

## Hillsboro Multi Service Center

### I. Background

Community Action built a multi-service center facility in Hillsboro in the early 1990's and moved into it in the summer of 1995. This 21,848 square foot building and the 1.8 acres it sits on cost \$1,786,736. The Center includes a Head Start kitchen, a playground, five early childhood development classrooms and supporting offices in a single story wing. This wing serves 85 kids attending Head Start programs. The main section is two stories and houses office and meeting space for Administration, Resource Development, Energy and Emergency Assistance, Weatherization, Child Care Resource and Referral, Information and Referral, A Kidzone and Head Start. About 70 staff work out of this Center and it is our main client service site. This facility serves our space needs well and we aren't wanting to re-locate.

### II. Financial Status

Community Action has a clear title from the County and a mortgage with Columbia Community Bank for \$1.525 million at 6.9% amortized over 30 years. We refinanced our mortgage in November 2005 folding in the \$250,000 balance owed on our line of credit for building repairs. This new mortgage reduced our monthly payments by \$1100. Our building was appraised at \$2.5 million in September 2005. In addition, Community Action has an agency deficit of about \$600,000.

### III. Current Occupancy

Community Action can only charge grants for \$14,255 square feet of our facility. Our space costs are \$9.90 per square foot as compared to \$12-16.00 in market, however our total occupancy costs are \$24.42. The following is a comparison, costs as owner *vs.* tenant with county as owner.

#### A. Annual Expenses

	<i>As Owner</i>	<i>As Tenant</i>	<i>Net Savings</i>
<u>Space Costs</u>			
Debt service	141,000	98,004	42,996
Capital Reserve	0	14,400	<14,400>
	141,000	112,404	28,596
<u>Operational Costs</u>			
Maintenance	41,500	41,500	-
Utilities	53,400	53,400	-
Janitorial Contract	42,000	42,000	-
Facilities Staff	50,011	50,011	-
Building Supplies	20,223	20,223	-
	207,134	207,134	0
<u>Depreciation Costs</u>			
Booked to Admin	76,000	0	76,000
<b>Total:</b>	<b>424,134</b>	<b>319,538</b>	<b>104,596</b>

With Community Action as a tenant our total occupancy cost becomes \$22.42 per square foot on 14,255 square feet of our facility.

- B. Allocation of Expenses  
 Head Start 78%  
 All other Programs 22%

C. Depreciation  
 Community Action is not allowed to charge its program grants for depreciation and therefore is unable to create a building reserve with grant funds. Unrestricted funds are needed to eliminate our deficit but are regularly tapped to pick up major repair and replacement costs. Annually, a loss of \$76,000 is booked to administration for unfunded depreciation.

IV. Goals

1. Obtain unrestricted cash to eliminate \$600,000 deficit.
2. Reduce occupancy costs.
3. Have a plan for funding and managing major repair and replacement needs.

V. Options

**Option I:** Sell the building to the County and lease it back. The County has access to conventional funding at 4.7% interest (vs. our current 6.9%) and provided the following amortization options. These do not include a charge for a capital expense fund.

Term	Principal	Proceeds	Estimated Annual Debt Service	Estimated Monthly Payment	Current Payment	Variance
25	2,560,000	2,500,000	170,000	14,167	10,778	3,389
25	2,160,000	2,100,000	146,000	12,167	10,778	1,389
25	1,860,000	1,800,000	123,000	10,250	10,778	-528
25	1,585,000	1,525,000	105,000	8,750	10,778	-2,028
30	2,560,000	2,500,000	158,000	13,167	10,778	2,389
30	2,160,000	2,100,000	134,000	11,167	10,778	389
30	1,860,000	1,800,000	115,000	9,583	10,778	-1,195
30	1,585,000	1,525,000	98,000	8,167	10,778	-2,611

The County also may be able to reduce some of our other occupancy costs by taking over HVAC or elevator maintenance contracts, for example. We are working with them to explore all options.

