

AFFORDABLE RENTALS, INC
A NON-PROFIT SERVING CHAPEL HILL, CARRBORO AND ORANGE
COUNTY

October 16, 2009

Mayor Kevin Foy
Town Council Members
Town of Chapel Hill
405 Martin Luther King, Jr Blvd
Chapel Hill, NC 27514

Re: Property Transfer and Dissolution of Affordable Rentals, Inc

Dear Mayor Foy and Town Council Members,

Affordable Rentals, Inc (ARI) is a non-profit organization with the objective of providing rental housing to people earning less than 50% of the area's median income. Since 2001, ARI has acquired 15 rental units and has become a self-sustaining organization.

The Town of Chapel Hill was instrumental in helping us to acquire one of our properties, by providing a total of \$73,244.83 in 2004. Of that total, \$72,000 was in the form of a promissory note for the purchase price of our unit, 113-A Ashley Forest. The balance covered closing costs.

The Board of ARI has completed a thorough strategic planning process and has come to the conclusion that it would be in the best interest of all parties (ARI, The Town of Chapel Hill, Orange County, EmPOWERment, Inc, and our tenants) if we were to transfer our properties and all other assets and debts to EmPOWERment, Inc and then dissolve.

ARI has no paid staff and cannot foresee a time when we will be able to afford a staff. This means that our ability to grow is limited, and perhaps curtailed altogether. We could continue to operate as we are, but we question the wisdom of doing so.

EmPOWERment, Inc has increased its holdings in rental housing, serving the same population that ARI serves. Thus, our objectives will continue to be met.

We want to stress that there are significant efficiencies and savings that can be obtained by transferring our properties to EmPOWERment, Inc. Those efficiencies and savings are discussed in one of the attachments.

We have consulted with the Executive Director of EmPOWERment, Delores Bailey, and with the Board of EmPOWERment. They are willing and able to accept our properties. Currently, we contract with EmPOWERment for property management services, so

accepting the properties should add little if any to the staff workload. They will, of course, accept and abide by the terms of ARI's contract with the Town of Chapel Hill.

I have attached a document that gives a detailed discussion of ARI's current financial status, which is positive, and our reasons for wanting to make this move. I also attach a copy of our 2009 budget and our year-to-date financial report through September 30, 2009. Our 2008 audited financial statements were sent to Ms. Loryn Clark, The Town of Chapel Hill, in August 2009.

We welcome questions from you and Town staff members and hope to conclude the process by December 31, 2009.

Regards,

Nora G. Esthimer
President, ARI Board of Directors

PROPOSAL FOR THE DISSOLUTION OF AFFORDABLE RENTALS, INC AND TRANSFER OF PROPERTIES TO EMPOWERMENT, INC

Background:

Affordable Rentals, Inc (ARI) was incorporated in September 2001, with the purpose, as stated in the ARI Bylaws:

The purpose of Affordable Rentals, Inc. is to develop and manage permanent, affordable rental housing in Orange County. ...to help alleviate the immediate need for rental housing for residents with family incomes at 30%-50% of the area median income.

Current Status of ARI:

- We, the Board of Directors of ARI, are proud that we have succeeded in meeting our goal by purchasing 15 housing units which are available to families in our communities under the terms of our Bylaws.
- We are also proud that we are now a viable and sustainable organization, as shown by our 2009 budget, attached.
- We can continue to operate on this basis well into the future.
- For most of our history, more than five years, we have functioned as a volunteer Board with no paid staff.

Strategic Planning: Reasons for Dissolution and Transfer of Properties

From ARI's perspective, while we are self-sustaining and will continue to be, we cannot see an easy path to further growth.

- With no executive director, fundraising is difficult.
- The Board members have limited time and ability to pursue fundraising and we think that major private sector donors will be reluctant to fund a volunteer organization.
- At our present level of revenue, we cannot foresee a time when it will be possible to hire staff.

We feel that ARI has succeeded in its mission but that its future is limited and that for the benefit of all concerned, we should dissolve.

It is important to the ARI Board that both organizations share the philosophy that tenants should have more than a roof overhead. We want them to live in the community, not in isolation, and we want them to live in home, not merely a shelter. We think our service structure enables them to become a part of our community.

ARI has a long history with EmPOWERment.

- Some of the same individuals have been involved with both organizations.
- We—the ARI Board and the Executive Director of EmPOWERment—collaborated successfully three years ago to create the Property Manager’s position at EmPOWERment.
- ARI contracts management services from EmPOWERment and we have frequent communication with the manager.
- The manager works closely with ARI’s bookkeeper.
- Through the property manager, EmPOWERment’s construction/repair manager has performed services for ARI.

