

CHFA Capital Plan Property Assessment - Millbrook Village

Property Identification

Millbrook Village
WINDSOR, CT

CHFA Property Identification #: 85227D

Current State Sponsored Housing Program: SH Elderly

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.

Total Current Unit Count: 60

Census Tract: 4734.00

Connecticut Congressional District: 1

Property Description

Tenancy Type: Elderly/Disabled

Structure Type: Low rise (1-4 floors)

Number of buildings: 9

Maximum # of Stories: 1

Elevator? None

Summary property description:

The Millbrook Village property has 34 efficiency or studio and 26 one-bedroom units. Generally, the property consists of reasonably sized units. It features amenities such as common laundry, central air conditioning, a business center/computer room and a common room.

Current Operating & Capital Needs Status

Aggregate Capital Needs
(without market enhancements): \$ 2,351,230

Capital Needs per Unit: \$ 39,187

Projected Year 1 (2014) Operating Income: \$ (22,325)

Current operations at the property are projected to generate negative \$22,300 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 \$2.35 million (\$39,187 per unit) over the next 20 years.

Current average income relative to
the Area Median Income (AMI): 21%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:	209	14%
One-bedroom unit:	209	13%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:	450	30%
One-bedroom unit:	482	30%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

In order for the property to operate in a sustainable manner into the foreseeable future, the property would benefit from greater revenues. The Capital Plan is modeled with the assumption that the State will be making new rental assistance payment contracts available and this analysis recommends that a RAP contract be established for this property. The RAP allows the residents to pay an affordable rent based on their income and pays the difference up to an agreed revenue level which this Capital Plan recommends be set high enough to generate a sustainable revenue stream.

Low base rent levels maximize affordability for households in the community. However, if the property's revenue stream (including any available operating subsidy) does not cover the cost of actually operating the property, including the cost of ongoing maintenance and capital improvements, necessary repairs and maintenance will get deferred. An extended period of deferred maintenance can put the property itself at risk, which would be a significant blow to the availability of affordable housing in the area.

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, 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.

The figures to the left indicate the additional rental operating subsidy which would be necessary in 2014 to cover this base rent increase as well as the total 20 year impact given that this subsidy need will recur annually, with inflation increases. Since the rental assistance payment protects the residents of the property, none of the actual households would be impacted by the increase in the base rent and the property would continue to serve the current resident demographic.

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: \$ 122,556

Additional rental assistance payments subsidy
over a 20 year period due to revised base rent: \$ 2,799,248

Revenue Adjustments Concurrent with a Recapitalization Transaction

Millbrook Village, continued

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	49	60
25-50% of AMI	11	0
50% of AMI or greater	0	0
Total number of units	60	60

	Pre-Trans. Base Rent	Post-Trans. Base Rent
Studio/efficiency unit:	450	750
One-bedroom unit:	482	750
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

While the revenue generated by the increase in the base rent 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.) However, as noted above, the analysis assumes this property will receive a project-based rental assistance payment contract. A RAP arrangement provides operating support to the property while permitting residents to pay based on what they can afford, so income mixing is neither needed nor appropriate. For extremely low income households, properties with a RAP are their only viable option. In order to ensure long-term stability, a post-transaction base rent increase, which would be covered by the RAP subsidy, is used to generate enough income for the property to operate at a sustainable level.

The rental assistance payment ensures that the property receives the base rent. However, since the base rent increase suggested above is insufficient over the long term, the only alternative is to increase the base rent again in conjunction with the recapitalization transaction. (An income-tier structure in this situation would only serve to reduce housing options to the lowest income households, without increasing revenue to the property.)

An increase in the base rent at a property with a rental assistance payment translates into an increase in the operating subsidy necessary to sustain the property over time.

