

2003-2007 Financial Plan Progress Report – May 2007

In September 2002 we completed the “Financial Plan for the Chinatown Community Development Center 2003-2007”. The Financial Plan discussed Chinatown CDC’s financial health in three aspects: (1) the annual operating budget, (2) the operating budgets of the property portfolio, and (3) the underlying financing structure of its properties (asset management). The financial plan identified key financial issues and strategies and recommendations to strengthen the organization financially.

Below is a discussion comparing our projections five years ago to present. Some of our assumptions were too ambitious, while we’ve also had some areas where we’ve performed better than expected. And we’ve taken great steps in strengthening the health of our assets.

The Annual Operating Budget

Budget projections in the Financial Plan anticipated tremendous growth over the five year period. We projected our operating budget to grow to \$6 million in 2007. In reality, our 2007 budget is \$4.7 million. Attached is a comparison of the Financial Plan projections for 2006 and the actual income and expenses incurred. There is a \$1.4 million difference in our projections (2006 projected \$5.8m; 2006 actual \$4.5m).

The financial goals from the Financial Plan are listed below with a brief status report, which also explains many of the variances on the 2006 financial comparison:

- Raise \$4 million for the Campaign for Communities for the International Hotel, Broadway Family Apartments, and program initiatives.

Our Campaign goal turned out to be overly ambitious. Initially we envisioned raising funds for two housing projects and several programs and services linked to these buildings, over a 3 year period. We ended up raising \$1.65 million for the I-Hotel over a 5 year period. There are many lessons learned from the Campaign which will inform future fundraising strategies. Fortunately, we have been able to build the Broadway Family Apartments and provide services at the I-Hotel without fundraising proceeds.

- Diversify our income base and attract new donors so the organization is less dependent on a few funding sources.

Much of the funds raised for the Campaign for Communities/I-Hotel came from foundations and corporations, and some long-term individual donors. Our individual donor base has not grown significantly and continues to be an area for growth in the future.

Also in the “Contributed” income category, we projected a growth in Annual Dinner revenues by \$100k in 2007, and revenue from a new special event. We have probably

hit our maximum potential for our Annual Dinner and have not been able to develop a secondary event to attract a different audience.

- Increase multiple-year funding commitments from foundations to stabilize our revenue from year to year.

We have continued to be very strong in securing foundation income. In 2003, foundation income was a little under \$700,000. In 2006, we brought in over \$1m in foundation income. Proportionately, it grew to 23% of our income, more than the 13% of budget as anticipated.

- Monitor the growth in expenditures to identify operating efficiencies.

Staff is very diligent in monitoring the budget. Decisions on new expenditures (new positions, salary increases) are often not made until mid-year when we have greater certainty over our income. Cost-savings measures are sought after and implemented (such as insurance savings).

Despite the slower than anticipated growth in our operating budget, staff was able to keep expenses within budget. Much of our reduction in expenses compared to what was projected is due to not hiring some new staff positions.

- Acquire one new affordable housing development each year to generate additional housing units and developer fees.

Project development fees (and Property Management Fees) during the 5 years assumed earlier completion dates on the I-Hotel, Broadway Family Apartments, Notre Dame, and 665 Clay Street, than what was realistically achievable. In addition, the Financial Plan assumed two new projects would have been started and completed by 2007 and 3 new projects under development. We anticipate the completion of the Mission Bay, Broadway Family Apartments, and Parkview Terraces projects by the end of this year. We currently have one new project, Broadway-Sansome, in our development pipeline.

The assumptions for housing development fees were very aggressive in the Financial Plan. We projected earning \$3.9 million in fees from 2003-2006. In actuality, we've earned \$1.3 million. Our developer fee income is less than projected because some of our new projects (Mission Bay and Parkview Terraces) are joint venture partnerships where the fees are split between CCDC and the other partner, completion has taken longer on our projects, and we've identified fewer projects in our pipeline than anticipated.

