAP Response: The total unit count in the property analysis ties to the Owner Comments. Recap notes the bedroom count inconsistency, but has used original source data provided by CHFA for the purposes of this analysis. The owner did not provide updated rent roll and operating data, so Recap was not able to update the property assessment.

Current average income relative to the Area Median Income (AMI): 23%

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.

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:	85	6%
One-bedroom unit:	390	24%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

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.

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:	460	30%
One-bedroom unit:	493	30%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

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.

Number of current households that would be impacted by the proposed increase in Base Rent: 48

Protecting the 48 Elderly/Disabled Households at risk in the event of a base rent increase is clearly a major concern. In 2014, the base rent increase creates the need for operating subsidy of $103,680 to protect these households while generating the revenue equivalent to the proposed increase in the base rent.

Rental operating subsidy necessary in 2014 to generate revenue equal to raising the base rent as proposed: $ 103,680

Total rental operating subsidy necessary assuming a turnover-based leasing strategy: $ 605,862

This 2014 rental operating subsidy would recur annually, with inflation increases, for the next 20 years if the State determines that, as a policy matter, the property should continue serving households with an income profile equivalent to the current residents at the property. An alternative formulation assumes that, upon turnover, new residents would move in for whom the proposed base rent is affordable and tenant protection operating subsidies would no longer be necessary. This turnover strategy requires less operating subsidy from the State, but also reduces the number of units of housing available to the lowest income residents of the community. The total tenant protection operating subsidy associated with the increase in the base rent assuming that, on turnover, the units are leased to households able to pay the new base rent without assistance is $605,862.

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	48	22
25-50% of AMI	17	44
50% of AMI or greater	1	0
Total number of units	66	66

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.) Consequently, the capital plan has identified additional revenue adjustments based on an income-tier structure which would be necessary to reach a sustainable operating picture.

	Pre-Trans. Base Rent	Post-Trans. Base Rent
Studio/efficiency unit:	460	460
One-bedroom unit:	493	493
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

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.

Rental operating subsidy in the transaction year which would be necessary to generate additional revenue equal to that generated by income mixing: $ 21,037

Transitional rental operating subsidy necessary to protect current residents and permit a five-year transition to income tier occupancy: $ 53,654

Property used for market reference: Wells Run

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 18 in 2014 to 44 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. However, exterior upgrades could enhance market appeal. In order to attract higher AMI tenants and thus increase the gross potential revenue at the property, the capital transaction will need to include funds to address these concerns. Specifically, exterior upgrades can be added.

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(1,503,322)	(3,253,399)
Recoverable Grant Scenario:	(3,443,804)	(3,471,125)
CHFA/FHA Scenario:	(3,203,623)	(3,597,172)
4% LIHTC Scenario:	(2,519,050)	(2,909,380)
9% LIHTC Scenario:	(1,068,403)	(1,457,783)

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:	Recoverable Grant
Recommended Transaction Year	2017
Replacement Reserve Deposit PUPY:	239
Debt Service Coverage in Transaction Year:	-
Debt Service Coverage in Transaction Year 15:	-
Pre-Transaction Capital Subsidy Needed:	-
Transaction Capital Subsidy Needed:	3,443,804

The capital plan recommends using the recoverable grant scenario to finance the capital needs at this property. Given the market conditions around the property, and the limited potential to generate revenue from repositioning the property relative to the market, there is very little potential leverage to be generated by FHA debt or low income housing tax credit equity.

This analysis has suggested a potential transaction year of 2017 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 $103,349 in NOI in the transaction completion year, which includes $239 per unit per year in replacement reserve deposits. The property generates $103,349 in cash flow in the capital transaction's completion year, trending to $53,933 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 $3,443,000, all of which would need to be covered by State capital subsidy. This compares to a needs gap of over $3,253,000 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:	202,408

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	**202,408**	-	-	-	-	-
2014	**37,337**	-	-	-	103,680	-
2015	**38,658**	-	-	-	95,178	-
2016	**148,012**	-	-	-	86,295	-
2017	**32,340**	-	3,443,804	-	77,018	(0)
2018	**52,813**	-	-	-	67,336	21,037
2019	**33,149**	-	-	-	57,236	16,093
2020	**92,602**	-	-	-	46,704	10,943
2021	**71,855**	-	-	-	35,729	5,581
2022	**101,159**	-	-	-	24,296	-

		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	**165,117**	-	-	-	12,391	-
2024	**45,842**	-	-	-	-	-
2025	**55,943**	-	-	-	-	-
2026	**90,021**	-	-	-	-	-
2027	**227,471**	-	-	-	-	-
2028	**186,694**	-	-	-	-	-
2029	**58,477**	-	-	-	-	-
2030	**68,155**	-	-	-	-	-
2031	**139,074**	-	-	-	-	-
2032	**113,727**	-	-	-	-	-