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

Additional rental operating subsidy necessary to
sustain Rental Assistance Payments based on
the adjusted base rent: \$ 4,290,180

Property used for market reference: Shad Run Terrace

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(1,957,337)	(3,034,655)
Recoverable Grant Scenario:	(3,415,319)	(7,832,251)
CHFA/FHA Scenario:	(1,163,194)	(7,274,224)
4% LIHTC Scenario:	(139,397)	(6,222,163)
9% LIHTC Scenario:	1,477,893	(6,051,408)

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

Millbrook Village, 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 2015 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 \$350 per unit per year, assuming debt service coverage is maintained over 1.739 throughout the first 15 years of the new financing, and assuming hard construction capital needs of \$2.35 million plus \$150,000 for property enhancements (curb appeal enhancements.).</p> <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>
Recommended Transaction Year	2015	
Replacement Reserve Deposit PUPY:	350	
Debt Service Coverage in Transaction Year:	1.200	
Debt Service Coverage in Transaction Year 15:	1.739	
Pre-Transaction Capital Subsidy Needed:	-	
Transaction Capital Subsidy Needed:	139,397	

Summary of Recommended Transaction

Under the 4% LIHTC scenario, the property yields \$246,473 in NOI in the transaction completion year, which includes \$350 per unit per year in replacement reserve deposits. After debt service, the property generates \$92,331 in cash flow in the capital transaction's completion year, trending to \$113,834 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 \$2,464,000 in debt and \$1,730,000 in equity. The transaction results in a gap of \$139,000, all of which would need to be covered by State capital subsidy. This compares to a needs gap of over \$3,034,000 if no transaction takes place at the property and the capital needs are addressed through routine maintenance or a needs gap of over \$3,415,000 if the capital needs are addressed in a consolidated transaction relying entirely on State capital subsidy.

Summary of Capital Needs & State Subsidy Needs

Millbrook Village, continued

Immediate Emergency Capital Needs: 0
 Current Deferred Capital Needs: 11,042
 Current Routine Capital Needs: 169,116

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	180,158	-	-	-	-	-
2014	153,821	-	-	-	122,556	-
2015	71,576	-	139,397	-	125,007	-
2016	67,127	-	-	-	341,887	-
2017	81,226	-	-	-	348,725	-
2018	80,005	-	-	-	355,699	-
2019	34,287	-	-	-	362,813	-
2020	31,237	-	-	-	370,069	-
2021	52,813	-	-	-	377,471	-
2022	148,510	-	-	-	385,020	-

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	88,500	-	-	-	392,721	-
2024	388,101	-	-	-	400,575	-
2025	96,209	-	-	-	408,586	-
2026	113,774	-	-	-	416,758	-
2027	84,314	-	-	-	425,093	-
2028	68,980	-	-	-	433,595	-
2029	187,937	-	-	-	442,267	-
2030	209,877	-	-	-	451,112	-
2031	103,281	-	-	-	460,135	-
2032	109,496	-	-	-	469,337	-

Scenario Pro Formas

Millbrook Village, 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	268,554	4,475.90	671,422	11,190.37	671,422	11,190	671,422	11,190	671,422	11,190
Vacancy/Loss	(6,906)	(115.10)	(10,547)	(175.78)	(33,571)	(560)	(47,000)	(783)	(47,000)	(783)
Other Income	5,530	92.16	5,530	92.16	5,530	92	5,530	92	5,530	92
Effective Gross Income	267,178	4,452.96	666,405	11,106.75	643,381	10,723	629,952	10,499	629,952	10,499
2023 ANNUAL EXPENSES										
Operating Expenses	316,906	5,282	350,226	5,837	341,856	5,698	341,184	5,686	341,184	5,686
Replacement Reserve Deposits	4,278	71	4,278	71	29,890	498	29,890	498	29,890	498
Total Operating Expenses	321,184	5,353	354,504	5,908	371,745	6,196	371,074	6,185	371,074	6,185
2023 NET OPERATING INCOME	(54,006)	(900)	311,901	5,198	271,636	4,527	258,879	4,315	258,879	4,315
Debt Service	-	-	-	-	157,274	2,621	154,142	2,569	150,493	2,508
2023 CASH FLOW	(54,006)	(900)	311,901	5,198	114,362	1,906	104,736	1,746	108,386	1,806