Property Portfolio

In 2003, Chinatown CDC's property management portfolio consisted of 18 properties, 1,145 units. In 2005, the International Hotel and 1150 Grant were added (116 units). In recognition of our need to develop internal capacity in our Property Management Department, we contracted out the management of the Golden Gate Apartments (72 units) in the summer of 2006. Currently, we have 19 properties in our management portfolio, 1,189 units.

The Financial Plan included 10 year projections for each of our properties. As of 2006, it was projected that the combined operating losses (before reserves) of the properties with operating deficits (523 Grant, Cambridge, Hamlin, Tower, and Penn) would be \$133,851. The actual operating losses for 2006 were \$138,158. And as projected, these losses came from 523 Grant, Cambridge, Hamlin, Penn, and the Clayton. (The Clayton deficit was due to a vacant commercial space that has since been leased.) To cover these losses, some of the projects have residual cash reserves set aside. Chinatown CDC had to advance \$61,196 in 2006 to cover these losses. These cash reserves (such as the Ramada subsidy funds) are quickly being used up, so the amount that CCDC will need to advance in the future will continue to increase. The Board of Directors has asked staff to include this amount in our annual operating budget.

Asset Management

In order to strengthen the long-term health of our properties, the Financial Plan reviewed the financing structure of our properties. In particular, we examined the properties that where there were operating deficits and properties where the accumulation of the deferred interest was having a negative impact on our financial statements (decreasing our net assets). Below are the recommendations from the Plan and our progress to date:

- Refinance private debt on 1370 California.
Completed in 2003. The original loan with Bayview Federal Bank had an interest rate of 8.625% and was due in 2009. Last year we re-financed the loan with Washington Mutual. The new \$1,462,500 loan is at 5.5% interest for a term of 10 years (due in 2014). Refinancing extended our indebtedness for 5 years but reduced our annual debt payments by \$47,628, which should enable the project to cash flow.
- Seek refinancing from community development lenders for shorter terms and pay down the existing debt for the Consorcia, Tower Hotel, and the Clayton Hotel.

The outstanding loan for the Consorcia is less than \$300,000 at an interest rate of 8.16%, maturing in 2011. We believe that it would be better for Chinatown CDC to pay off this loan in 4 years rather than to refinance and extend our term and debt payments. However, we continue to monitor interest rates to see if refinancing would be a good option.

The outstanding loan for the Tower Hotel is approximately \$140,000 at an interest rate of 7.5%, due in 2009 with a balloon payment of approximately \$125,000. Since the Partnership Agreement terminates at the end of this year, we are beginning negotiations with the limited partner regarding the future ownership structure of the Tower. The outstanding loan will be addressed when the ownership is re-structured.

In 2001, we received funding from the City to pay off a small loan held by the Low Income Housing Fund/Golden Gate Bank. This reduced our monthly principal and interest payments by \$7,692/year. We also received permission from the State and the City to increase rents above the 50% of CPI. These steps enable the Clayton Hotel to cash flow if we do not have excessive vacancies (especially in the commercial storefronts).

- *Apply for Section 8 Rental Subsidy for the Swiss American, William Penn, 1370 California, and Larkin-Pine.*

We submitted an application for Section 8 rental subsidies to the San Francisco Housing Authority. The SF Housing Authority gave priority to family units, so we did not receive any Section 8 subsidies for our properties. Since then, we have experienced very lengthy processing times with the SF Housing Authority in our other properties. Staff recommends that the extended vacancy loss due to the slow processing times is not worth the additional rental subsidy.

We received ten units of subsidy for the William Penn through the City's Direct Access to Housing (chronic inebriates) program. In 2006, ten residents moved into the Penn under this program, bringing with them case management services (through the McMillan Case Management program) and a rental subsidy.

- *Pursue increases in the existing Section 8 contracts for the Hamlin and Cambridge Hotels.*

With the support of the SF Housing Authority, we recently submitted a special request to HUD to increase the contract rents at the Hamlin and Cambridge Hotels.

