Provincetown Year Round Rental Housing Trust: Initial Feasibility Analysis

Date – November 17, 2020

Outline Summary:

Following the acquisition of the then 26-unit Harbor Hill rental property by the Trust in 2017, the Town approved an expenditure of up to $10,700,000 to support the purchase and renovation of the property, including the addition of 2 accessible units, for a total of 28 units to be placed in service. To finance this expenditure, the Town closed on a series of General Obligation Bonds in the amount of $10,700,000 and also received $250,000 in grant funds from the Commonwealth of Massachusetts. The average annualized 30-year debt service for the bonds was estimated at $591,225 per year over the 2018 to 2048 bond term.

In addition to the $10,700,000 referenced above (which includes related issuance fees), the Town also approved $492,000 in 2017 and $594,000 in 2020 to cover initial operating deficits, which included covering the debt service on the bonds while the property rented-up and stabilized. While it is the hope that operating costs will stabilize over time, the Trust faces continued downward pressure on rental income to support their mission of keeping rents affordable to full-time, middle-income households. This is now exacerbated by the need to address economic hardships experienced by their residents due to the Covid-19 pandemic. This resulted in a moratorium on annual rent escalations at the property, thus capping rents for the foreseeable future.

The Trust then set out to assess and estimate the cost of capital expenditures that would be required to address much needed repairs to the now 24-year-old property. In 2020, a capital needs study was prepared to identify and estimate likely costs required to achieve a new 20-year useful life for the property, and reduce the growing maintenance and repair costs currently experienced at the property. The CNA is described in greater detail in Section 1 below.

With the Trust's objective to financially and physically stabilize the property over the long-term, this analysis focused on the key variables of income and operating expense and explored ways to address paying for operating costs (including debt service on the bonds), while remaining true to the Trust's "mission" to provide affordable housing to its middle-income year-round households. As identified from the beginning, the analysis reveals that the asset cannot continue to be supported at current rents and operating expenses, therefore leaving little to no asset value available to leverage and attract new investors/financial partners.

See Sections 1-6 for more details about:

Section 1: Summary of work to date + additional projected capital costs.

Section 2: Analysis of Operating Costs.

Section 3: Proforma Modeling Scenarios and Analysis.

Section 4: On-going liability to the Trust/Town – determining the 'asset value gap'.

Section 5: Model differential analysis.

Section 6: Seeking additional debt to cover the capital costs outlined in the CNAs.

Broad topics for discussion:

- **Confirming the long-term goals of the Trust.** In line with the Trust's enabling legislation, we note the following long-term goals that drive and inform this Initial financial feasibility analysis:

  1. Address the needs of the year-round residents of Provincetown, who do not qualify for traditional affordable housing subsidies, by providing safe, secure and stable housing options for middle-income families and individuals who contribute to the economic livelihood of the Town.

  2. Financial stabilization of the Harbor Hill asset with the goal to reduce on-going financial support from the Trust/Town.

  3. Physical stabilization of the Harbor Hill asset so as to address maintenance and repair items evident after the initial 24 years of the property's operation as required to achieve an addition 20 years of useful life.

  4. Identification and assessment of viable options for funding before going back for additional Town Meeting vote actions -- turning over "every rock" to find alternatives to additional Town funding.

- **Review economic variables: Rents and Operating Expenses**. The Sections below summarize the differential analysis of the two variables

below to see if there is any room to "right-size" rents and stabilize operating expenses, generally:

a. Rents – what are the optimal rents required to meet the Trust's "mission" and what are the optimal rents to meet non-subsidized financial stabilization?

b. Op Ex – what is the target operating expense (Op Ex) assuming: (1) the high cost of operations in Provincetown; and (2) stabilization of on-going extraordinary repair and maintenance capital costs.

- **Options for consideration**:

  - **Find an investment partner**. An investment partner is defined as a business interest who has the ability, interest and financial capacity to provide the equity capital required to support the "mission" of the Trust. This entity must be willing to explore an investment in the existing property in return for economic benefits, such as a monetary return on the capital invested and/or future financial upside such as speculation that the property would be worth significantly more over a period of time such that they could justify an economic return.

    Given the Trust's core mission, and what this analysis exercise reveals, I cannot identify any real economic benefits in the short or long-term to attract such an investment partner. Unless a charitable investor can be identified, it will be extremely difficult to find an investor that would be willing to provide the capital needed to cover the bond debt service and meet the Town's objectives for keeping the rents well below the market.

