

# CHFA Capital Plan Property Assessment - Jonathan Trumbull Terrace, Rev. Honan Terrace

## Property Identification

Jonathan Trumbull Terrace, Rev. Honan Terrace  
WINDHAM, CT

Total Current Unit Count: 90  
Census Tract: 8006.00  
Connecticut Congressional District: 2

CHFA Property Identification #: 85225D, 85226D

Current State Sponsored Housing Program: SH Elderly

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: Elderly/Disabled  
Structure Type: Garden/Townhouse  
Number of buildings: 22  
Maximum # of Stories: 1  
Elevator? None

### Summary property description:

The Jonathan Trumbull Terrace property has 20 efficiency or studio and 70 one-bedroom units. Generally, the property consists of relatively small units. It features amenities such as common laundry, private patios and a community room.

## Current Operating & Capital Needs Status

Aggregate Capital Needs  
(without market enhancements): \$ 2,805,975  
  
Capital Needs per Unit: \$ 31,178  
  
Projected Year 1 (2014) Operating Income: \$ 14,381

Current operations at the property are projected to generate roughly \$14,400 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 2019. As a result, the property is not sustainable and cannot adequately address its future basic capital needs, projected to be approximately \$2.81 million (\$31,177 per unit) over the next 20 years.

Current average income relative to  
the Area Median Income (AMI): 18%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:	232	16%
One-bedroom unit:	257	17%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:	435	30%
One-bedroom unit:	466	30%
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: 77

Rental operating subsidy necessary in 2014 to  
generate revenue equal to raising the base rent  
as proposed: \$ 202,005

Total rental operating subsidy necessary  
assuming a turnover-based leasing strategy: \$ 1,180,432

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 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 77 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 \$202,005 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 \$1,180,431.

**Revenue Adjustments Concurrent with a Recapitalization Transaction**

Jonathan Trumbull Terrace, Rev. Honan Terrace, continued

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	77	77
25-50% of AMI	13	13
50% of AMI or greater	0	0
Total number of units	90	90

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:	435	435
One-bedroom unit:	466	466
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: \$ -

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

Property used for market reference: Eastman Curran Terrace

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(2,011,440)	(2,424,568)
Recoverable Grant Scenario:	(4,208,758)	(3,723,529)
CHFA/FHA Scenario:	(2,623,231)	(3,240,458)
4% LIHTC Scenario:	(1,502,041)	(2,189,536)
9% LIHTC Scenario:	342,073	(660,154)

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**

Jonathan Trumbull Terrace, Rev. Honan Terrace, 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. The 4% LIHTC scenario would be even more efficacious if the property was grouped with Rev. Honan Terrace, another Elderly/Disabled Willimantic Housing Authority property in Windham, into one larger transaction.
Recommended Transaction Year	2018	This analysis has suggested a potential transaction year of 2018 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:	350	This property has been underwritten assuming replacement reserve deposits of \$350 per unit per year, assuming debt service coverage is maintained over 1.462 throughout the first 15 years of the new financing, and assuming hard construction capital needs of \$2.81 million.
Debt Service Coverage in Transaction Year:	1.200	
Debt Service Coverage in Transaction Year 15:	1.462	
Pre-Transaction Capital Subsidy Needed:	-	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.
Transaction Capital Subsidy Needed:	1,502,041	

**Summary of Recommended Transaction**

Under the 4% LIHTC scenario, the property yields \$199,691 in NOI in the transaction completion year, which includes \$350 per unit per year in replacement reserve deposits. After debt service, the property generates \$73,857 in cash flow in the capital transaction's completion year, trending to \$58,087 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 \$1,996,000 in debt and \$1,849,000 in equity. The transaction results in a gap of \$1,502,000, all of which would need to be covered by State capital subsidy. This compares to a needs gap of over \$2,424,000 if no transaction takes place at the property and the capital needs are addressed through routine maintenance or a needs gap of over \$4,208,000 if the capital needs are addressed in a consolidated transaction relying entirely on State capital subsidy.