The EmPOWERment Board has determined that it should and will become more involved in affordable rental housing going forward; thus they are prepared to accept the transfer of properties.

Because EmPOWERment wants to expand in this area and because EmPOWERment’s staff already performs support services for ARI and its tenants, we believe that EmPOWERment is the logical successor to ARI.

How will transfer be accomplished?

ARI proposes to transfer its properties to EmPOWERment at book value, and EmPOWERment is prepared to accept the properties.

In addition to the properties, ARI will transfer all of its assets, including cash reserves, accounts receivable and any other assets on hand as of the date of transfer. EmPOWERment will be asked to accept all of ARI’s short-term and long-term liabilities as of the that date.

EmPOWERment is represented by the Community Enterprise Clinic at Duke Law School. ARI has engaged an attorney to handle the transfer of titles.

Advantages of dissolution and transfer

Advantages to EmPOWERment:

- Increased net rental income
- Increased profile in the community due to greater ownership of affordable rental units
- ARI’s 2008 Financial Statement shows a net worth of \$519,955. A transfer of properties will enhance EmPOWERment’s net worth
- Expansion of a needed community service at a time when many people are losing their homes and/or experiencing a drop in employment income
- With an enlarged service capacity, EmPOWERment’s voice in the community and local governments will be amplified.

- Three years of collaboration have shown that both non-profits share the same goals and vision and EmPOWERment welcomes the opportunity to increase its service to the community in the area of affordable rental housing.

Advantages to Orange County and Chapel Hill:

- The investments the local governments have made in ARI will be enhanced by reducing the operating costs associated with properties
- The need for affordable rental housing continues to grow, especially during this time of widespread financial difficulty. The EmPOWERment property manager maintains a waiting list for potential vacancies. A successful but static organization (ARI) is less useful to the community than is an organization that is able to grow (EmPOWERment).
- Annual reporting to the Town and County, as funders, will be consolidated.
- Local governments have shown foresight in allocating funds for both rental and affordable home ownership. It makes sense to have one efficient organization applying for funding in the future.
- EmPOWERment staff will be receiving technical assistance around property management and procedures to better satisfy HUD requirements. ARI, as it is currently structured, would have no ability to make use of such assistance; indeed, it may be difficult for ARI to comply in a timely fashion with changes in regulations and reporting requirements.
- The dissolution of ARI and transfer of properties may be a model for other nonprofits whose missions may overlap, but which, once joined could provide a larger, more efficient and sustainable service to the community.

Advantages to the families and individuals in need of affordable rental housing:

- The development of a dedicated property manager's position has worked to the benefit of tenants and potential tenants.
- By obtaining operating efficiencies and increased net rental income as a result of accepting the ARI properties, EmPOWERment will be in a position to do one or more of the following:
 - Develop a reserve fund for future improvements in properties
 - Reduce mortgage debt
 - Add to its portfolio of properties.
 - Sustain and enhance services to tenants.
 - Create a one-stop resource for local social agencies that also work with the population being served by affordable rental housing.

Financial Impact

Please refer to ARI's 2009 budget, attached.

- Please note that ARI used a projected 85% occupancy rate. This is a conservative projection. To have an occupancy rate as low as 85%, we would have two or three units vacant for the full year. Our history is much better, with few vacancies. The vacancies that do occur are filled within a month or two, depending upon what work is needed to refurbish the unit. Given the demand and the waiting list the property manager maintains, we would expect higher occupancy rates, but for budgeting purposes, we err on the conservative side. (Please recall that the property manager maintains a waiting list of eligible tenants, so units that become vacant are filled as soon as painting and repairs can be done.)
- The audit is the highest administrative cost ARI incurs. Both ARI and EmPOWERment use the services of Koonce, Wooten and Haywood, LLC, CPAs. Our auditors agree that the cost to EmPOWERment will increase after merger, but will not be as high as the current combined costs of separate audits.
- Bookkeeping is the second highest administrative cost. Because EmPOWERment has a Financial Manager and can perform these services in-house, this line item on ARI's budget will be eliminated. The property manager and financial manager work closely together.
- ARI pays almost \$1,000 a year for Directors and Officers Insurance. This cost will be eliminated after merger.
- ARI currently pays EmPOWERment \$50 per unit per month (\$9,000 per year) for management services. This line item will be absorbed by EmPOWERment after merger.
- ARI budgets \$3,000 for "Miscellaneous" expenses. That title describes it well—this is a catch-all provision. In 2008, no expenses were recorded under that category. The \$3,000 will be absorbed by EmPOWERment after merger.
- Repairs and Maintenance present a challenge to budget writers. In 2007, ARI spent \$6,240 on Repairs and Maintenance. In 2008, ARI spent \$4,635. The 2009 budget shows a high amount for this line item, \$16,240. ARI uses a zero-based budget and since Repairs and Maintenance is always an unknown, any funds not otherwise accounted for on the budget are added to that category. We would expect actual expenses to be closer to the actual figures of recent years.

