

STAFF SUMMARY AND RECOMMENDATION
Neighborhood House of North Richmond (“NH”)

Amendment to Resolution Number HII-127

February 27, 2003

APPROVED HELP II LOAN AMOUNT: \$400,000

PURPOSE OF AMENDMENT: Neighborhood House of North Richmond requests a change to a contingency requiring verification of receipt of a federal grant, which the Authority required when the loan was approved at its October 31, 2002 meeting. NH’s purchase contract expires March 15, 2003, and since NH is not certain that a \$1.5 million grant will be received by that time, it is obtaining a \$600,000 loan, secured by another NH property, which will provide the balance of the funds needed to purchase and renovate the property.

Staff recommends approval of this amendment based on the sufficiency of collateral, adequacy of projected debt service coverage (including this new loan), as well as requirements instituted by the lead lender, including payoff of the \$600,000 loan with proceeds of the grant, verification of additional sources of operating revenue, and covenants limiting additional debt.

BACKGROUND: The Authority approved a \$400,000 HELP II loan for NH’s purchase and remodeling of a facility which will house programs currently operating out of two leased locations. This loan will be collateralized by this remodeled facility.

The Authority approved the contingencies recommended by staff, including obtaining a \$1.4 million loan, jointly issued by NCB and Low Income Investment Fund (“LIIF”) which was a source of funds for this project. In addition, the Authority required that NH verify when it received a \$1.5 million grant from the federal Department of Commerce, which was another projected source of funds.

NH still anticipates that this grant will be approved, but may not be received before an anticipated March 15, 2003 transaction closing date. Until that time, NH proposes borrowing \$600,000 at 8%, with a 5 year maturity, amortized over 10 years, from the Northern California Community Loan Fund (“NCCLF”), which will be secured by another NH-owned property. NCB and LIIF have both agreed to this loan as a contingency. A commitment letter from NCCLF was issued on February 6, 2003.

FINANCIAL UPDATE: The projected financial picture of NH, even with the addition of the NCCLF loan, is substantially the same as described in the staff report presented to the Authority in October 2002. Combined loan to value is still approximately 86%. Proforma debt service coverage (based on audited 2002 figures) is an adequate 1.56x, compared to 1.50x (which had been based on audited 2001 figures). Similarly, with additional debt, NH will be leveraged, with a debt to unrestricted net asset ratio of 5.40x (compared to 5.32x).

Also, as was the case in October 2002, there are numerous contingencies and covenants that are required by the lead lender. Added contingencies include a requirement that the NCCLF loan be

paid off when the Department of Commerce grant is received and a verification that additional operating revenue will be available to NH. As before, there will be required debt service and project completion reserves as well as covenants limiting the amount of additional debt.

There have also been several positive developments since the October 2002 meeting. NH has received approval of a City of Richmond block grant of \$100,000 for predevelopment costs, and is awaiting a decision on a \$200,000 county grant for renovations. In addition, the City of Richmond has agreed to purchase a NH transitional housing property and to help renovate the third floor of the new facility, where these services will be shifted to. NH will realize a small profit from the sale and will extinguish a \$200,000 debt.

NH has been approved for \$175,000 in new private and government grants for its services. NH's audited financial statements for 2002 report a \$30,571 increase in unrestricted net assets, versus the \$17,709 reported in the unaudited version presented in October. Another positive indication is a gain of \$63,821 based on unaudited statements for the six months ended December 31, 2002. See Page 3 and 4 for financial statements.

Below is an updated Sources/Uses of funds:

<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II Loan	\$400,000	Purchase	\$2,195,000
NCB/LIIF loan	1,454,000	Remodeling	242,000 ^(a)
NCCLF loan	600,000	Reserves	117,000 ^(a)
Grants	100,000	Financing Costs	34,000
Equity Contribution	<u>34,000</u>		
Total Sources	<u>\$2,588,000</u>	Total Uses	<u>\$2,588,000</u>

^(a) NH will be required to establish reserves totaling \$317,000, \$200,000 of which is to be applied toward remodeling costs.

RECOMMENDATION: Staff recommends the Authority approve an amendment to HII-127, to remove the contingency of verifying the receipt of a \$1.5 million grant from the Department of Commerce, and adding the contingency of ensuring that a \$600,000 loan, with terms acceptable to the Authority, is in place at time of closing. All other conditions of HII-127 remain in place.

