

CHFA Capital Plan Property Assessment - Coal Pit Hill, Fairfield Ridge, Mill Ridge, Mill Ridge Extension

Property Identification

Coal Pit Hill, Fairfield Ridge, Mill Ridge, Mill Ridge Extension
DANBURY, CT

Total Current Unit Count: 290
Census Tract: 2104.00
Connecticut Congressional District: 5

CHFA Property Identification #: 85020D, 85025D, 85025Z, 85021D

Current State Sponsored Housing Program: SH Moderate Rental

These properties were originally financed separately and appear in CHFA's records as four 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: Family
Structure Type: Low rise (1-4 floors)
Number of buildings: 143
Maximum # of Stories: 2
Elevator? None

Summary property description:

The Coal Pit Hill, Fairfield Ridge, Mill Ridge and Mill Ridge Extension property has 216 two-bedroom, 62 three-bedroom and 12 four-bedroom units. Generally, the property consists of relatively spacious units. It features amenities such as semi-private patios, as well as in-unit air conditioning.

Current Operating & Capital Needs Status

Aggregate Capital Needs
(without market enhancements): \$ 16,422,290

Capital Needs per Unit: \$ 56,629

Projected Year 1 (2014) Operating Income: \$ (4,974)

Current operations at the property are projected to generate negative \$5,000 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 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 \$16.42 million (\$56,628 per unit) over the next 20 years.

Current average income relative to
the Area Median Income (AMI): 24%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:		
Two-bedroom unit:	310	13%
Three-bedroom unit:	319	11%
Four-bedroom unit:	328	11%
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:		
Two-bedroom unit:	728	30%
Three-bedroom unit:	840	30%
Four-bedroom unit:	938	30%
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: \$ 1,230,468

Total rental operating subsidy necessary
assuming a turnover-based leasing strategy: \$ 7,190,335

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 greater percentage of their income for housing and it will require that the property serve tenants with modestly higher incomes.

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.

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.

Protecting the 0 Family 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 \$1,230,468 to protect these households while generating the revenue equivalent to the proposed increase in the base rent.

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 \$7,190,334.

Revenue Adjustments Concurrent with a Recapitalization Transaction

Coal Pit Hill, Fairfield Ridge, Mill Ridge, Mill Ridge Extension, continued

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	193	193
25-50% of AMI	89	89
50% of AMI or greater	8	8
Total number of units	290	290

With the revenue generated by the increase in the base rent or the provision of an equivalent operating subsidy, the property should operate under a sustainable revenue picture for the foreseeable future. As a result, no additional revenue adjustments from income mixing are recommended in connection with the transaction.

	Pre-Trans. Base Rent	Post-Trans. Base Rent
Studio/efficiency unit:		
One-bedroom unit:		
Two-bedroom unit:	728	728
Three-bedroom unit:	840	840
Four-bedroom unit:	938	938
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: \$ -

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

Property used for market reference: Mill Ridge

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(14,631,938)	(18,197,794)
Recoverable Grant Scenario:	(24,211,222)	(19,214,068)
CHFA/FHA Scenario:	(12,831,659)	(15,661,101)
4% LIHTC Scenario:	(5,454,040)	(7,884,841)
9% LIHTC Scenario:	9,772,757	(2,298,485)