  - **Find a suitable "social investor".** A social investor is an entity or an individual (or group of individuals) who seeks returns that are not exclusively economic in nature. Socially responsible investors are extremely rare and are often discovered at the grass roots, as members of the community who are independently wealthy and driven by "mission" of the project for any reason.

    As would be required of any equity investment partner, a new LLC would likely need to be created and the property would be

transferred to this entity. It is unclear if the Trust would be able to do this under its current charter. It is recommended that the Trust seek legal counsel to consider if they are able to enter into such a partnership.

- **Find a development partner.** A development partner is defined as an entity works to develop (or redevelop) properties in return for an economic interest such as cash flow or development fees. As the Trust seeks to maintain affordable rents going forward, an interested development partner would likely be a non-profit affordable housing developer who would seek public subsidies from the State or Federal government. These subsidies would likely require rents to be affordable to households earning less than 60%, 50% or 30% of the AMI (depending on the subsidy used) and would be regulated by long-term deed restrictions. As such, a non-profit developer would not be able to accommodate the "middle-income" households that the Trust's "mission" supports.

  In the case of the Harbor Hill development, a developer's ability to find an economic interest/return would also be constrained by the fact that the Trust is a "municipal entity" that is required to follow public procurement for goods and services, which would but additional pressure on operating expense. That said, non-profit developers are accustomed to this as the co-development of public properties in the development if affordable housing is not uncommon in the Commonwealth.

  If an interested development partner is found, the Trust would have to be mindful of following all procurement laws under MGL Chapter 30B in the formal selection of that developer. The Trust should consult legal counsel regarding how best to address any legal issues related to the outstanding municipal bonds for this property to ensure it doesn't impact the Trust's ability to structure such a development partnership.

- **Secure additional debt.** The idea was raised by the CNA consultant that the Trust consider taking on additional debt to support the capital needs identified in the Capital Needs Assessment. However, there is a question as to if, or how, the Trust might be able to seek additional debt as a municipal entity

under its current enabling legislation. Again, the Trust would need to consult legal counsel before advancing discussions with a lender.

If this option is deemed worthy of consideration, it may be possible to find a local community lender/bank that could find some collateral value in the property on which to offer a secondary, subordinate loan (much like a home equity loan). This debt could be drawn and repaid as needed to meet the capital needs and maintenance of the property and be repaid without penalty as funds from the property's operation allows.

This type of debt might be attractive to a local bank, often a savings bank, looking to demonstrate community commitment for marketing reasons in an attempt to become the favored community lender. They may also be interested in making the loan for other reasons such as CRA credit (Community Reinvestment Act) and/or personal/political connections to the Town by its board members, for instance.

It's important to keep in mind that even if the Trust were to find an interested local bank, the bank's underwriting criteria would be difficult to achieve given the current rent structure, especially in light of the pandemic rent freeze.

- **Create a formal Town/public subsidy to provide annual funds to provide a permanent source of operating subsidy.** Given that the items above are not likely to produce a complete, long-term solution to buttress the financial needs of the Harbor Hill property, the Trust should consider pursuing a formal public subsidy option for on-going operating support.

  This would require the creation of a formal, annualized, publicly funded subsidy to stabilize the property going forward over the remaining 18 years of the bond instrument. This subsidy would take the place of traditional public low-income housing subsidies and allows the Town to target income and household affordability levels (at a so-called "middle-income" tier) that address the unique needs of its year-round population and workforce.

To do this, the amount of the subsidy needed must be estimated to consider the stabilized income and operating variables described above. These variables will become the basis for a forward-funded annual operating subsidy (or "formula funded subsidy") that increases or decreases as needed, as these variables change year-to-year.

This "formula" would be the basis for an operational stabilization plan that could demonstrate how the property will normalize operating costs and maximize rents going forward, in a manner consistent with the Trust's middle-income housing "mission". This plan could be used to demonstrate concept in support of Town meeting actions that would be required to commit public subsidy funds. This plan would also consider how to address unknown variables such as the current public health challenges posed by the pandemic and related economic uncertainty.

Certainly, this would not be an easy task and would require significant community outreach prior to another Town Meeting vote; but would remove the need to go to Town Meeting every year that the property requires additional funding to keep it solvent.

This is explored in detail in the Sections below.

