

Approval Loan Recommendation Summary – Forest Farm Assisted Living

Preliminary _____

Firm X

Date: June 9,2021

1. OVERVIEW AND UPDATE

A. Overview

This Credit Committee Request seeks firm approval of a \$2,500,000 first mortgage, a Capital Magnet Fund loan of \$750,000 and a Home Investment Partnership Program (“HOME Loan”) of \$850,000 for Forest Farm Assisted Living (“FFAL”) a licensed assisted living facility located in Middletown, RI originally constructed and financed by RIHousing in 1999 using Low Income Housing Tax Credits (“LIHTC”) and other financing. The property currently has 50 one-bedroom assisted living apartments contained in a single building, of which 35 are LIHTC and receive Medicaid Waivers from the State of RI. The project reached the end of its initial compliance period in 2014 and the equity investor limited partner, National Equity Fund, exited the partnership in 2015.

In addition to the assisted living apartments, the building features a commercial kitchen, dining room, library and other common activity rooms to service the needs of the residents. Church Community Housing Corporation (“CCHC” or the “Developer”) was the original developer of FFAL and is proposing this refinancing to undertake a moderate rehabilitation of the property. The building is attached to the Royal Middletown Nursing Centre (F/K/A Forest Farms Healthcare Center) (“Royal”). FFAL and Royal have a contractual relationship in which an affiliate of Royal provides meals and services to FFAL. FFAL is responsible for the property management traditional to a residential property.

CCHC is proposing over \$4.5MM in improvements to the property and the planned scope of the rehabilitation includes replacing the roof and installing solar panels, replacing boilers and hot water tanks with new efficient systems, installing new efficient heat pumps for each unit for improved heating and cooling within the units, upgrading the sprinkler and fire alarm systems to meet current code requirements and improve life safety, upgrading the commercial kitchen and decommissioning one market rate unit to allow for expanded kitchen operations with space for food preparation and storage space, replacing the generator, and making site improvements.

FFAL's operations have been inconsistent over the past 20 years due to the vagaries of the state's Medicaid Waiver. In 2018, the reimbursement rate increased from \$43/day to \$69/day which stabilized the service component of the program. In addition, FFAL received 30 project-based vouchers ("PBV") in the fall of 2020 which has increased NOI and stabilized operations.

B. Update/Changes since preliminary

Since preliminary approval CCHC has completed 100% construction drawings and specifications which were used to finalize construction costs based on the fully identified scope of work. The bidding process resulted in an increase in construction and contingency costs of nearly \$130,000. Existing reserves, which are being used as a source of funds for this transaction, were reduced by \$145,000 due to withdrawals for project related costs. The net of these changes and other budget adjustments required that the first mortgage loan be increased by \$250,000 to \$2,500,000. Property operations support this additional debt and the first mortgage loan meets RIHousing's standard underwriting guidelines.

2. EXECUTIVE SUMMARY

Property Address: 191 Forest Avenue
Middletown, RI 02842

Developer: Church Community Housing Corp.
50 Washington Square
Newport, RI 02840

Amount(s) Requested:

Taxable First Mortgage	\$ 2,500,000	40 yrs	5%
Capital Magnet	\$ 750,000	40 yrs	1%
HOME Loan	\$ 850,000	40 yrs	0%

Loan to Value (LTV) Test:

	Appraisal	Per Unit	Variance	Current UW	Per Unit
NET OPERATING INCOME	\$225,009	\$4,592	(\$38,087)	\$186,922	\$3,815
Appraisal Cap Rate	6.00%			6.00%	
Valuation	\$3,750,150	\$76,534	(\$634,784)	\$3,115,366	\$63,579
Loan Principal	\$2,500,000	\$51,020		\$2,500,000	\$51,020
LTV	66.66%		14%	80.25%	

Existing Debt:

Loan Type	Principal & Accrued Interest	Rate	Comment
Existing 1 st Mortgage	\$ 652,500	5%	To be paid off
Targeted Loan	\$ 645,287	5%	To be rolled over
HOME Loan	\$ 300,000	0%	To be rolled over
Middletown CDBG	\$ 100,000	0%	To be discharged

As part of the approval process, staff has determined that the Development and sponsor meet RIHousing's requirements for rollover of existing debt. Broadly, this review includes:

- Current on first mortgage or in compliance with forbearance agreement;
- No outstanding monitoring findings, no history of significant monitoring findings;
- Demonstrated responsible long-term ownership and management of the property;
- A satisfactory equity pay-in schedule to RIHousing;
- Maximize amortizing debt the property can support; and
- Borrower provide guarantees to cover any deficit shortfalls.