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

Coal Pit Hill, Fairfield Ridge, Mill Ridge, Mill Ridge Extension, continued

Recommended Transaction Option:	4% LIHTC	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.
Recommended Transaction Year	2016	This analysis has suggested a potential transaction year of 2016 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.
Replacement Reserve Deposit PUPY:	425	
Debt Service Coverage in Transaction Year:	1.200	
Debt Service Coverage in Transaction Year 15:	1.682	This property has been underwritten assuming replacement reserve deposits of \$425 per unit per year, assuming debt service coverage is maintained over 1.682 throughout the first 15 years of the new financing, and assuming hard construction capital needs of \$16.42 million.
Pre-Transaction Capital Subsidy Needed:	-	
Transaction Capital Subsidy Needed:	5,454,040	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 \$1,242,676 in NOI in the transaction completion year, which includes \$425 per unit per year in replacement reserve deposits. After debt service, the property generates \$485,726 in cash flow in the capital transaction's completion year, trending to \$516,002 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 \$12,426,000 in debt and \$10,841,000 in equity. The transaction results in a gap of \$5,454,000, all of which would need to be covered by State capital subsidy. This compares to a needs gap of over \$18,197,000 if no transaction takes place at the property and the capital needs are addressed through routine maintenance or a needs gap of over \$24,211,000 if the capital needs are addressed in a consolidated transaction relying entirely on State capital subsidy.

Summary of Capital Needs & State Subsidy Needs

Coal Pit Hill, Fairfield Ridge, Mill Ridge, Mill Ridge Extension, continued

Immediate Emergency Capital Needs: 0
 Current Deferred Capital Needs: 0
 Current Routine Capital Needs: 1,426,481

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	1,426,481	-	-	-	-	-
2014	1,269,037	-	-	-	1,230,468	-
2015	1,307,107	-	-	-	1,129,570	-
2016	1,345,404	-	5,454,040	-	1,024,143	-
2017	1,385,766	-	-	-	914,048	-
2018	628,198	-	-	-	799,139	-
2019	632,462	-	-	-	679,268	-
2020	652,476	-	-	-	554,283	-
2021	672,044	-	-	-	424,026	-
2022	736,712	-	-	-	288,338	-

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	333,914	-	-	-	147,052	-
2024	344,136	-	-	-	-	-
2025	637,818	-	-	-	-	-
2026	736,250	-	-	-	-	-
2027	940,397	-	-	-	-	-
2028	898,005	-	-	-	-	-
2029	896,803	-	-	-	-	-
2030	580,853	-	-	-	-	-
2031	601,371	-	-	-	-	-
2032	397,055	-	-	-	-	-

Scenario Pro Formas

Coal Pit Hill, Fairfield Ridge, Mill Ridge, Mill Ridge Extension, 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
2023 ANNUAL INCOME										
Gross Potential Rent	1,796,218	6,193.86	3,663,003	12,631.05	3,663,003	12,631	3,663,003	12,631	3,663,003	12,631
Vacancy/Loss	(127,338)	(439.10)	(127,338)	(439.10)	(183,150)	(632)	(256,410)	(884)	(256,410)	(884)
Other Income	111,225	383.53	111,225	383.53	111,225	384	111,225	384	111,225	384
Effective Gross Income	1,780,105	6,138.29	3,646,890	12,575.48	3,591,078	12,383	3,517,818	12,130	3,517,818	12,130
2023 ANNUAL EXPENSES										
Operating Expenses	1,924,257	6,635	2,106,601	7,264	2,073,582	7,150	2,069,919	7,138	2,069,919	7,138
Replacement Reserve Deposits	28,045	97	28,045	97	175,423	605	175,423	605	144,466	498
Total Operating Expenses	1,952,302	6,732	2,134,646	7,361	2,249,006	7,755	2,245,342	7,743	2,214,385	7,636
2023 NET OPERATING INCOME	(172,196)	(594)	1,512,244	5,215	1,342,072	4,628	1,272,475	4,388	1,303,432	4,495
Debt Service	-	-	-	-	796,493	2,747	756,950	2,610	773,698	2,668
2023 CASH FLOW	(172,196)	(594)	1,512,244	5,215	545,579	1,881	515,525	1,778	529,735	1,827