Neighborhood House of North Richmond
Statement of Activities
Unrestricted

	Six months ending 12/31/02 (unaudited)	For the year ended June 30		
	<u>2002</u>	<u>2001</u>	<u>2000</u>	
Unrestricted Revenue:				
Contracts	\$ 432,410	\$ 925,345	\$ 770,341	\$ 609,727
Client fees	168,567	372,679	280,644	194,072
Grants and donations	180,932	190,999	247,569	230,721
Net assets released from restrictions	50,000	66,716	91,493	30,219
Other revenue	42,321	43,066	23,427	25,588
Total support and revenue	<u>874,230</u>	<u>1,598,805</u>	<u>1,413,474</u>	<u>1,090,327</u>
Expenses:				
Salaries & Benefits-Program Svcs.	444,467	779,968	598,897	588,896
Salaries & Benefits-General & Admin.	94,728	148,196	164,350	185,577
Consultants and professional services	34,559	148,773	150,006	41,534
Rent	39,676	78,785	69,037	80,159
Utilities	16,518	45,343	44,681	30,912
Telephone	12,125	27,244	43,931	26,899
Food, household, and program supplies	49,526	96,269	59,896	56,848
Insurance	8,115	56,005	40,393	18,117
Depreciation	19,656	39,312	37,363	34,421
Equipment rental	7,942	28,529	15,781	14,392
Office supplies	7,289	19,461	15,893	8,507
Interest	7,804	11,520		
Fundraising expenses	14,805	-	11,016	-
Lab fees	2,336	5,206	8,729	5,871
Other expenses	50,863	83,623	72,986	51,066
Total expenses	<u>810,409</u>	<u>1,568,234</u>	<u>1,332,959</u>	<u>1,143,199</u>
Increase (decrease) in unrestricted net assets	63,821	30,571	80,514	(52,872)
Unrestricted net assets, beginning of year	427,027	383,206	302,691	355,563
Prior year adjustment		13,250		
Unrestricted net assets, end of year	<u>\$ 490,848</u>	<u>\$ 427,027</u>	<u>\$ 383,205</u>	<u>\$ 302,691</u>

**Neighborhood House of North Richmond
Statement of Financial Condition**

	As of 12/31/02 (unaudited)	2002	As of June 30 2001	2000
ASSETS				
Current assets:				
Cash	\$ 75,274	\$ 145,703	\$ 79,565	\$ 54,761
Grants receivable	181,486	119,119	115,542	127,121
Pledges receivable	-	-	7,500	8,000
Note receivable	13,250	13,250	-	-
Deposits & Prepayments	11,640	21,190	13,912	7,688
Other current assets	17,509	19,191	3,067	1,981
Total Current Assets	<u>299,159</u>	<u>318,453</u>	<u>219,586</u>	<u>199,551</u>
Fixed assets, net	<u>647,009</u>	<u>594,136</u>	<u>373,027</u>	<u>368,663</u>
Total assets	<u>\$ 946,168</u>	<u>\$ 912,589</u>	<u>\$ 592,613</u>	<u>\$ 568,214</u>
LIABILITIES & NET ASSETS				
Current liabilities:				
Accounts payable & Accrued expenses	\$ 47,683	\$ 52,558	\$ 103,839	\$ 57,962
Accrued personnel expenses	78,367	74,452	44,576	94,498
Deferred revenue	29,576	23,755	18,835	21,571
Note payable	66,913	41,913	-	-
Other current liabilities	17,698	26,500	-	-
Total current liabilities	<u>240,237</u>	<u>219,178</u>	<u>167,250</u>	<u>174,031</u>
Mortgage payable	<u>197,612</u>	<u>198,913</u>	<u>-</u>	<u>-</u>
Total liabilities	437,849	418,091	167,250	174,031
Unrestricted net assets	490,848	427,027	383,206	302,691
Temporarily restricted net assets	17,471	67,471	42,157	91,492
Total net assets	<u>508,319</u>	<u>494,498</u>	<u>425,363</u>	<u>394,183</u>
Total liabilities and net assets	<u>\$ 946,168</u>	<u>\$ 912,589</u>	<u>\$ 592,613</u>	<u>\$ 568,214</u>
Financial Ratios:				
	Proforma^(a)			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Debt Service Coverage (x)	1.56	5.75	-	-
Debt/Unrestricted Net Assets (x)	5.40	0.47	-	-
Margin (%)		1.91%	5.70%	-4.85%
Current Ratio (x)		1.45	1.31	1.15

(a) Recalculates 2002 audited results to include the impact of this proposed financing, including NCB and NCCLF loans.

Credit is given for projected leasing of a portion of the available space in the new building and for a conservative estimate of additional net operating revenue.