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	-	-	-	-	2,736,781	45,613	2,464,737	41,079	2,618,783	43,646
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	3,080,921	51,349	3,080,921	51,349
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	16,635	277	37,635	627	37,635	627	37,635	627
Cash Escrows	-	-	310,714	5,179	310,714	5,179	310,714	5,179	310,714	5,179
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	215,206	3,587	226,945	3,782	226,066	3,768
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	1,730,991	28,850	3,192,042	53,201
Other	-	-	-	-	-	-	-	-	-	-
Total Sources of Funds	-	-	327,350	5,456	3,300,337	55,006	7,851,943	130,866	9,466,161	157,769
USES										
Acquisition Costs	-	-	-	-	-	-	3,080,921	51,349	3,080,921	51,349
Construction Costs	-	-	2,965,284	49,421	2,965,284	49,421	2,998,145	49,969	2,998,145	49,969
Soft Costs - Design & Construction	-	-	328,529	5,475	323,855	5,398	331,651	5,528	331,651	5,528
Soft Costs - Due Diligence	-	-	14,058	234	24,558	409	31,295	522	31,295	522
Soft Costs - Transaction Costs	-	-	37,135	619	117,135	1,952	250,741	4,179	250,741	4,179
Soft Costs - Financing	-	-	91,983	1,533	315,066	5,251	398,323	6,639	397,518	6,625
Soft Costs - Other	-	-	34,500	575	39,000	650	39,000	650	39,000	650
Soft Cost Contingency	-	-	25,310	422	40,981	683	47,362	789	46,618	777
Reserves	-	-	-	-	99,637	1,661	246,540	4,109	247,215	4,120
Developer Fee	-	-	245,869	4,098	538,014	8,967	567,363	9,456	565,165	9,419
Total Uses of Funds	-	-	3,742,669	62,378	4,463,531	74,392	7,991,340	133,189	7,988,268	133,138
TRANSACTION SURPLUS (GAP)	-	-	(3,415,319)	(56,922)	(1,163,194)	(19,387)	(139,397)	(2,323)	1,477,893	24,632

Scenario Pro Formas (continued)

Millbrook Village, 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	-	-	2,138,453	35,641	2,138,453	35,641	2,138,453	35,641	2,138,453	35,641
Capital Needs Funded Using Subsidy	1,957,337	32,622	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	310,714	5,179	310,714	5,179	310,714	5,179	310,714	5,179	310,714	5,179
Replacement Reserves	83,179	1,386	83,179	1,386	581,096	9,685	581,096	9,685	581,096	9,685
Total Funds	2,351,230	39,187	2,532,346	42,206	3,030,263	50,504	3,030,263	50,504	3,030,263	50,504
USES										
Estimated Capital Needs	2,351,230	39,187	2,351,230	39,187	2,351,230	39,187	2,351,230	39,187	2,351,230	39,187
Enhancements	-	-	-	-	150,000	2,500	150,000	2,500	150,000	2,500
Total Uses	2,351,230	39,187	2,351,230	39,187	2,501,230	41,687	2,501,230	41,687	2,501,230	41,687
YEAR 20 REPLACEMENT RESERVE BALANCE	-	-	181,116	3,019	529,033	8,817	529,033	8,817	529,033	8,817

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	7,089,428	118,157	7,089,428	118,157	7,089,428	118,157	7,089,428	118,157
Operating Deficit Subsidy Needed	1,077,319	17,955	-	-	0	-	0	-	0	-
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	1,077,319	17,955	7,089,428	118,157	7,089,428	118,157	7,089,428	118,157	7,089,428	118,157
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	1,957,337	32,622	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(2,672,496)	(44,542)	(978,398)	(16,307)	(1,006,662)	(16,778)	(1,038,020)	(17,300)
Transaction Capital Subsidy Needed	n/a	n/a	3,415,319	56,922	1,163,194	19,387	139,397	2,323	-	-
Total Capital Subsidy	1,957,337	32,622	742,823	12,380	184,796	3,080	(867,265)	(14,454)	(1,038,020)	(17,300)
TOTAL SUBSIDY NEEDED	3,034,655	50,578	7,832,251	130,538	7,274,224	121,237	6,222,163	103,703	6,051,408	100,857