CHFA Capital Plan Property Assessment - The Old Marvin

Property Identification

The Old Marvin
NORWALK, CT

Total Current Unit Count:	50
Census Tract:	442.00
Connecticut Congressional District:	4

CHFA Property Identification #: 97054D
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:	2
Maximum # of Stories:	3
Elevator?	Yes

Summary property description:
The The Old Marvin property has 50 one-bedroom units. Generally, the property consists of reasonably sized units. It features amenities such as common laundry, a community room, an outdoor garden, and meal services.

Current Operating & Capital Needs Status

Aggregate Capital Needs (without market enhancements):	$ 2,690,083
Capital Needs per Unit:	$ 53,802
Projected Year 1 (2014) Operating Income:	$ 75,037

Current operations at the property are projected to generate roughly $75,000 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 2026. As a result, the property is not sustainable and cannot adequately address its future basic capital needs, projected to be approximately $2.69 million ($53,801 per unit) over the next 20 years.

Owner Comments to Property Assessment: *See Page 9 for Owner Comments*

Current average income relative to the Area Median Income (AMI): 28%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:	600	26%
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:	600	26%
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: 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

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.

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

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:		
One-bedroom unit:	600	600
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: Old Marvin, The

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(1,277,548)	(1,572,901)
Recoverable Grant Scenario:	(4,073,232)	(5,566,084)
CHFA/FHA Scenario:	(8,383,768)	(10,415,141)
4% LIHTC Scenario:	(7,585,844)	(9,458,255)
9% LIHTC Scenario:	(5,797,119)	(7,663,264)

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	The Old Marvin, continued

Recommended Transaction Option:	Current
Recommended Transaction Year	n/a
Replacement Reserve Deposit PUPY:	708
Debt Service Coverage in Transaction Year:	-
Debt Service Coverage in Transaction Year 15:	-
Pre-Transaction Capital Subsidy Needed:	1,277,548
Transaction Capital Subsidy Needed:	-

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.
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 $1,277,548 over the course of the next 20 years.

At this time, the "Current Scenario" is the only approach which reasonably covers the property’s capital needs given the low rental revenue of the property and 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.

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 $75,036 in NOI in the transaction completion year, which includes $708 per unit per year in replacement reserve deposits. The property generates $75,036 in cash flow in the capital transaction's completion year, trending to negative $27,906 fifteen years thereafter. The transaction results in a pre-transaction need of $1,277,000 and $295,000 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.

Immediate Emergency Capital Needs:	0
Current Deferred Capital Needs:	0
Current Routine Capital Needs:	224,726

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	**224,726**	224,726	-	-	-	-
2014	**77,462**	-	-	-	-	-
2015	**58,289**	-	-	-	-	-
2016	**544,241**	366,998	-	-	-	-
2017	**48,979**	-	-	-	-	-
2018	**18,635**	-	-	-	-	-
2019	**25,112**	-	-	-	-	-
2020	**81,908**	-	-	-	-	-
2021	**197,856**	-	-	-	-	-
2022	**195,772**	60,968	-	-	-	-

		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	**171,403**	105,625	-	-	-	-
2024	**72,896**	13,343	-	-	-	-
2025	**70,516**	15,992	-	1,548	-	-
2026	**223,818**	167,113	-	10,672	-	-
2027	**107,391**	48,417	-	20,263	-	-
2028	**259,507**	198,174	-	30,340	-	-
2029	**66,768**	2,982	-	40,922	-	-
2030	**61,341**	-	-	52,029	-	-
2031	**147,198**	73,211	-	63,681	-	-
2032	**36,264**	-	-	75,899	-	-

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	447,615	8,952	589,289	11,786	589,289	11,786	589,289	11,786	589,289	11,786
Vacancy/Loss	(647)	(13)	(720)	(14)	(29,464)	(589)	(41,250)	(825)	(41,250)	(825)
Other Income	399,095	7,982	399,095	7,982	399,095	7,982	399,095	7,982	399,095	7,982
Effective Gross Income	**846,063**	**16,921**	**987,665**	**19,753**	**958,920**	**19,178**	**947,134**	**18,943**	**947,134**	**18,943**
2023 ANNUAL EXPENSES										
Operating Expenses	777,851	15,557	808,258	16,165	792,042	15,841	791,452	15,829	791,452	15,829
Replacement Reserve Deposits	50,411	1,008	50,411	1,008	24,908	498	24,908	498	24,908	498
Total Operating Expenses	**828,262**	**16,565**	**858,669**	**17,173**	**816,950**	**16,339**	**816,360**	**16,327**	**816,360**	**16,327**
2023 NET OPERATING INCOME	**17,801**	**356**	**128,996**	**2,580**	**141,970**	**2,839**	**130,774**	**2,615**	**130,774**	**2,615**
Debt Service	2,434	49	2,434	49	82,493	1,650	71,402	1,428	70,829	1,417
2023 CASH FLOW	**15,367**	**307**	**126,562**	**2,531**	**59,477**	**1,190**	**59,372**	**1,187**	**59,945**	**1,199**

