

# SVdP's Commitment

There are two points of financial risk to the project:

- 1.) A potential operational shortfall of \$50,700 per year and;
- 2.) And the potential for construction cost overruns.

## **Mitigating Operational Shortfalls**

Guaranteed sources of income to support operations:

- A one-time, lump sum operating subsidy payment of \$671,215 from the California Department of Housing and Community Development (HCD).

To further mitigate operational shortfalls, SVDP has access to the following possible funding sources to supplement the guaranteed sources of funding:

- Housing Choice Voucher income of \$178,920 per year, which could increase to \$456,554 if Project-based vouchers (PBV's) can be obtained. According to Sebastopol's hired consultant, Mark Krug, the County is expected to make several hundred more PBV's available by reassigning current Housing Choice Vouchers to Project-based Vouchers.
- HUD PSH funding opportunities at the Continuum of Care.
- Unrestricted income from other rental housing owned and operated by SVDP.
- Unrestricted income from thrift store sales.
- Private donor support for the Gravenstein Commons.
- Lines of credit on over \$23,000,000 in owned real property.
- Proposition 1 Funding, which according to Dave Kiff is slated to arrive July of 2025 – which is right before the anticipated completion of the project, which is slated for November of 2025.

Current projections in SVDP's pro forma show an operational deficit of \$50,700 per year at the Gravenstein Commons. This assumes that SVDP would be unable to obtain public support, such as HUD PSH funds, PBV's, and/or private donor support. If SVDP obtains HUD PSH funding, the project is projected to earn a net income of \$126,019 per year. If both PBV's and HUD PSH funding can be obtained, the project will net over \$300,000 per year ensuring very favorable operational stability.

Currently, SVDP's audited financials do show the ability to cover this shortfall using other funds available to the organization.

To guarantee ongoing operational funding, SVDP's Board President and Vice President have authorized Executive Director, Jack Tibbetts, to commit funding – in contract - to an operating fund one year in advance, for the full fifteen years.

Using HCD's initial operating subsidy as the seed capital for this operating fund, SVDP will deposit the \$671,215 operating subsidy into an account the City of Sebastopol will have access to view, so the City will be aware of cash burn rate and resulting project health.

At the end of the first operating year, SVDP will assess what its operational deficit/net income is when accounting for the operational subsidy and the voucher income.

HCD's operating subsidy, when applied across the fifteen-year timeline, equals \$44,748 per year in annual subsidy. Combined with the anticipated annual voucher income of \$178,920, the total annual income is projected to be, at minimum, \$223,668.

Annual operating expenses are projected to be \$274,368, leaving a true operating deficit - across 15 years – of \$50,700 per year. *Again, this assumes SVDP receives no HUD PSH support, no private philanthropic support, and is unable to secure project-based vouchers.* According to Mark Krug's report, the likelihood of being able to obtain PBV's is "likely."

At the end of year one, SVDP will submit its year-end budget actuals to the City of Sebastopol to determine its true operating deficit/income. Whatever the true operating deficit is, accounting for voucher income and the operating subsidy (the only two guaranteed funding streams at this time), SVDP will furnish that amount out-of-pocket, and deposit the funds into the oversight account, so that Sebastopol can verify the funds for the next operating year are present. In the years there is a net gain, no funds will be added to the oversight account.

This means that, should SVDP have an actual \$50,700 operating deficit at the end of year one, SVDP will be required to furnish \$50,700, plus 3% to account for inflation, and deposit it into the operating oversight account to adequately fund the subsequent operating year. This will ensure ongoing fiscal solvency on a year-over-year basis, with funds deposited in advance to cover anticipated losses.

### **Mitigating Construction Cost Overruns**

To mitigate the possibility of construction cost overruns, SVDP can draw upon the following:

- While this money is held and slowly being released for construction, it sits in an account with Poppy Bank, earning interest at a rate of 3% annually. It is likely that after an 18-month construction period, this deposit will earn between

\$100,000 and \$140,000 in interest, depending on the rate at which funds get released to the contractor for work performed.

- SVDP has a line of credit of up to \$2,500,000 on its three-acre office complex, warehouse, and retail store, located at 5671 Redwood Drive, in Rohnert Park, California.
- SVDP also possess a property that is valued at roughly \$15,000,000, located at 2400 Mendocino Avenue, in Santa Rosa, California, and could apply to draw funds from this project, if needed.
- Finally, SVDP currently has \$222,354.99 in cash-on-hand, and \$625,000 in accounts receivable (as of 6/17/2024).

Department of Health Director, Tina Rivera, has committed \$3,000,000 in HHAP funding for this project to account for any construction cost overruns, bringing the total contingency to 50%. The normal construction cost contingency for construction projects is 15%, so this would be an unusually high contingency, making the project very financially secure.

Specifically, SVDP will commit to the following:

- 1.) During the construction phase, from groundbreaking to being issued a certificate of occupancy, maintain access to the full construction account (cash-on-hand), which will be held in the Poppy account, which the City of Sebastopol can request to view at any time, and SVdP shall furnish account statements within five business days.
- 2.) Once construction is complete, and the building is occupied, SVDP will deposit the HCD operating subsidy into the oversight account that the City of Sebastopol will have continued access to view. At the end of year one, SVDP will review its budget actuals and determine what the true operating deficit is, when accounting for income offsets from voucher income and the operating subsidy, amortized across the 15-year period. Whatever that deficit is (it is currently projected to be \$50,700), is what SVDP will deposit into the operating account, plus 3% to account for inflation, IN ADVANCE of the upcoming operating year. This will ensure there is adequate capital to operate on a year-over-year basis.
- 3.) SVdP will also reimburse the City of Sebastopol to hire a consultant with subject matter expertise to alleviate project's burdens on city staff. This consultant shall assist with construction management, project monitoring, project reporting, project report development. SVdP will also reimburse the City for legal costs associated with the review, development, and execution of a regulatory agreement. This commitment shall span the entire life of the project's contractual reporting period of 15 years.