

## CHFA Capital Plan Property Assessment - Smith Acres, Smith Acres Ext

### Property Identification

Smith Acres, Smith Acres Ext  
SEYMOUR, CT

Total Current Unit Count: 45  
Census Tract: 1301.01  
Connecticut Congressional District: 0

CHFA Property Identification #: 85158Z, 85159D  
Current State Sponsored Housing Program: SH Moderate Rental

This property was originally financed in phases and appears 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: Family  
Structure Type: Low rise (1-4 floors)  
Number of buildings: 24  
Maximum # of Stories: 2  
Elevator? None

Summary property description:

The Smith Acres property has 13 two-bedroom, 25 three-bedroom and 7 four-bedroom units. Generally, the property consists of relatively spacious units. It features amenities such as semi-private patios, as well as in-unit laundry hookups.

### Current Operating & Capital Needs Status

Aggregate Capital Needs  
(without market enhancements): \$ 2,569,776  
  
Capital Needs per Unit: \$ 57,106  
  
Projected Year 1 (2014) Operating Income: \$ 15,939

Current operations at the property are projected to generate roughly \$15,900 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 2020. As a result, the property is not sustainable and cannot adequately address its future basic capital needs, projected to be approximately \$2.57 million (\$57,106 per unit) over the next 20 years.

Current average income relative to  
the Area Median Income (AMI): 29%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:		
Two-bedroom unit:	404	20%
Three-bedroom unit:	417	18%
Four-bedroom unit:	420	16%
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:		
One-bedroom unit:		
Two-bedroom unit:	618	30%
Three-bedroom unit:	713	30%
Four-bedroom unit:	795	30%
Five-bedroom unit:		
Six-bedroom unit:		

Number of current households that would be  
impacted by the proposed increase in Base Rent: 28

Rental operating subsidy necessary in 2014 to  
generate revenue equal to raising the base rent  
as proposed: \$ 119,808

Total rental operating subsidy necessary  
assuming a turnover-based leasing strategy: \$ 700,107

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 share 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 are 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 28 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 \$119,808 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 \$700,107.

**Revenue Adjustments Concurrent with a Recapitalization Transaction**

Smith Acres, Smith Acres Ext, continued

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	28	28
25-50% of AMI	12	12
50% of AMI or greater	5	5
Total number of units	45	45

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:	618	618
Three-bedroom unit:	713	713
Four-bedroom unit:	795	795
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: \$ (0)

Transitional rental operating subsidy necessary  
to protect current residents and permit a five-  
year transition to income tier occupancy: \$ (0)

Property used for market reference: Smith Acres

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(1,906,436)	(2,331,641)
Recoverable Grant Scenario:	(3,948,140)	(3,434,856)
CHFA/FHA Scenario:	(3,103,464)	(3,248,209)
4% LIHTC Scenario:	(2,173,008)	(2,437,255)
9% LIHTC Scenario:	(494,370)	(702,014)

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**

Smith Acres, Smith Acres Ext, continued

Recommended Transaction Option:	4% LIHTC	<p>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. 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.</p> <p>This property has been underwritten assuming replacement reserve deposits of \$425 per unit per year, assuming debt service coverage is maintained over 1.31 throughout the first 15 years of the new financing, and assuming hard construction capital needs of \$2.57 million.</p>
Recommended Transaction Year	2016	
Replacement Reserve Deposit PUPY:	425	
Debt Service Coverage in Transaction Year:	1.200	
Debt Service Coverage in Transaction Year 15:	1.310	
Pre-Transaction Capital Subsidy Needed:	-	<p>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.</p>
Transaction Capital Subsidy Needed:	2,173,008	

**Summary of Recommended Transaction**

Under the 4% LIHTC scenario, the property yields \$139,175 in NOI in the transaction completion year, which includes \$425 per unit per year in replacement reserve deposits. After debt service, the property generates \$49,959 in cash flow in the capital transaction's completion year, trending to \$27,640 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 \$1,391,000 in debt and \$1,522,000 in equity. The transaction results in a gap of \$2,173,000, all of which would need to be covered by State capital subsidy. This compares to a needs gap of over \$2,331,000 if no transaction takes place at the property and the capital needs are addressed through routine maintenance or a needs gap of over \$3,948,000 if the capital needs are addressed in a consolidated transaction relying entirely on State capital subsidy.