Provincetown Year Round Rental Housing Trust: Initial Feasibility Analysis

Date – November 17, 2020

Summary Details

Section 1: Summary of work to date + additional projected capital costs.

In March of 2020, a capital needs assessment (or CNA) was conducted and has established two viable options for long-term stabilization of the Harbor Hills property. This work described in the CNA is in addition to the work previously completed/funded by the Trust/Town to address ADA compliance issues and the renovation of Building 5 as necessary to bring those units on-line sooner. The variables that distinguish the two CNAs relate to the timing of the repairs and maintenance, and related costs needed.

To address the long-term goals outline above, and following the recommendations from the CNAs prepared by Capital Needs Unlimited, the decision by the Town to fund the financial short falls year to year will require either: (1) annual funding for capital repairs estimated in the CNA at approximately $150,000/year*; or (2) securing additional debt funds in the amount of $1.6M over a 20-year period after a first-year allocation of $150,000. The later will require additional debt service and will be challenged by loan-to-value caps that may not be achievable given the current financial structure.

** This is a projection of the average annualized funding need per the Capital Needs Assessment and may be over/under estimated. See below for the year by year estimate of expenditures required per the CNA.*

1. Option A: Option A considers 'front-loading' the capital work in the first two years and requires that additional capital be raised in the amount of $1.6M to pay for this work. An initial contribution to the property reserve account of an estimated $150,000 would be funded, presumably by the Town, which would include an annual fee of $14,000 to fund the property reserve account ($500 per unit per year)

that would be capitalized going forward from property operations. The total work required under this option is estimated at $2.1M (see Section 6 below for details).

Under this scenario, this leaves an estimated amount available for debt service of $136,000, which could support $1.6M loan assuming a fixed rate of 7.5%, subject to underwriting.

Note: the high interest rate presumes a higher underwriting risk premium associated with taking a second mortgage position. If this rate can be reduced, the additional funds could be used to either increase the annual reserve amount or be returned to the Town.

It is important to point out that as a municipal entity, additional debt funding may not be allowed without public approval subject to another vote approved by Town Meeting.

2. Option B: Option B assumes no additional debt on the project and requires the Town to commit an estimated $150,000 a year (inflated annually) for a total commitment of $3,468,551 over the 20-year period, beginning in 2020 (an average of $173,428 per year).

Section 2: Analysis of Operating Costs. A critical variable to the financial feasibility of an operational asset, like a rental property, operating expenses must be measured, monitored and managed month-to-month to identify opportunities to increase efficiency and reduce costs in the annual operating budget. Critical to this will be stabilizing the *extraordinary* operating costs and fees that are currently being billed to support property operations. These costs represent unexpected repairs and maintenance work, and the related time spent by property management staff to coordinate, and likely will worsen as the property continues to age.

The operating budget includes all costs associated with the management and maintenance of the property, including grounds, snow and trash removal, as well as real estate taxes (as applicable), utilities, insurance and professional property management fees. If any costs start increasing out of line with comparable properties in the region, these costs should be

identified and reviewed for opportunities to remedy high expenses and reduce overall costs.

On a per unit/per year basis, comparable property expenses in eastern Massachusetts range between $7,000 and $10,000 and vary depending on maintenance requirements and any extraordinary expenses. While eastern Massachusetts is the comparable, it is important to address the high-cost nature of work and supply costs in Provincetown, and the Town's public procurement premiums. Given this we have assumed a $10,000 PUPY target.

The current Harbor Hill operating expenses (actual, year to date through September of 2020 as recorded in the Town's financials), excluding extraordinary maintenance expenses, is $7,087 per unit/per year (PUPY) and is outlined below.

Property Operations Expenses (Three Months thru 9.30.2020)

These costs are actual as reported by the Town in September of 2020:

Advertising & Marketing	$ 487.80
Legal/Fees	$ 400.00
CDP Management Fees	$24,302.85 (assume fee + admin costs)
Maintenance:	
Grounds – Contract	$ 1,060.00
Snow Removal/other	$ 173.09
Materials for Repairs	$ 123.54
Contract Maintenance	$ 2,835.53
Rubbish Removal	$ 1,230.44
	$ 30,613.25
Project Annualized Op Ex:	**$122,453 ($4,373 PUPY)**

These expenses include only the property's operating budget and excludes so-called extraordinary costs related to on-going capital improvements described above. It will be important to account for these capital expenditures against the CNA budgets prepared by Capital Needs Unlimited (described above), and recognize any expenditures that

exceed the budget line items. These extraordinary expenses will need to be tracked and accounted for against the total capitalized basis value of the property on the Trust's annual financial reports. For the period July 1, 2020 to September 30, 2020, this amount is $38,347.17 representing only 3 months, or 1/4 of the year. It should be noted that these costs suggest an annual cost of $153,389, or $5,478 PUPY which is $1,105 PUPY higher than the projected Op Ex reported above. This suggests that the estimates above may be underestimated.