The Hamlin Hotel's initial contract rent in 1992 was \$483.00. The current contract rent is \$563.00, an increase of only \$80 (16.5%) in almost 15 years. There were nine years where rent increases were not implemented at the Hamlin Hotel. We are requesting that the contract rent be increased to \$804.00, which would be the contract rent if all of the Annual Adjustment Factor's (AAF) increases had been granted.

Similarly, the Cambridge Hotel's initial contract rent in 1991 was \$489.00. The current contract rent is \$662.00, an increase of only \$173 (35%) in almost 15 years. There were seven years where rent increases were not implemented at the Cambridge Hotel. We are requesting that the contract rent be increased to \$81.00, which would be the contract rent if all of the Annual Adjustment Factor's (AAF) increases had been granted.

If these requests are granted, the properties will be able to meet all operating expenses and fund reserves. Currently, the request is pending.

- *Work with the City of San Francisco to reduce the interest rate on the deferred loans for the William Penn, Hamlin, Bayside Apartments, Cambridge, and St. Claire.*

In 2003 we were able to gain approval from the Mayor's Office of Housing to reduce the interest rate on the deferred loans for the William Penn and Hamlin from 10% and 12% respectively to 0%, retroactive to January 1, 2002. As a result the combined accrued interest for those loans in the amount of \$748,784 were forgiven. This has greatly reduced our liabilities on our financial statements (since we have 99%

ownership in these properties) and helps keep our net assets from declining at a rapid rate.

The deferred interest rates for Bayside is 10% and the St. Claire is 6%. With the change in leadership at the Mayor's Office of Housing, We have not been able to amend these loan agreements.

We also submitted a request to the City for debt forgiveness (since the interest for the deferred loan is 0%) for the Cambridge, which would strengthen our position to purchase the property from the limited partners at the end of the tax credit period. The letter was sent in May 2004. Shortly thereafter, the Mayor's Office of Housing had a turnover in staffing in the Director and Asset Manager positions. MOH's new Asset Manager did not act upon the request. In order to transfer ownership at the end of the tax credit period, CEF (the limited partner) forgave all of the taxes.

- Ensure that the deferred loans on new housing developments carry no or minimal interest rates.

For the Broadway Family Apartments, we were able to work with the City to give us a \$6 million grant (rather than a loan) for development expenses. This grant has substantially strengthened the financial statements for the Chinatown CDC.

One of the most significant decisions regarding our portfolio made in the past few years was the decision to transfer the ownership of the Cambridge, Hamlin and William Penn Hotels to the Community Housing Partnership (CHP). To date, we have been able to secure additional social services funding to address the needs of the residents. CHP began providing all the services to the residents in April 2007. They have also submitted funding applications to acquire and rehabilitate the Cambridge Hotel. If the request to increase the contract rents at the Cambridge and Hamlin Hotels is approved by HUD, it will also make these properties financially viable for the CHP to operate and own.

Financial Health

All of the preceding issues, our annual income and expenditures, the operating budgets of our properties, and the underlying financing structure of our properties comprise the overall financial health of Chinatown CDC and is reflected in our annual audit report.

We project that our net assets will be \$5.270 million in the 2006 audit, which is only about \$400k less than what was projected in the Financial Plan (\$5.678 million).

In the Financial Plan, we assumed a grant for the Broadway Family Apartments and that the City would forgive deferred interest and principal on some older projects in our portfolio. We received a \$6 million grant for the Broadway project and the interest forgiven for the Penn and the Hamlin. The Broadway grant came in over a much longer period (from 2002 through 2006), with the final payment of \$1.9 million coming in 2006. In addition, the donation of the Wells Fargo building for \$1.35 million and the restructure of

debt at the Wharf Plaza which generated a one-time distribution of \$625,000 impacted our net asset base positively, allowing for increases from 2003-2006.