**Summary of Capital Needs & State Subsidy Needs**

Smith Acres, Smith Acres Ext, continued

Immediate Emergency Capital Needs: 0  
 Current Deferred Capital Needs: 0  
 Current Routine Capital Needs: 150,863

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	150,863	-	-	-	-	-
2014	152,310	-	-	-	119,808	-
2015	154,052	-	-	-	109,984	-
2016	150,478	-	2,173,008	-	99,719	(0)
2017	241,271	-	-	-	88,999	(0)
2018	182,667	-	-	-	77,810	-
2019	129,017	-	-	-	66,139	(0)
2020	118,771	-	-	-	53,969	-
2021	122,335	-	-	-	41,287	-
2022	121,958	-	-	-	28,075	-

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	84,909	-	-	-	14,318	-
2024	86,335	-	-	-	-	-
2025	88,925	-	-	-	-	-
2026	81,532	-	-	-	-	-
2027	99,418	-	-	-	-	-
2028	98,795	-	-	-	-	-
2029	125,815	-	-	-	-	-
2030	129,590	-	-	-	-	-
2031	133,478	-	-	-	-	-
2032	117,257	-	-	-	-	-

**Scenario Pro Formas**

Smith Acres, Smith Acres Ext, 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	340,739	7,571.98	539,381	11,986.25	539,381	11,986	539,381	11,986	539,381	11,986
Vacancy/Loss	(2,724)	(60.54)	(2,724)	(60.54)	(26,969)	(599)	(37,757)	(839)	(37,757)	(839)
Other Income	27,922	620.50	27,922	620.50	27,922	620	27,922	620	27,922	620
<b>Effective Gross Income</b>	<b>365,937</b>	<b>8,131.94</b>	<b>564,579</b>	<b>12,546.21</b>	<b>540,335</b>	<b>12,007</b>	<b>529,547</b>	<b>11,768</b>	<b>529,547</b>	<b>11,768</b>
<b>2023 ANNUAL EXPENSES</b>										
Operating Expenses	349,171	7,759	377,400	8,387	368,543	8,190	368,004	8,178	368,004	8,178
Replacement Reserve Deposits	32,239	716	32,239	716	27,221	605	27,221	605	22,417	498
<b>Total Operating Expenses</b>	<b>381,409</b>	<b>8,476</b>	<b>409,638</b>	<b>9,103</b>	<b>395,764</b>	<b>8,795</b>	<b>395,224</b>	<b>8,783</b>	<b>390,421</b>	<b>8,676</b>
<b>2023 NET OPERATING INCOME</b>	<b>(15,472)</b>	<b>(344)</b>	<b>154,941</b>	<b>3,443</b>	<b>144,571</b>	<b>3,213</b>	<b>134,323</b>	<b>2,985</b>	<b>139,126</b>	<b>3,092</b>
Debt Service	-	-	-	-	90,535	2,012	89,216	1,983	87,296	1,940
<b>2023 CASH FLOW</b>	<b>(15,472)</b>	<b>(344)</b>	<b>154,941</b>	<b>3,443</b>	<b>54,036</b>	<b>1,201</b>	<b>45,107</b>	<b>1,002</b>	<b>51,830</b>	<b>1,152</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	-	-	-	-	1,575,429	35,010	1,391,755	30,928	1,519,077	33,757
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	1,482,173	32,937	1,529,628	33,992
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	12,851	286	31,976	711	31,976	711	28,601	636
Cash Escrows	-	-	25,514	567	25,514	567	25,514	567	25,514	567
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	228,993	5,089	238,670	5,304	237,778	5,284
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	1,522,984	33,844	3,071,672	68,259
Other	-	-	-	-	-	-	-	-	-	-
<b>Total Sources of Funds</b>	<b>-</b>	<b>-</b>	<b>38,365</b>	<b>853</b>	<b>1,861,912</b>	<b>41,376</b>	<b>4,693,073</b>	<b>104,291</b>	<b>6,412,271</b>	<b>142,495</b>
<b>USES</b>										
Acquisition Costs	-	-	-	-	257,521	5,723	1,739,694	38,660	1,787,149	39,714
Construction Costs	-	-	3,177,874	70,619	3,177,874	70,619	3,213,091	71,402	3,213,091	71,402
Soft Costs - Design & Construction	-	-	351,186	7,804	346,177	7,693	354,531	7,878	354,531	7,878
Soft Costs - Due Diligence	-	-	13,563	301	23,622	525	27,693	615	27,750	617
Soft Costs - Transaction Costs	-	-	33,351	741	113,351	2,519	249,008	5,534	249,008	5,534
Soft Costs - Financing	-	-	96,733	2,150	338,177	7,515	382,357	8,497	382,123	8,492
Soft Costs - Other	-	-	25,875	575	29,250	650	29,250	650	29,250	650
Soft Cost Contingency	-	-	26,035	579	42,529	945	47,025	1,045	46,270	1,028
Reserves	-	-	-	-	64,392	1,431	226,756	5,039	223,024	4,956
Developer Fee	-	-	261,887	5,820	572,482	12,722	596,675	13,259	594,445	13,210
<b>Total Uses of Funds</b>	<b>-</b>	<b>-</b>	<b>3,986,505</b>	<b>88,589</b>	<b>4,965,376</b>	<b>110,342</b>	<b>6,866,080</b>	<b>152,580</b>	<b>6,906,641</b>	<b>153,481</b>
<b>TRANSACTION SURPLUS (GAP)</b>	<b>-</b>	<b>-</b>	<b>(3,948,140)</b>	<b>(87,736)</b>	<b>(3,103,464)</b>	<b>(68,966)</b>	<b>(2,173,008)</b>	<b>(48,289)</b>	<b>(494,370)</b>	<b>(10,986)</b>