The Directors developed the following list of pros & cons for selling our building:

Pros

- Prevent organizational default on our loan if major funding is lost
- Reduce occupancy costs
- Eliminate \$76,000 depreciation charge to admin (fixes accounting discrepancy)
- Can include in the lease a capital expenditure cost to build a contingency fund
- Unrestricted funds would not be required for the building
- Reduce budget burden to Admin when repairs are needed  
Can negotiate additional proceeds to reduce deficit
- Strengthen relationship with County
- County responsible for managing major repair and replacement

Cons

- Lose value of asset
  - a. on our financial statements
  - b. for future borrowing needs
- Lose control of the building
- Community Perception of “bad business” decision, poor stewardship of funds
- There are no guarantees that we could remain in the building
- Close relationship with the County could hurt private fund raising
- We have no option for eliminating occupancy costs related to a mortgage or lease
- Could not afford to get the full value of the building out of the sale

**Option II:** Don't sell the building but structure ownership into a separate corporation that would own and manage the facility. The purpose of doing this would be to:

- Build a capital reserve by including this expense into the lease so that we could charge grants.
- Separate out the liability of the building from our 501C3, thus reducing the risk to the agency.
- Have the ability to manage major repairs and replacements.
- Allow a reasonable amount of control and influence; maintain rights to the asset; have the ability to eventually eliminate the mortgage and significantly reduce lease cost.
- Eliminate the public perception concerns.
- Have a guaranteed tenant status.

In addition, if we don't sell the building we could explore refinancing the mortgage through the Meyer Memorial Trust (Program Related Investment) at 1-3% interest.

**Option III:** Sell the building and find other space to lease. The purpose of doing this would be to:

- Reduce total occupancy cost to market rate of \$12.00-16.00 per square foot.
- Raise \$2.2 - 2.4 million in the sale
- Pay off \$1.525 million mortgage and eliminate \$600,000 deficit
- Major repairs and replacement is owner responsibility

**COMMUNITY ACTION ORGANIZATION**

**STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS**

As of June 30, 2005 and 2004

	<b>ASSETS</b>	
	<u>2005</u>	<u>2004</u>
<b>Current Assets</b>		
Cash	\$ 539,095	\$ 595,328
Restricted Cash	493,557	328,105
Accounts Receivable	542,487	564,333
Pledges Receivable	62,335	55,385
Prepaid Expenses	3,045	3,045
	<u>1,640,519</u>	<u>1,546,196</u>
<b>Property &amp; Equipment</b>		
Property and Equipment, net	* 2,252,564	2,328,905
<b>Other Assets</b>		
Pledges Receivable	50,819	83,096
Investments	350	350
	<u>51,169</u>	<u>83,446</u>
<b>Total Assets</b>	* \$ <u>3,944,252</u>	\$ <u>3,958,547</u>

*With Building Asset*

**LIABILITIES AND NET ASSETS**

<b>Current Liabilities</b>		
Accounts Payable	\$ 790,254	\$ 601,730
Accrued Vacation Payable	166,875	140,608
Payroll Tax Payable	61,663	58,774
Deferred Revenue	138,212	217,338
Line of Credit	250,000	-
Current Portion of Long-Term Debt	189,199	23,288
	<u>1,596,203</u>	<u>1,041,738</u>
<b>Long-Term Liabilities</b>		
Notes and Mortgages Payable, net	→ 1,242,025	1,255,492
	* 2,838,228	2,297,230
<b>Net Assets</b>		
Unrestricted Net Assets	574,403	415,497
Temporarily Restricted Net Assets	531,621	1,245,820
	<u>1,106,024</u>	<u>1,661,317</u>
<b>Total Liabilities and Net Assets</b>	* \$ <u>3,944,252</u>	\$ <u>3,958,547</u>

The accompanying notes are an integral part of these financial statements.

**COMMUNITY ACTION ORGANIZATION**

**STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS  
As of June 30, 2005**

ASSETS	
	<u>2005</u>
<b><u>Current Assets</u></b>	
Cash	\$ 539,095
Restricted Cash	493,557
Accounts Receivable	542,487
Pledges Receivable	62,335
Prepaid Expenses	<u>3,045</u>
	<u>1,640,519</u>
<b><u>Property &amp; Equipment</u></b>	
Property and Equipment, net	* <u>65,633</u>
<b><u>Other Assets</u></b>	
Pledges Receivable	50,819
Investments	<u>350</u>
	<u>51,169</u>
 <b>Total Assets</b>	 * \$ <u><u>1,757,321</u></u>

*Without Building Asset*

**LIABILITIES AND NET ASSETS**

<b><u>Current Liabilities</u></b>	
Accounts Payable	\$ 790,254
Accrued Vacation Payable	166,875
Payroll Tax Payable	61,663
Deferred Revenue	138,212
Line of Credit	250,000
Current Portion of Long-Term Debt	<u>164,804</u>
	* <u>1,571,808</u>
<b><u>Net Assets</u></b>	
Unrestricted Net Assets	(346,108)
Temporarily Restricted Net Assets	<u>531,621</u>
	<u>185,513</u>
 <b>Total Liabilities and Net Assets</b>	 * \$ <u><u>1,757,321</u></u>

Management purposes only