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	-	-	-	-	1,435,499	28,710	1,097,360	21,947	1,232,514	24,650
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	-	-	-	-
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	91,595	1,832	109,095	2,182	109,095	2,182	109,095	2,182
Cash Escrows	-	-	-	-	-	-	-	-	-	-
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	259,931	5,199	267,113	5,342	266,104	5,322
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	1,660,306	33,206	3,312,647	66,253
Other	-		-		-		-		-	
Total Sources of Funds	**-**	**-**	**91,595**	1,832	**1,804,524**	36,090	**3,133,874**	62,677	**4,920,361**	98,407
USES										
Acquisition Costs	-	-	-	-	4,858,725	97,175	4,858,725	97,175	4,858,725	97,175
Construction Costs	-	-	3,247,978	64,960	3,247,978	64,960	3,283,971	65,679	3,283,971	65,679
Soft Costs - Design & Construction	-	-	358,657	7,173	353,538	7,071	362,077	7,242	362,077	7,242
Soft Costs - Due Diligence	-	-	13,898	278	29,728	595	32,271	645	32,271	645
Soft Costs - Transaction Costs	-	-	112,095	2,242	192,095	3,842	328,428	6,569	328,428	6,569
Soft Costs - Financing	-	-	99,216	1,984	699,774	13,995	703,017	14,060	701,941	14,039
Soft Costs - Other	-	-	28,750	575	32,500	650	32,500	650	32,500	650
Soft Cost Contingency	-	-	30,631	613	65,382	1,308	67,660	1,353	66,806	1,336
Reserves	-	-	-	-	58,747	1,175	383,287	7,666	385,501	7,710
Developer Fee	-	-	273,602	5,472	649,827	12,997	667,782	13,356	665,261	13,305
Total Uses of Funds	**-**	**-**	**4,164,826**	83,297	**10,188,293**	203,766	**10,719,718**	214,394	**10,717,480**	214,350
TRANSACTION SURPLUS (GAP)	**-**	**-**	**(4,073,232)**	(81,465)	**(8,383,768)**	(167,675)	**(7,585,844)**	(151,717)	**(5,797,119)**	(115,942)

Scenario Pro Formas (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	-	-	2,506,621	50,132	2,506,621	50,132	2,506,621	50,132	2,506,621	50,132
Capital Needs Funded Using Subsidy	1,277,548	25,551	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	-	-	-	-	-	-	-	-	-	-
Replacement Reserves	1,448,023	28,960	980,064	19,601	484,247	9,685	484,247	9,685	484,247	9,685
Total Funds	**2,725,570**	**54,511**	**3,486,685**	**69,734**	**2,990,868**	**59,817**	**2,990,868**	**59,817**	**2,990,868**	**59,817**
USES										
Estimated Capital Needs	2,690,083	53,802	2,690,083	53,802	2,690,083	53,802	2,690,083	53,802	2,690,083	53,802
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	**2,690,083**	**53,802**	**2,690,083**	**53,802**	**2,690,083**	**53,802**	**2,690,083**	**53,802**	**2,690,083**	**53,802**
YEAR 20 REPLACEMENT RESERVE BALANCE	**35,487**	**710**	**796,602**	**15,932**	**300,785**	**6,016**	**300,785**	**6,016**	**300,785**	**6,016**