Proposed Sources & Uses

Sources	Preliminary		Delta	Firm	
	Amount	Per Unit		Amount	Per Unit
RIH First Mortgage	\$2,250,000	\$45,918	\$250,000	\$2,500,000	\$51,020
Assumed Debt (Rollover)	\$1,019,292	\$20,802	(\$74,005)	\$945,287	\$19,292
Preservation Loan Fund Program	\$991,170	\$20,228	\$0	\$991,170	\$20,228
Capital Magnet Fund	\$750,000	\$15,306	\$0	\$750,000	\$15,306
Building Homes Rhode Island	\$500,000	\$10,204	\$0	\$500,000	\$10,204
FHLB Affordable Housing Program	\$650,000	\$13,265	\$0	\$650,000	\$13,265
RIH HOME Loan	\$850,000	\$17,347	\$0	\$850,000	\$17,347
General Partner Capital	\$449,267	\$9,169	(\$145,483)	\$303,784	\$6,200
RI Renewable Energy	\$29,450	\$601	\$12,610	\$42,060	\$858
Total Sources	\$7,489,179	\$152,840	\$43,121	\$7,532,300	\$153,720

Uses	Preliminary		Delta	Firm	
	Amount	Per Unit		Amount	Per Unit
Construction	\$4,127,851	\$84,242	\$117,465	\$4,245,316	\$86,639
Contingency	\$412,785	\$8,424	\$11,747	\$424,532	\$8,664
Acquisition	\$1,728,500	\$35,276	(\$1,126,000)	\$602,500	\$12,296
Soft Costs	\$590,614	\$12,053	\$5,299	\$595,913	\$12,161
Financing	\$47,813	\$976	\$994,349	\$1,042,162	\$21,269
Developer Fee	\$225,114	\$4,594	\$38,174	\$263,288	\$5,373
Operating Reserve	\$201,283	\$4,108	\$2,088	\$203,371	\$4,150
Replacement Reserve Year 1 Deposit	\$98,000	\$2,000	\$0	\$98,000	\$2,000
Other Reserves	\$57,219	\$1,168	\$0	\$57,219	\$1,168
Total Uses	\$7,489,179	\$152,840	\$43,122	\$7,532,301	\$153,720

Deviations from standard underwriting – None

Recommendation: Staff recommends preliminary approval of the following for FFAL:

- a taxable first mortgage in the amount of \$2,500,000;
- a Capital Magnet Fund loan in the amount of \$750,000; and
- a HOME Loan of \$850,000

3. OPPORTUNITY (BENEFITS) / CHALLENGES

3.A Benefits This proposed transaction will allow CCHC to complete a substantial rehabilitation of the property and help ensure stabilized operations going forward. The updated mechanical systems, solar installation, and building envelope improvements will create more efficient operations of the property with lowered utility costs and reduced maintenance expenses.

3.B Risks/Challenges FFAL was on the RI Housing risk rating watch list for the last several years, however much of this was due to the stagnant Medicaid Waivers and the in-place rent restrictions which hampered FFAL's ability to increase revenues to match an increase in operating expenses. The addition of the PBVs increases the revenue and supports the proposed debt. In addition, the proposed rehabilitation of the property will allow for more efficient and less expensive operations (lowered utility and maintenance expenses). The first mortgage will be insured under the FHA Risk Sharing Program.

3.C Affordability A 40-year affordability extension will be recorded at closing.

3.D Pertinent risk factors for this development are:

Market – Low Risk – As one of only 3 LIHTC assisted living facilities with Medicaid Waivers licensed by the RI Department of Health, demand for the units is stable. The planned upgrades to the property is expected to increase demand with improved aesthetics and comfort and convenience for the residents.

Construction – Low to Moderate Risk – The planned scope of the rehabilitation is limited to replacement of existing building systems, interior upgrades, and limited site improvements. CCHC has 100% plans and specifications and the general contractor, which has secured subcontractor bids, will execute a guaranteed maximum price contract. A contingency of 10% of hard costs is included in the current budget. The facility will remain occupied during construction.

Developer – Low to Moderate Risk – CCHC has successfully executed similar substantial rehabilitation projects in the past and has a strong history of successful operations. They have the capacity and experience to execute this proposed project.

Community Opposition – Low Risk – This is an existing assisted living facility that is not expanding operations and there is no requirement for zoning approval for the planned rehabilitation, thus no community opposition is expected.

Financing – Low to Moderate Risk – The proposed capital structure of this refinancing includes leveraging over \$1MM in non-RIHousing ancillary sources, rolling over existing RIHousing cash flow loans, and adding new soft debt. This structure allows for the sizing of a new first mortgage loan that is adequately supported by the net operating income with negative trending.

Underwriting Assumptions – Low to Moderate Risk – Underwriting assumptions are all within the RIHousing standard underwriting guidelines and best practices in the affordable housing industry.