Scenario Pro Formas

Bantam Falls, Wells Run, continued

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	364,530	5,523.18	540,607	8,191.01	540,607	8,191	540,607	8,191	540,607	8,191
Vacancy/Loss	(9,298)	(140.88)	(9,938)	(150.58)	(27,030)	(410)	(37,842)	(573)	(37,842)	(573)
Other Income	31,504	477.34	31,504	477.34	31,504	477	31,504	477	31,504	477
Effective Gross Income	**386,736**	**5,859.64**	**562,173**	**8,517.77**	**545,081**	**8,259**	**534,269**	**8,095**	**534,269**	**8,095**
2023 ANNUAL EXPENSES										
Operating Expenses	452,432	6,855	447,663	6,783	432,953	6,560	432,413	6,552	432,413	6,552
Replacement Reserve Deposits	22,457	340	22,457	340	32,879	498	32,879	498	32,879	498
Total Operating Expenses	**474,889**	**7,195**	**470,120**	**7,123**	**465,832**	**7,058**	**465,291**	**7,050**	**465,291**	**7,050**
2023 NET OPERATING INCOME	**(88,152)**	**(1,336)**	**92,053**	**1,395**	**79,249**	**1,201**	**68,978**	**1,045**	**68,978**	**1,045**
Debt Service	-	-	-	-	35,260	534	24,105	365	23,978	363
2023 CASH FLOW	**(88,152)**	**(1,336)**	**92,053**	**1,395**	**43,989**	**667**	**44,873**	**680**	**44,999**	**682**

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	-	-	-	-	613,570	9,297	315,732	4,784	417,255	6,322
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	1,980,000	30,000	1,980,000	30,000
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	43,120	653	66,220	1,003	66,220	1,003	66,220	1,003
Cash Escrows	-	-	1,215	18	1,215	18	1,215	18	1,215	18
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	199,395	3,021	209,322	3,172	208,461	3,158
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	1,425,276	21,595	2,773,223	42,019
Other	-		-		-		-		-	
Total Sources of Funds	**-**	-	**44,335**	672	**880,400**	13,339	**3,997,764**	60,572	**5,446,372**	82,521
USES										
Acquisition Costs	-	-	-	-	-	-	1,980,000	30,000	1,980,000	30,000
Construction Costs	-	-	2,729,039	41,349	2,729,039	41,349	2,759,281	41,807	2,759,281	41,807
Soft Costs - Design & Construction	-	-	303,351	4,596	299,049	4,531	306,224	4,640	306,224	4,640
Soft Costs - Due Diligence	-	-	14,075	213	24,875	377	30,587	463	30,587	463
Soft Costs - Transaction Costs	-	-	63,620	964	143,620	2,176	274,946	4,166	274,946	4,166
Soft Costs - Financing	-	-	85,721	1,299	266,476	4,038	322,416	4,885	320,824	4,861
Soft Costs - Other	-	-	37,950	575	42,900	650	42,900	650	42,900	650
Soft Cost Contingency	-	-	25,236	382	38,846	589	43,912	665	43,183	654
Reserves	-	-	-	-	40,730	617	233,242	3,534	235,678	3,571
Developer Fee	-	-	229,148	3,472	498,488	7,553	523,305	7,929	521,151	7,896
Total Uses of Funds	**-**	-	**3,488,139**	52,851	**4,084,023**	61,879	**6,516,814**	98,740	**6,514,776**	98,709
TRANSACTION SURPLUS (GAP)	**-**	-	**(3,443,804)**	(52,179)	**(3,203,623)**	(48,540)	**(2,519,050)**	(38,167)	**(1,068,403)**	(16,188)

Scenario Pro Formas (continued)	Bantam Falls, Wells Run, 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	-	-	1,941,131	29,411	1,941,131	29,411	1,941,131	29,411	1,941,131	29,411
Capital Needs Funded Using Subsidy	1,503,322	22,778	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	20,937	317	20,937	317	20,937	317	20,937	317	20,937	317
Replacement Reserves	436,593	6,615	436,593	6,615	639,205	9,685	639,205	9,685	639,205	9,685
Total Funds	**1,960,853**	**29,710**	**2,398,661**	**36,343**	**2,601,273**	**39,413**	**2,601,273**	**39,413**	**2,601,273**	**39,413**
USES										
Estimated Capital Needs	1,960,853	29,710	1,960,853	29,710	1,960,853	29,710	1,960,853	29,710	1,960,853	29,710
Enhancements	-	-	-	-	165,000	2,500	165,000	2,500	165,000	2,500
Total Uses	**1,960,853**	**29,710**	**1,960,853**	**29,710**	**2,125,853**	**32,210**	**2,125,853**	**32,210**	**2,125,853**	**32,210**
YEAR 20 REPLACEMENT RESERVE BALANCE	**-**	**-**	**437,808**	**6,633**	**475,420**	**7,203**	**475,420**	**7,203**	**475,420**	**7,203**

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	605,862	9,180	605,862	9,180	605,862	9,180	605,862	9,180
Operating Deficit Subsidy Needed	1,750,077	26,516	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	53,654	813	53,654	813	53,654	813	53,654	813
Total Operating Subsidy	**1,750,077**	**26,516**	**659,516**	**9,993**	**659,516**	**9,993**	**659,516**	**9,993**	**659,516**	**9,993**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	1,503,322	22,778	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(632,195)	(9,579)	(265,967)	(4,030)	(269,186)	(4,079)	(270,137)	(4,093)
Transaction Capital Subsidy Needed	n/a	n/a	3,443,804	52,179	3,203,623	48,540	2,519,050	38,167	1,068,403	16,188
Total Capital Subsidy	**1,503,322**	**22,778**	**2,811,609**	**42,600**	**2,937,656**	**44,510**	**2,249,864**	**34,089**	**798,266**	**12,095**
TOTAL SUBSIDY NEEDED	**3,253,399**	**49,294**	**3,471,125**	**52,593**	**3,597,172**	**54,503**	**2,909,380**	**44,082**	**1,457,783**	**22,088**