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	2,477,665	49,553	2,477,665	49,553	2,477,665	49,553	2,477,665	49,553
Operating Deficit Subsidy Needed	295,354	5,907	-	-	0	-	2,413	48	1,839	37
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	**295,354**	**5,907**	**2,477,665**	**49,553**	**2,477,665**	**49,553**	**2,480,078**	**49,602**	**2,479,504**	**49,590**
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	1,277,548	25,551	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(984,813)	(19,696)	(446,292)	(8,926)	(607,667)	(12,153)	(613,359)	(12,267)
Transaction Capital Subsidy Needed	n/a	n/a	4,073,232	81,465	8,383,768	167,675	7,585,844	151,717	5,797,119	115,942
Total Capital Subsidy	**1,277,548**	**25,551**	**3,088,419**	**61,768**	**7,937,476**	**158,750**	**6,978,177**	**139,564**	**5,183,760**	**103,675**
TOTAL SUBSIDY NEEDED	**1,572,901**	**31,458**	**5,566,084**	**111,322**	**10,415,141**	**208,303**	**9,458,255**	**189,165**	**7,663,264**	**153,265**

Owner Comments

The Marvin (Norwalk, CT)
Comments on the Market Assessment and Capital Plan Assessment

Overall – thank you. It was an excellent report and captured a lot of confusing information. I think the marketing overview and the financial options will be very helpful as we plan for the future.

The one area that is not totally clear – and will have an impact on the rents and ability to increase rents, relates to restrictions due to funding.

As indicated, The Marvin is a State Congregate Housing Facility for the Frail Elderly. The project also has Low Income Housing Tax Credits (LIHTC). Therefore, the requirements of LIHTC need to be followed.

There is both a base rent and a congregate services fee. Because the congregate services are required, the **combined** base rent and congregate services fee, plus a utility allowance, must be in compliance with the maximum LIHTC rents. Therefore, some of the comparisons on rent with other congregate facilities do not give the true picture – as none of the other congregate facilities or housing facilities in the area has to use this combined cost.

As indicated in the report, the facility did not have RAP at the time the report was compiled. Therefore, all residents were required to pay the full base rent.

- Page 6, Table 3 shows that all the other facilities charge 30% for rent.

Also - at the time the report was written, the base rent was $520 and the maximum services fee was $750. The combined maximum, including the utility allowance, was $1,306.

Since that time, effective July 1, 2013 – there have been several changes:

- **The facility now has RAP.** On anniversary dates, as leases are renewed and financial recertification is completed, RAP will be applied as appropriate. Therefore, the base rent may be subsidized by RAP (with residents paying 30% of income) and the congregate services fee possibly be subsidized by DECD/DOH – all depending on income.
  - Between July 1, 2013 and October 2013 – 21 residents (43%) – have had their base rent reduced – resulting in a base rent ranging between $0 and $418.
- **The maximum base rent and the maximum congregate services fee were both increased.** Base rent – Was $520; Effective 7/1/13 - $600; Congregate Services Fee – Was $750; Effective 7/1/13 - $780. This brought the combined maximum monthly fee to $1,380. Adding in the utility allowance – the **maximum monthly fee totaled $1,417.**
- **LIHTC Rent Limits:** The most recent income limits and rent limits for LIHTC decreased in 2013. However, The Marvin is allowed to use prior limits (HERA limits). **The current maximum monthly amount for LIHTC compliance is $1,425.** This leaves very little opportunity to increase rents. (If limits don't change – then the maximum increase is $8).

The impact of the limits of the LIHTC and the inability to increase rents has a direct impact on the recommendation as listed in both the Market Analysis and the Capital Plan Assessment recommendations. Page 3 in the Capital Plan Assessment recommends increasing the base rent to $687. Unless LIHTC's limits increase (which appears unlikely) – this will not be possible.

There are two scenarios which could help:

- Congregate services are required and it is not practical or appropriate to make them optional (both because of the funding/statute and the impact it would have on the program is everyone were able to "pick and choose". Therefore, they need to be included in calculating the monthly maximum fees. The property has an extended use agreement – therefore compliance is required through 2018.
  - CHFA, as the Tax Credit monitoring agency, has the ability to waive some of the LIHTC requirements during the extended use period. If they would waive the requirement that the congregate services fee be included in maximum monthly calculations – then there is much more leeway to increase the base rent.
- If the rents cannot increase – there needs to be another way to address subsidizing operations. The charts on Page 6 include some operating subsidy. These numbers need to be increased.

Hopefully some of these comments and issues can be included in the final report.

RECAP Response: Taking into account to the property being an existing tax credit property and the new RAP contract put in place in July 2013, Recap revised the properrty assessment with updated income and expense data provided by the Owner.