In addition, the expenses reported above do not include the following property expenses, which are typical on comparable properties, may be required going forward. These items will need to be considered, to the extent they are required. For the purpose of this analysis, we have assigned an estimated cost to each of the line items below to consider how these additional expenses can be valued and financed.

Outstanding/missing items to be addressed:

Reserves	$ 14,000/year (per CNA)
Utilities: elec, heat/hw, water/sewer*	$ 15,000/year (Est.)
Insurance	$ 47,000/year (Actual)
Real Estate Taxes	$ 0 (NA)

* Assumes tenants pay utilities excluding water and sewer. This estimate includes only utilities required to support common areas.

Total:	**$ 76,000 ($2,714 PUPY)**
Total PUPY combined	**$ 7,087**

When considering the base property operation expenses plus the outstanding/missing items above, the adjusted PUPY is $7,087. Because the property does not pay property taxes, an estimated amount for taxes should be considered in order to make a full comparison to like properties. Again, we have underwritten the PUPY Op Ex at $10,000, to reflect the current and likely on-going maintenance and physical repair if the CNA is not pursued. This is discussed in greater detail in the next section.

It is important to keep in mind that while the property is now at 100% occupancy, stabilizing rents, the Town has had to freeze rents during the pandemic. This will likely hold the rental income level for 2021 and

perhaps through to 2022. This further constrains rental income in the near term. In addition, on the operating side, if the work of the CNA is not pursued, it is likely that addressing the physical condition of the property will take longer, thus requiring longer for the Op Ex to stabilize.

As described above, the proforma analysis, described in the attached Exhibit sections, assumes an operating expense of $10,000 PUPY reflecting higher presumed maintenance costs going forward given its current physical condition and assumes continued reduction of property taxes, per the Trust's special enabling legislation.

Section 3: Proforma Modeling Scenarios and Analysis. In this section, we consider two variables: (1) how to maximize efficiency of the property's performance; and (2) how best to maximize the asset's value by increasing income potential. These variables directly impact the ability to economically stabilize and finance the property and are critical to understanding how asset performance impacts value and long-term financial viability.

As of the date of this report, the asset known as Harbor Hill is fully occupied and houses 28 resident households at rents that range between $1,000-$1,450 for a 1-bedroom unit, $1,650-$2,000 for a 2-bedroom and $2,700 for the single 3-bedroom unit. For analysis purposed, the average rents are: $1,330 (5 x 1BR), $1,830 (22 x 2BR), and $2,700 (1 x 3BR). These rents reflect the current rent roll.

These rents are affordable to households earning between 55% and 112% of the area medium income (AMI). According to the 20-year capital needs assessment (described above), the property is currently in need of between $1.878M and $1.888M in repairs and maintenance. The projected capital needs in the first 5 years is approximately $1,147,000 (Option A) and $590,000 (Option B), with Option A addressing the most critical capital needs required to immediately increase rents, and therefore the asset's value. If this work is not pursued, rents will be further constrained going forward.

The property is currently operating at a net operating loss where current rents cannot meet all operating costs and debt service on the bonds and is in need of asset repositioning and/or subsidies. For the purpose of our analysis, we are assuming CNA Option A is the most advantageous and

have included the additional $1.6M debt into the projected capital structure.

In the performance of this analysis, four separate proforma models were created to consider the value of the asset assuming operating expenses are held at $10,000 PUPY, and rents are considered under four alternative scenarios as described below.

Note: The analysis assumes household sizes pegged to the number of bedrooms included in each unit consistent with mixed-income finance standards. It is important to point out that a large portion of the 2-bedroom units currently house single-member households. This significantly challenges the Trust's ability to entertain the higher rents contemplated below, but the resulting economics over the long-term are not considered here.