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

Jonathan Trumbull Terrace, Rev. Honan Terrace, continued

Immediate Emergency Capital Needs: 0  
 Current Deferred Capital Needs: 0  
 Current Routine Capital Needs: 645,511

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	645,511	-	-	-	-	-
2014	166,637	-	-	-	202,005	-
2015	154,814	-	-	-	185,441	-
2016	112,967	-	-	-	168,133	-
2017	141,376	-	-	-	150,059	-
2018	128,321	-	1,502,041	-	131,194	-
2019	97,406	-	-	-	111,515	-
2020	103,474	-	-	-	90,996	-
2021	100,317	-	-	-	69,612	-
2022	147,311	-	-	-	47,336	-

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	141,509	-	-	-	24,141	-
2024	65,065	-	-	-	-	-
2025	68,270	-	-	-	-	-
2026	61,698	-	-	-	-	-
2027	103,478	-	-	-	-	-
2028	134,680	-	-	-	-	-
2029	113,944	-	-	-	-	-
2030	99,650	-	-	-	-	-
2031	102,640	-	-	-	-	-
2032	116,908	-	-	-	-	-

**Scenario Pro Formas**

Jonathan Trumbull Terrace, Rev. Honan Terrace, 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	372,254	4,136.16	658,672	7,318.58	658,672	7,319	658,672	7,319	658,672	7,319
Vacancy/Loss	(25,658)	(285.09)	(25,658)	(285.09)	(32,934)	(366)	(46,107)	(512)	(46,107)	(512)
Other Income	20,683	229.81	20,683	229.81	20,683	230	20,683	230	20,683	230
<b>Effective Gross Income</b>	<b>367,280</b>	<b>4,080.88</b>	<b>653,697</b>	<b>7,263.30</b>	<b>646,422</b>	<b>7,182</b>	<b>633,248</b>	<b>7,036</b>	<b>633,248</b>	<b>7,036</b>
<b>2023 ANNUAL EXPENSES</b>										
Operating Expenses	365,843	4,065	398,528	4,428	389,959	4,333	389,300	4,326	389,300	4,326
Replacement Reserve Deposits	17,868	199	17,868	199	44,834	498	44,834	498	44,834	498
<b>Total Operating Expenses</b>	<b>383,711</b>	<b>4,263</b>	<b>416,396</b>	<b>4,627</b>	<b>434,793</b>	<b>4,831</b>	<b>434,134</b>	<b>4,824</b>	<b>434,134</b>	<b>4,824</b>
<b>2023 NET OPERATING INCOME</b>	<b>(16,431)</b>	<b>(183)</b>	<b>237,302</b>	<b>2,637</b>	<b>211,628</b>	<b>2,351</b>	<b>199,114</b>	<b>2,212</b>	<b>199,114</b>	<b>2,212</b>
Debt Service	-	-	-	-	128,988	1,433	125,834	1,398	121,928	1,355
<b>2023 CASH FLOW</b>	<b>(16,431)</b>	<b>(183)</b>	<b>237,302</b>	<b>2,637</b>	<b>82,641</b>	<b>918</b>	<b>73,280</b>	<b>814</b>	<b>77,185</b>	<b>858</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	-	-	-	-	2,244,562	24,940	1,996,912	22,188	2,121,719	23,575
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	2,548,804	28,320	2,548,804	28,320
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	42,519	472	74,019	822	74,019	822	74,019	822
Cash Escrows	-	-	219,164	2,435	238,110	2,646	238,110	2,646	238,110	2,646
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	255,877	2,843	267,757	2,975	266,655	2,963
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	1,849,533	20,550	3,564,683	39,608
Other	-	-	-	-	-	-	-	-	-	-
<b>Total Sources of Funds</b>	<b>-</b>	<b>-</b>	<b>261,683</b>	<b>2,908</b>	<b>2,812,568</b>	<b>31,251</b>	<b>6,975,134</b>	<b>77,501</b>	<b>8,813,990</b>	<b>97,933</b>
<b>USES</b>										
Acquisition Costs	-	-	-	-	151,196	1,680	2,700,000	30,000	2,700,000	30,000
Construction Costs	-	-	3,516,412	39,071	3,516,412	39,071	3,555,380	39,504	3,555,380	39,504
Soft Costs - Design & Construction	-	-	387,266	4,303	381,723	4,241	390,968	4,344	390,968	4,344
Soft Costs - Due Diligence	-	-	16,220	180	28,401	316	36,006	400	36,006	400
Soft Costs - Transaction Costs	-	-	63,019	700	143,019	1,589	281,941	3,133	281,941	3,133
Soft Costs - Financing	-	-	110,651	1,229	371,695	4,130	445,510	4,950	443,390	4,927
Soft Costs - Other	-	-	51,750	575	58,500	650	58,500	650	58,500	650
Soft Cost Contingency	-	-	31,445	349	49,167	546	54,895	610	53,962	600
Reserves	-	-	-	-	95,994	1,067	284,583	3,162	285,130	3,168
Developer Fee	-	-	293,679	3,263	639,691	7,108	669,392	7,438	666,638	7,407
<b>Total Uses of Funds</b>	<b>-</b>	<b>-</b>	<b>4,470,441</b>	<b>49,672</b>	<b>5,435,799</b>	<b>60,398</b>	<b>8,477,176</b>	<b>94,191</b>	<b>8,471,917</b>	<b>94,132</b>
<b>TRANSACTION SURPLUS (GAP)</b>	<b>-</b>	<b>-</b>	<b>(4,208,758)</b>	<b>(46,764)</b>	<b>(2,623,231)</b>	<b>(29,147)</b>	<b>(1,502,041)</b>	<b>(16,689)</b>	<b>342,073</b>	<b>3,801</b>