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
SOURCES										
Hard Debt										
Commercial Debt 1	-	-	-	-	13,860,069	47,793	12,426,769	42,851	13,463,391	46,425
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	15,533,461	53,564	15,839,283	54,618
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	90,510	312	213,760	737	213,760	737	192,010	662
Cash Escrows	-	-	1,245,117	4,294	1,245,117	4,294	1,245,117	4,294	1,245,117	4,294
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	1,433,210	4,942	1,483,088	5,114	1,474,491	5,084
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	10,841,069	37,383	25,000,004	86,207
Other	-	-	-	-	-	-	-	-	-	-
Total Sources of Funds	-	-	1,335,627	4,606	16,752,156	57,766	41,743,264	143,942	57,214,297	197,291
USES										
Acquisition Costs	-	-	-	-	-	-	15,533,461	53,564	15,839,283	54,618
Construction Costs	-	-	20,764,847	71,603	20,764,847	71,603	20,994,958	72,396	20,994,958	72,396
Soft Costs - Design & Construction	-	-	2,014,066	6,945	1,981,336	6,832	2,032,475	7,009	2,032,475	7,009
Soft Costs - Due Diligence	-	-	46,918	162	68,918	238	102,334	353	102,701	354
Soft Costs - Transaction Costs	-	-	111,010	383	191,010	659	496,326	1,711	496,326	1,711
Soft Costs - Financing	-	-	617,201	2,128	2,060,184	7,104	2,459,189	8,480	2,449,116	8,445
Soft Costs - Other	-	-	166,750	575	188,500	650	188,500	650	188,500	650
Soft Cost Contingency	-	-	147,797	510	224,497	774	242,592	837	235,314	811
Reserves	-	-	-	-	521,497	1,798	1,439,747	4,965	1,416,638	4,885
Developer Fee	-	-	1,678,260	5,787	3,583,026	12,355	3,707,721	12,785	3,686,228	12,711
Total Uses of Funds	-	-	25,546,850	88,093	29,583,815	102,013	47,197,304	162,749	47,441,540	163,592
TRANSACTION SURPLUS (GAP)	-	-	(24,211,222)	(83,487)	(12,831,659)	(44,247)	(5,454,040)	(18,807)	9,772,757	33,699

Scenario Pro Formas (continued)

Coal Pit Hill, Fairfield Ridge, Mill Ridge, Mill Ridge Extension, 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	-	-	16,025,235	55,259	16,025,235	55,259	16,025,235	55,259	16,025,235	55,259
Capital Needs Funded Using Subsidy	14,631,938	50,455	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	1,245,117	4,294	1,245,117	4,294	1,245,117	4,294	1,245,117	4,294	1,245,117	4,294
Replacement Reserves	545,235	1,880	545,235	1,880	3,410,479	11,760	3,410,479	11,760	2,808,630	9,685
Total Funds	16,422,290	56,629	17,815,587	61,433	20,680,831	71,313	20,680,831	71,313	20,078,982	69,238
USES										
Estimated Capital Needs	16,422,290	56,629	16,422,290	56,629	16,422,290	56,629	16,422,290	56,629	16,422,290	56,629
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	16,422,290	56,629	16,422,290	56,629	16,422,290	56,629	16,422,290	56,629	16,422,290	56,629
YEAR 20 REPLACEMENT RESERVE BALANCE	-	-	1,393,297	4,804	4,258,541	14,685	4,258,541	14,685	3,656,691	12,609

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	7,190,335	24,794	7,190,335	24,794	7,190,335	24,794	7,190,335	24,794
Operating Deficit Subsidy Needed	3,565,856	12,296	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	3,565,856	12,296	7,190,335	24,794	7,190,335	24,794	7,190,335	24,794	7,190,335	24,794
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	14,631,938	50,455	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(12,187,489)	(42,026)	(4,360,893)	(15,038)	(4,759,533)	(16,412)	(4,891,850)	(16,868)
Transaction Capital Subsidy Needed	n/a	n/a	24,211,222	83,487	12,831,659	44,247	5,454,040	18,807	-	-
Total Capital Subsidy	14,631,938	50,455	12,023,733	41,461	8,470,766	29,210	694,506	2,395	(4,891,850)	(16,868)
TOTAL SUBSIDY NEEDED	18,197,794	62,751	19,214,068	66,255	15,661,101	54,004	7,884,841	27,189	2,298,485	7,926