A summary chart of each of the following models is attached:

1. **Current Rents.** Property income assumes rents sent at the current rent levels received, representing households earning between 55% and 112% of the area median income (AMI). The AMI is the standard used by federal and state as a standard to approximate rents affordable to certain income brackets adjusted for family size and market location. For example, the AMI-based rent in states with lower AMI's (Mississippi, Louisiana, West Virginia and New Mexico) will have lower rents as a % of AMIs and highest income states such as Massachusetts, Maryland, New Jersey and Hawaii.

   With the exception of the single 3-bedroom unit, the majority of the units are currently affordable to household earning less than 80% of the AMI for Barnstable County for household standardized sizes: 1.5 for a 1-bedroom, 2.5 for a 2-bedroom and 3.5 for a 3-bedroom unit. This does not contemplate the current 1-person household data. *This topic should be discussed and the rent's appropriately right-sized to meet the target demographic going forward.*

   Assuming that the operating expense can be maintain at $10,000 PUPY in FY 2021, this run reveals an on-going need for funds from the Trust and Town at approximately $433,000 per year, and has led to the

request for additional funding/subsidy from the Town at Town Meeting in September 2020.

See Exhibit A.

2. **110% AMI Rents.** For this run, "middle-income" rents were pegged at 110% of the AMI to assess how this change might reduce the Trust's/Town's on-going financial liability. Assuming operating expenses remains at $10,000 PUPY this run requires funds from the Trust and Town at approximately $255,000 per year.

   See Exhibit B.

3. **Market rents sized to address the forward-projected gap such that the Trust/Town will not have to fund any deficits going forward.** The goal of this analysis is to find the target rent that will reduce fully, the need for any additional funds from the Trust or the Town. This scenario assumes that the lenders will require any cash flow from the property (estimated at approximately $145,000/year) shall not be used to fund debt service. The resulting rent structure includes rents affordable to households earning approximately 147% of the AMI.

   Again, this analysis should be viewed as a relative comparison to Models 1 and 2 and not an absolute income estimate -- as the over-housing of households (many 2-bedroom units contain only one resident), and the effects of the pandemic on the marketplace -- and therefore skew the estimate of "market rent".

   This model indicates that the rent required to support this "right-sizing" of the operational budget are far too high to meet the needs of the Town's eligible year-round population, many who juggle several part time and seasonal jobs. This scenario also does not address the range of incomes anticipated by this cohort.

   See the proposed rents below in the Model Differential analysis section.

   See Exhibit C.

4. **Utilization of the project's operating cash flow to help pay for the monthly debt service amounts.** This final analysis seeks to reduce the rents by utilizing the cash flow from the project (estimated at approximately $145,000/year, at a 1.2 debt service coverage factor) to reduce the rents so that are affordable to households earning approximately 125% AMI. The thesis bears out of the idea that if the project is throwing off cash flow (the 20% represented by the 1.2 debt service coverage factor), can this cash flow, or a portion thereof, be used to off-set the funds to be contributed by the Town.

   The resulting rent structure in this scenario, includes rents affordable to households earning 125% -- reducing rents, for example, projected in Model 3 by as much as $300/month for the 1 BRs, $475/month for the 2 BRs and $500 the 3 BR units – and making the units approximately 25% more affordable than Model 3.

   While the reduced rents are appealing, it is important to point out that this scenario will be difficult to achieve, as lenders typically require 20% of cash flow be used for other property expenses. A lender might agree to this structure assuming the Trust/Town guarantee the cash flow in case additional cash is required to physically stabilize the property, thus reducing the need for on-going annual funding.

   See Exhibit 4.

Model option #3 and 4 above will require the Trust/Town to make a value judgement between: (1) addressing the annual financial needs of the operating asset such that no gap exists going forward; and (2) identifying the 'target' rent structure required to meet the needs of the households the Trust seeks to support. If the result of this equation is negative (meaning the rents are not sufficient to meet the operating costs), additional subsidies or asset sale or repositioning will be required.

This calculus is important as it places a value to the people of Provincetown to maintain some level of affordability for the residents of Harbor Hill. Moreover, the reduction of rents below the rents estimated in Options 3 and 4, will represent and on-going liability, essentially a "subsidy", that the Town will need to agree on and stand behind.

Section 4: On-going liability to the Trust/Town – determining the 'asset value gap'. As an on-going operating asset, the calculi above will help to determine the on-going financial exposure to the Trust and the Town that will need to be addressed in one, or a combination, of the following ways:

1. Seek additional debt or capital resources. This issue is central to the Town's goal to explore any and all feasible opportunities for reducing the Town's need to continue to fund 100% of the operating deficits.