Other – FFAL currently contracts with Royal at Home RI, LLC (“Royal at Home”) as the service provider for meals, assisted living services for residents (including housekeeping and daily living activities), and cleaning of the common areas. RIHousing staff has reviewed the third-party service provider agreement between FFAL and Royal at Home to understand the contractual obligations that FFAL has under the agreement. The agreement currently in place contains legacy financial terms which the parties have verbally modified when the Medicaid reimbursement rate was increased in 2018. A condition of firm approval of this proposed refinancing transaction will be that FFAL execute a revised third-party service provider agreement that clarifies the financial terms, and which meets the approval of RIHousing underwriting and asset management staff.

4. UNDERWRITING

4.A Rent Comparison

Unit	Rent Type	Number of Units	Gross Rent	Gross Rent as a		
				LIHTC Max Rent	% of LIHTC Max Rent	Discount from Market Rent
1	50%	5	\$ 946	\$ 897	105%	40.9%
1	30%	10	\$ 1,212	\$ 538	225%	24.3%
1	50%	20	\$ 1,212	\$ 897	135%	24.3%
1	80% Non-LIHTC	9	\$ 1,212	\$ -	0%	24.3%
1	80% Non-LIHTC	5	\$ 1,224	\$ -	0%	23.5%
Total		49				

4.B Trending – 2% income; 3% operating expenses

4.C Vacancy Loss and Bad Debt—7.5% for residential vacancy.

4.D Other Income The assisted living operations at the property are carried as a financial pass-through wherein FFAL pays to Royal at Home all of the income from the Medicaid reimbursements and Royal at Home is responsible for all of the expenses of providing those services. There is no net financial liability or benefit to FFAL for the assisted living operations. Beginning in 2019, FFAL removed all of the revenue and expenses from the assisted living operations from the audited financial statements of the limited partnership at the recommendation of their auditor and in accordance with generally accepted accounting procedures, reflecting the true nature of the financial pass-through contractual agreement with Royal at Home.

4.E Operating Expenses – Forecasted at \$9,374/unit including annual deposit to the replacement reserve.

4.F RE Taxes – 8% of gross rental revenue trending at 2% per year to be consistent with income trending.

4.G Proposed Replacement Reserve Deposit – Initial deposit is \$2,000/unit and \$350/unit

4.H Proposed Operating Reserve Deposit – Initial deposit of \$201,283 is equal to 6 months of operating expenses and debt service, less the initial deposit to the replacement reserve, consistent with the Preservation Guidelines. It does not include the operating expenses associated with the assisted living due to the pass-thru nature of the services.

4.I Other Proposed Reserves – None

4.J Resulting NOI for Debt Service – \$186,922 in Year 1; model performs for 22 years with negative trending.

5. PROPERTY DESCRIPTION

The building is a two-story steel and wood framed apartment building constructed in 1999 and located on 3.9 acres of leased land. While FFAL has maintained the property over the last 21 years of operations, many of the mechanical systems have reached the end of their useful life and need replacement with functional and more efficient systems. The interior fit and finish of the units and common areas are clean and serviceable, yet they are well-used and worn, and in need of updating. The grounds are neatly maintained, well landscaped, and includes a walking trail through a wooded area that offers residents a comfortable and safe area for recreation and exercise.

6. DEVELOPMENT ENTITY AND CAPACITY

6.A Prior Developments and Current Operational Capacity

Church Community Housing Corporation is a not-for-profit corporation with a core mission of providing safe, decent and affordable housing. Based in Newport, CCHC was founded in 1969. Since then they were created over 800 units of housing, approximately 700 multifamily and 100 homes for first time buyers. CCHC serves low to moderate income residents and works almost exclusively in Newport County. Christian Belden is the Executive Director. The former long-time Executive Director Steve Ostiguy is now serving in the role of asset manager on a part-time basis and is leading this project on behalf of CCHC. In addition, the CCHC staff includes a property manager for the 50+ rental units managed directly by CCHC, several program managers and property maintenance personnel, and a homebuyer trainer.

6.B Financial Strength

RIHousing has reviewed the Borrower's financials and has determined that they are financially stable and the organization is well capitalized.

6.C Guarantees

The borrower will be required to provide a construction completion guarantee. The General Contractor will be required to provide a Payment and Performance Bond.

7. LOCATION AND MARKET DYNAMIC

The property is located on Forest Avenue in Middletown, RI. The neighborhood is predominately residential; however, the building is co-located with a skilled nursing facility. The building is nestled in behind the nursing home and enjoys tree-lined borders with its residential neighbors. While the property has a rural feel, it is conveniently centrally located on Aquidnick island and is readily access from West Main Road.

8. CONCLUSION

Staff recommends firm approval of the following for FFAL:

- a new taxable first mortgage in the amount of \$2,500,000;
- a Capital Magnet Fund loan in the amount of \$750,000; and
- a HOME Loan of \$850,000.

9. ATTACHMENTS

a. Proforma