**Scenario Pro Formas (continued)**

Smith Acres, Smith Acres Ext, 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	-	-	2,452,519	54,500	2,452,519	54,500	2,452,519	54,500	2,452,519	54,500
Capital Needs Funded Using Subsidy	1,906,436	42,365	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	25,514	567	25,514	567	25,514	567	25,514	567	25,514	567
Replacement Reserves	637,826	14,174	626,765	13,928	529,212	11,760	529,212	11,760	435,822	9,685
<b>Total Funds</b>	<b>2,569,776</b>	<b>57,106</b>	<b>3,104,797</b>	<b>68,995</b>	<b>3,007,245</b>	<b>66,828</b>	<b>3,007,245</b>	<b>66,828</b>	<b>2,913,855</b>	<b>64,752</b>
<b>USES</b>										
Estimated Capital Needs	2,569,776	57,106	2,569,776	57,106	2,569,776	57,106	2,569,776	57,106	2,569,776	57,106
Enhancements	-	-	-	-	-	-	-	-	-	-
<b>Total Uses</b>	<b>2,569,776</b>	<b>57,106</b>	<b>2,569,776</b>	<b>57,106</b>	<b>2,569,776</b>	<b>57,106</b>	<b>2,569,776</b>	<b>57,106</b>	<b>2,569,776</b>	<b>57,106</b>
<b>YEAR 20 REPLACEMENT RESERVE BALANCE</b>	<b>-</b>	<b>-</b>	<b>535,022</b>	<b>11,889</b>	<b>437,469</b>	<b>9,722</b>	<b>437,469</b>	<b>9,722</b>	<b>344,079</b>	<b>7,646</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	700,107	15,558	700,107	15,558	700,107	15,558	700,107	15,558
Operating Deficit Subsidy Needed	425,205	9,449	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
<b>Total Operating Subsidy</b>	<b>425,205</b>	<b>9,449</b>	<b>700,107</b>	<b>15,558</b>	<b>700,107</b>	<b>15,558</b>	<b>700,107</b>	<b>15,558</b>	<b>700,107</b>	<b>15,558</b>
<b>CAPITAL SUBSIDY</b>										
Pre-Transaction Capital Subsidy Needed	1,906,436	42,365	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(1,213,391)	(26,964)	(555,362)	(12,341)	(435,860)	(9,686)	(492,463)	(10,944)
Transaction Capital Subsidy Needed	n/a	n/a	3,948,140	87,736	3,103,464	68,966	2,173,008	48,289	494,370	10,986
<b>Total Capital Subsidy</b>	<b>1,906,436</b>	<b>42,365</b>	<b>2,734,749</b>	<b>60,772</b>	<b>2,548,102</b>	<b>56,624</b>	<b>1,737,148</b>	<b>38,603</b>	<b>1,907</b>	<b>42</b>
<b>TOTAL SUBSIDY NEEDED</b>	<b>2,331,641</b>	<b>51,814</b>	<b>3,434,856</b>	<b>76,330</b>	<b>3,248,209</b>	<b>72,182</b>	<b>2,437,255</b>	<b>54,161</b>	<b>702,014</b>	<b>15,600</b>