   If the Trust decides to pursue Option A of the CNA, the additional debt service of $1.6M will need to be financed and underwritten, which is discussed in greater detail in the next section. However, there is a question as to if, or how, the Trust might be able to seek additional debt as a municipal entity. If this option is deemed worthy of consideration, it is recommended that the Trust seek legal advice in conjunction with the Town to confirm if, and how, the municipality can seek additional debt. For instance, it is likely this would require another Town Warrant to allow for public debate and consideration.

2. Increase rents to the sustainable levels considered in Options 3 and 4 described above. Again, given the mission of the Trust to provide rents that are affordable to year-round residents of, or employees working in Provincetown, and the realities of the on-going pandemic public health crisis, this is likely not the primary driver to address the gap in the operating budget.

3. Long-term public subsidy(s). If it is determined that rents should remain low, and affordable to "middle-income" households such that they don't cover the operating and capital needs expenses, a case must be made for continual public funding support from the Town.

   Given the lack of traditional affordable housing subsidies from Federal, State and local sources to address this middle-income cohort of households, the Town would essentially need to create its own affordable housing fund. This fund could conceivably be supported in part by funds collected from the tax base, including any extraordinary taxes as available, to be debated and determined through future Town warrants and Town meetings.

4. Leveraging the asset value. In its current financial position, the value of the Harbor Hill asset is limited by the projected rents and high operating cost structure. In order to right-size and support this value to leverage additional debt or investment, the Town will need to maximize the presumed asset value for the Harbor Hill property to meet the underwriting requirements of the lenders and investors solicited.

   Again, asset value is driven by both rents received and expenses anticipated, as described above. The total gross income (or rents less vacancies) is reduced by the total operating expense, resulting in a Net Operating Income (NOI) that can be "capitalized" to determine the asset's value. For the purpose of this analysis, the presumed "cap-rate" is 5.5%, representing imputed investment returns on equity.

Section 5: Model differential analysis. A differential analysis represents the principal functions (in this case the goals of the Trust), with respect to changes in the independent variables (rents and operating costs). If the objective is to get to a rent/operating structure that reduces on-going Trust/Town liabilities to $0, Model 3 is deemed most advantageous.

- Model 3 -- The Trust may consider Increasing rents to maximize asset value to address payment of current and future debt to address the CNA. Assuming the asset value must support an overall 80% loan-to-value (LTV), the asset value required to support existing bond debt + additional debt to meet the scope of the CNA is estimated at **$15,867,382**. Model scenario 3 meets this value but requires significantly higher rents that are not likely to be mission supported:

1 bedroom	$2,410* ($1,080/mth (81%) higher than current rents)
2 bedrooms	$3,204 ($1,374/mth (75%) higher than current rents)
3 bedrooms	$3,878 ($1,178/mth (44%) higher than current rents)

** Include deed restricted rent for unit 20A*

- Model 4 -- A variation on Model 3, Model 4 considers utilizing the projected cash flow from the fully leased property and maintains a slightly reduced asset value of **$13,200,800**, reflecting the lower projected rents. This will likely require that the Trust guarantee the

difference of the Model 3 and Model 4 rents each year, which is best reflected by the total cash flow projected at approximately $145,500/year.

This scenario reduces the Model 3 rents as follows, but is still likely to be mission supported:

1 bedroom	$2,103* ($773/mth (58%) higher than current rents)
2 bedrooms	$2,730 ($900/mth (50%) higher than current rents)
3 bedrooms	$3,375 ($675/mth (25%) higher than current rents)

** Include deed restricted rent for unit 20A*

Alterative options for maintaining reduced rents at current levels or at 110% AMI were also modelled. If rents are not increased in Models 1 or 2 the asset value is reduced as follows:

- Model 1 – Assumes "current rents" and results in an estimated asset value of **$7,995,375**, which is about 50% of the $15,867,382 value required to reduce the needs for additional capital and/or subsidy:

1 bedroom	$1,330 (represents 71% AMI)
2 bedrooms	$1,830 (represents 81% AMI)
3 bedrooms	$2,700 (represents 112% AMI)

- Model 2 – Assumes all rents are increase to maintain affordable up to 110% AMI and results in an estimated asset value of **$11,228,969**, which is about 29% of the value required to reduce the needs for additional capital and/or subsidy:

1 bedroom	$1,885 (represents 104% AMI) – incl. reduced rent at unit 20A.
2 bedrooms	$2,399 (represents 110% AMI)
3 bedrooms	$2,657 (represents 110% AMI)

Section 6: Seeking additional debt to cover the capital costs outlined in the CNAs. As suggested by Capital Needs Unlimited in the CNAs described above, there are two viable options for financing the future maintenance required to support a 20-year life cycle for the property. The first option (Plan A) considers seeking additional debt from a local lender who will sit in second position behind the existing bond financing, after an initial $150,000 capital outlay in 2020 or 2021. The second option (Plan B) requires on-going annual financial support by the Trust and/or the Town in an amount of approximately $150,000/year. For the purpose of the analysis of Models 1 – 4 above, we have assumed that Option A is assumed, but the following addresses the implications of both for comparison purposes.

- CNA Financing Plan A: Again, it is important to point out that even at a higher interest rate assumed here to off-set the increased lender risk, underwriting for this additional debt will be difficult given the current operating proforma where the bond debt service absorbed the majority of the operating income available for debt.

  If rents and operating costs are not adjusted, it should be assumed that some level of on-going commitment from the Town will be required to fund a portion of the debt service for the bonds that is not supported through operations -- beyond the initial $150,000 required in year 1 while second position financing is secured and closed. This will be required to ensure enough funding to support the $1.6M in additional debt service payments assuming a 1.2 debt service coverage and a 7.5% interest rate. The exact amount of this commitment will vary given the rents and operating costs projected going forward.

  As described above, Option A assumes that $1,147,137 in capital improvements will be required in the first 5 years. As such, it may make most sense to pursue a revolving credit line (much like a home loan equity line), that can only be drawn as needed to reduce the cost of the interest.

- CNA Financing Plan B: Even at the higher rents required in Models 2, 3 and 4 above, the Town will be required to carry the on-going annual deficits of the property. In addition, the CNA requires additional annual contributions to support the capital improvement work anticipated in the total amount of $2,094,473 (inflated over 20 years) estimated annually as follows (as laid out in the CNA Option A prepared by Capital Needs Unlimited:

Year:		Total inflated:	Sub-totals
1	2020	$ 58,332	
2		$ 207,498	
3		$ 45,578	
4		$ 50,174	
5		$ 249,257	$ 610,839
6		$ 47,660	
7		$ 49,739	
8		$ 260,642	
9		$ 49,837	
10		$ 482,609	$ 890,487
11	2030	$ 273,995	
12		$ 75,609	
13		$ 49,906	
14		$ 50,655	
15		$ 51,415	
16		$ 52,186	
17		$ 9,627	
18		$ 9,771	
19		$ 9,917	
20	2039	$ 10,066	
		$ 2,094,473	

If minimization of the Town's/Trust's on-going financial responsibility to support the Harbor Hills asset is a high priority, then Option A would clearly be the best option to take at this time, assuming that a lender agrees to take on the debt in a second mortgage position. Again, the notion of a revolving loan structure might best allow for this.

If a loan cannot be negotiated, then Option B provides a solution at a more predictable financial commitment over the next 20 years.

It is important to underscore, that neither option will be viable until the property performance can be stabilized by significantly reducing on-going operating costs and/or increasing current rents. This is considered in the next section.

This analysis provides a glimpse into the various income/expense scenarios that may be considered. And a combination of all four options above might provide a solution to minimize the exposure/risk to the Trust and the Town.

Harbor Hill Rent Options

per Bev Gallo for 2020

	Current rents 2020	110% AMI	125% AMI	146% AMI
1-BR	$1,000-$1,450	$1,885	$2,103	$2,410
2-BR	$1,650-$2,000	$2,393	$2,719	$3,176
3-BR	$2,700	$2,657	$3,375	$3,878

Current rents range from about $1,000 - $1,450 for 1-bedroom,
$1,650 - $2,000 for 2-bedroom, and $2,700 for 3-bedroom.
Rent increases are on hold due to COVID.
Using the state and federal standard of 30% of income for housing costs and household size of 1.5 people for 1 bedroom, 2.5 people for 2 bedroom, and 3.5 for 3 bedroom, these rents represent households earning between 55% and 112% of Area Median Income [AMI].