**Scenario Pro Formas (continued)**

Jonathan Trumbull Terrace, Rev. Honan Terrace, 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	-	-	2,713,785	30,153	2,713,785	30,153	2,713,785	30,153	2,713,785	30,153
Capital Needs Funded Using Subsidy	2,011,440	22,349	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	404,445	4,494	404,445	4,494	404,445	4,494	404,445	4,494	404,445	4,494
Replacement Reserves	390,090	4,334	347,383	3,860	871,644	9,685	871,644	9,685	871,644	9,685
<b>Total Funds</b>	<b>2,805,975</b>	<b>31,178</b>	<b>3,465,612</b>	<b>38,507</b>	<b>3,989,874</b>	<b>44,332</b>	<b>3,989,874</b>	<b>44,332</b>	<b>3,989,874</b>	<b>44,332</b>
<b>USES</b>										
Estimated Capital Needs	2,805,975	31,178	2,805,975	31,178	2,805,975	31,178	2,805,975	31,178	2,805,975	31,178
Enhancements	-	-	-	-	-	-	-	-	-	-
<b>Total Uses</b>	<b>2,805,975</b>	<b>31,178</b>	<b>2,805,975</b>	<b>31,178</b>	<b>2,805,975</b>	<b>31,178</b>	<b>2,805,975</b>	<b>31,178</b>	<b>2,805,975</b>	<b>31,178</b>
<b>YEAR 20 REPLACEMENT RESERVE BALANCE</b>	<b>-</b>	<b>-</b>	<b>659,637</b>	<b>7,329</b>	<b>1,183,898</b>	<b>13,154</b>	<b>1,183,898</b>	<b>13,154</b>	<b>1,183,898</b>	<b>13,154</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	1,180,432	13,116	1,180,432	13,116	1,180,432	13,116	1,180,432	13,116
Operating Deficit Subsidy Needed	413,128	4,590	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
<b>Total Operating Subsidy</b>	<b>413,128</b>	<b>4,590</b>	<b>1,180,432</b>	<b>13,116</b>	<b>1,180,432</b>	<b>13,116</b>	<b>1,180,432</b>	<b>13,116</b>	<b>1,180,432</b>	<b>13,116</b>
<b>CAPITAL SUBSIDY</b>										
Pre-Transaction Capital Subsidy Needed	2,011,440	22,349	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(1,665,661)	(18,507)	(563,205)	(6,258)	(492,937)	(5,477)	(520,278)	(5,781)
Transaction Capital Subsidy Needed	n/a	n/a	4,208,758	46,764	2,623,231	29,147	1,502,041	16,689	-	-
<b>Total Capital Subsidy</b>	<b>2,011,440</b>	<b>22,349</b>	<b>2,543,097</b>	<b>28,257</b>	<b>2,060,026</b>	<b>22,889</b>	<b>1,009,104</b>	<b>11,212</b>	<b>(520,278)</b>	<b>(5,781)</b>
<b>TOTAL SUBSIDY NEEDED</b>	<b>2,424,568</b>	<b>26,940</b>	<b>3,723,529</b>	<b>41,373</b>	<b>3,240,458</b>	<b>36,005</b>	<b>2,189,536</b>	<b>24,328</b>	<b>660,154</b>	<b>7,335</b>