Another look at the 2009 budget for ARI shows that fixed costs associated with the properties (HOA dues, assessments, insurance on properties, interest expense, taxes and utilities) total \$41,524. Compare that figure to the projected gross rental income of \$69,278. The difference of \$27,754 suggests that with reduced administrative costs, several thousands of dollars will be available to EmPOWERment as net rental income.

Please note: EmPOWERment's property manager is already performing all management services for ARI; thus merger will not put an additional burden on EMPOWERMENT staff.

Costs of Merger

- Transfer of titles: \$17.00 per title. We have received legal advice that two properties may be listed on the same title, thus reducing costs. Maximum cost: \$255.
- Legal expenses: A local attorney offers to do the necessary work for \$500 plus the cost of filing titles, above.
- Costs of assuming mortgages: None, per ARI Treasurer's discussions with both banks.
- \$500 for additional fees or unanticipated expenses.
- Final 2009 audit of ARI and final 2009 tax return: \$6,500 (based on budget amount in 2009)

The only unusual costs, over and above usual accounting work, are the legal costs and the filing fees, a maximum total of \$1,255.

Because ARI will transfer all assets, including cash reserves, to EmPOWERment, EmPOWERment will take responsibility for paying for ARI's final audit and tax return. The properties transferred to EmPOWERment will provide the income to cover that expense, as shown above.

Dissolution of ARI and Basis for Transfer

ARI and EMPOWERMENT intend to close the merger no later than December 31, 2009. If the process carries over into 2010, the expenses for ARI's audit and an additional tax return will add to the costs of merger. We want to avoid that.

Article VIII of ARI's Bylaws read: *Upon the dissolution of the corporation and after the payment or the provision for payment of all the liabilities of the Corporation, the Board will dispose of all of the assets of the Corporation exclusively for the purposes of the Corporation or to organizations that are then qualified as tax-exempt under section 501(c) (3) of the Internal Revenue Code. Any assets not so disposed of will become property of Orange County, the county in which the principal office of the corporation is based.*

The basis for transferring properties to EmPOWERment is referred to above.

One or more members of the ARI Board will be pleased to join the Board of EmPOWERment, if invited.

[Prepared by Nora Esthimer, President of the Board of Directors, Affordable Rentals, Inc, with input from the Board of ARI, Delores Bailey, and members of the Board of EmPOWERment, Inc, and advice from the auditors of both organizations and the Community Enterprise Clinic of Duke University Law School.]

2009 ARI Budget - Final									
	Administrative	Hillmont	Jniv Gardens	McMasters	Abbey Ct	Ashley Forest	Umstead Rd	Totals	Notes
									actual annual rent is \$81,504
Rent Income		35,940.00	13,620.00	13,920.00	5,400.00	4,224.00	8,400.00	69,278.00	this figure assumes 15% vacancy
Late Fees									
Contributions	1,500.00							1,500.00	indiv/corp donors
Total Income	1,500.00	35,940.00	13,620.00	13,920.00	5,400.00	4,224.00	8,400.00	70,778.00	
Appraisal									
Audit	9,500.00							9,500.00	\$2000 for '08 exp, and \$7500 for '09
Bank Sev Chg									
Bookkeeping	2,500.00							2,500.00	should be less than '08
Evictions Cost	240.00							240.00	estimate
HOA Dues		8,400.00	2,880.00		1,560.00	1,500.00	2,374.00	16,714.00	based on '08 figures
Assessments		2,000.00						2,000.00	set by Hillmont HOA
Insurance				1,300.00				1,300.00	others covered by HOA
Insurance-D&O	1,000.00							1,000.00	
Interest Exp		8,200.00		9,400.00	1,580.00			19,180.00	estimate based on balances
Property Mgt		4,200.00	1,800.00	1,200.00	600.00	600.00	600.00	9,000.00	\$50/unit per month
Taxes		392.00	243.00	240.00	37.00	78.00	40.00	1,030.00	stormwater/recycling
Repairs & Maint		5,500.00	3,000.00	2,240.00	3,000.00	1,500.00	1,000.00	16,240.00	estimates
Utilities				1,300.00				1,300.00	McMasters is paid; others HOA
Miscellaneous		500.00	500.00	500.00	500.00	500.00	500.00	3,000.00	
Total Expense	13,240.00	29,192.00	8,423.00	16,180.00	7,277.00	4,178.00	4,514.00	83,004.00	
Net Income	(11,740.00)	6,748.00	5,197.00	(2,260.00)	(1,877.00)	46.00	3,886.00	\$ -	