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Harbor Hill Rent Options with Differences per Month

per Bev Gallo for 2020

	Current rents 2020	110% AMI	change from current low	change from current hi	125% AMI	change from current low	change from current hi	146% AMI	change from current low	change from current hi
1-BR	$1,000-$1,450	$1,885	$885	$435	$2,103	$1,103	$653	$2,410	$1,410	$960
2-BR	$1,650-$2,000	$2,393	$743	$393	$2,719	$1,069	$719	$3,176	$1,526	$1,176
3-BR	$2,700	$2,657	($43)	($43)	$3,375	$675	$675	$3,878	$1,178	$1,178

Harbor Hill Rent Options with Differences per Month

per Bev Gallo for 2020

	Current rents 2020	110% AMI	change from current low	% increase	change from current hi	% increase	125% AMI	change from current low	% increase	change from current hi	% increase	146% AMI	change from current low	% increase	change from current hi	% increase
1-BR	$1,000-$1,450	$1,885	$885	89%	$435	30%	$2,103	$1,103	110%	$653	45%	$2,410	$1,410	141%	$960	66%
2-BR	$1,650-$2,000	$2,393	$743	45%	$393	20%	$2,719	$1,069	65%	$719	36%	$3,176	$1,526	92%	$1,176	59%
3-BR	$2,700	$2,657	($43)	-2%	($43)	-2%	$3,375	$675	25%	$675	25%	$3,878	$1,178	44%	$1,178	44%

HARBOR HILL RENT 2% INCREASE

	# of units	Beds	2020 Rent	12 Months	2% increase per month	2% increase per year
8 HH Rd # 4						
Unit 5a	1	1	$ 1,000	12000	$ 1,020	12240
unit 4-1	1	2	$ 1,650	19800	$ 1,683	20196
unit 4-2	1	2	$ 1,900	22800	$ 1,938	23256
unit 4-3	1	2	$ 1,650	19800	$ 1,683	20196
unit 4-4	1	2	$ 1,900	22800	$ 1,938	23256
unit 4-5	1	2	$ 2,000	24000	$ 2,040	24480
subtotal	**6**	**11**	**$ 10,100**	**121,200**	**10,302**	**123624**
3 HH Rd # 5						
unit 5-21	1	1	$ 1,550	18600	$ 1,581	18972
unit 5-22	1	2	$ 2,000	24000	$ 2,040	24480
unit 5-23	1	2	$ 1,950	23400	$ 1,989	23868
unit 5-24	1	3	$ 2,700	32400	$ 2,754	33048
unit 5-25	1	1	$ 1,450	17400	$ 1,479	17748
unit 5-26	1	2	$ 2,000	24000	$ 2,040	24480
sub totals	**6**	**11**	**$ 11,650**	**139,800**	**$ 11,883**	**142596**
4 HH Rd #6						
unit 6-6	1	2	$ 1,900	22800	$ 1,938	23256
unit 6-7	1	2	$ 1,650	19800	$ 1,683	20196
unit 6-8	1	2	$ 1,650	19800	$ 1,683	20196
unit 6-9	1	2	$ 1,900	22800	$ 1,938	23256
unit 6-10	1	2	$ 1,650	19800	$ 1,683	20196
unit 6-11	1	2	$ 1,900	22800	$ 1,938	23256
sub totals	**6**	**12**	**$ 10,650**	**127,800**	**$ 10,863**	**130356**
37 BSE #7						
unit 7-12	1	2	$ 1,900	22800	$ 1,938	23256
unit 7-13	1	2	$ 1,650	19800	$ 1,683	20196
unit 7-14	1	2	$ 1,900	22800	$ 1,938	23256
unit 7-15	1	2	$ 1,650	19800	$ 1,683	20196
unit 7-16	1	2	$ 1,900	22800	$ 1,938	23256
unit7-17	1	2	$ 1,650	19800	$ 1,683	20196
unit7-18	1	2	$ 1,900	22800	$ 1,938	23256
unit 7-19	1	1	$ 1,450	17400	$ 1,479	17748
unit 7-20	1	2	$ 2,000	24000	$ 2,040	24480
unit 7-20A	1	1	$ 1,200	14400	$ 1,224	14688
subtotal	**10**	**18**	**$ 17,200**	**206,400**	**$ 17,544**	**210528**
Total	**28**	**52**	**$ 49,600**	**595,200**	**50,592**	**607,104**

monthly increase: *$ 992*
yearly increase: *$ 11,904*