

F.M. KIRBY FOUNDATION SOLICITATION EVALUATION FORM

DATE: August 18, 2023

REQUEST DATE: July 12, 2023

Last grant acknowledgment: Yes

Program Area: Human Services

APPLICANT:

Morris Habitat for Humanity, Inc.
Suite 100
274 South Salem Street
Randolph, NJ 07869

CONTACT: Ms. Liz DeCoursey, Interim CEO

PHONE: 973-891-1934

PAYEE OTHER THAN ADDRESSEE:

AMOUNT REQUESTED: \$250,000.00 **NATURE OF REQUEST:** Support of the Equity Revolver Fund - \$200,000; Support of projects in Morris County - \$50,000

GRANT HISTORY

SUPPORT: 1987-2022

OF APPROVED GRANTS: 33 **TOTAL DOLLARS:**\$959,000.00

LAST GRANT DATE: 06/30/2022 **LAST GRANT AMOUNT:** \$45,000

FYE DATE: 12/31 **AFS DATE:** 05/12/2022

Year Approved	Approved Amount	Approval Date	Notes
2022	\$45,000.00	06/30/2022	For: Projects in Morris County only
2021	\$45,000.00	08/31/2021	For: Projects in Morris County only
2020	\$45,000.00	05/29/2020	For: Projects in Morris County only
2019	\$40,000.00	06/28/2019	For: Projects in Morris County only
2018	\$40,000.00	06/29/2018	For: Projects in Morris County only

DLK COMMENTS: Financial analysis attached.

LDC COMMENTS: As Morris Habitat for Humanity’s (MHfH) grant does not usually find itself before the Board, I will take this opportunity to review some of the details of their operations and program model in my write-up. As the sole developer of homeownership opportunities for low- and moderate-income families in the Morris County area, MHfH tackles the issue of housing affordability and the lack of homeownership opportunities with both ingenuity and elbow grease. MHfH has the unique ability to provide affordable low/no-interest, no-profit mortgages to low-

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income families who generally won't qualify for a typical mortgage. They can offer these mortgages primarily because MHfH acts as the developer, the agent, and the construction company which utilizes volunteers to complete much of the construction work (including mandatory "sweat equity" hours from the to-be-homeowner). Additionally, the "Habitat for Humanity" brand name and nonprofit status attract many donations of pro bono services such as architectural consulting, environmental consulting, and project management. MHfH capitalizes on partnerships with a variety of sectors including faith-based groups, schools, and corporations for volunteer construction labor, with local activist and nonprofit groups for client services and advocacy, and with municipalities to meet their Fair Housing Act requirements (an NJ legislative requirement for affordable housing based on the municipalities demographics and size).

The most well-known HfH program is the home building program where volunteers work with future homeowners to build a house that is then sold at a below-market price to the income-qualified homeowner. The house is deed-restricted and cannot be resold for a windfall (**JJK: My understanding is that the deed restriction expires, allowing the homeowner to sell, but sometimes not for as long as 30 years**) and, while I understand the motives behind the deed restriction in terms of keeping low-income housing units in the market (**JJK: And also, preventing Habitat homeowners from "flipping" houses**), it has admittedly been a point of confusion for me because it seems that the most obvious way that homeownership leads to generational wealth building is via the rising value of the home. However, while HfH does tout homeownership as a means to increase generational wealth for lower-income families, they correlate this increase with a broader set of factors such as increased familial stability, improved mental and physical health, and the ability to leverage housing values to finance post-secondary education. Historically, MHfH's housing impact has been rather small in comparison to the vast need for affordable housing in the area because they have focused on constructing one- and two-family homes. However, recently MHfH has undertaken the development of multi-family properties that offer higher-density affordable housing options. In June of 2023, MHfH cut the ribbon on phase one of a multifamily building in the town of [Randolph](#) (adjacent to Morristown) that will house 25 condominiums upon completion. In terms of numbers, in 2022 MHfH completed three new homes and are currently working on 7 units, with two projected to begin later in 2023. MHfH reports 116 units "in the pipeline" (in other words, affordable units that have been contracted to MHfH from municipalities but are not in construction yet).

A lesser-known MHfH program is the "Aging in Place/Neighborhood Revitalization" ("AIP/NR") program that leverages Community Development Block Grants (a grant through HUD) to conduct repairs to existing homes owned by low-income homeowners and to support the ability of seniors to stay in their residences. This work not only helps the individuals but also ensures that the affordable housing stock in the area does not fall into a state of disrepair that will ultimately require demolition (and subsequent development into higher-cost housing). In 2022, the AIP/NR program served 87 families. In last year's application MHfH mentioned that they would be expanding the AIP/NR program to Dover (a town in Morris County with a low-income population) and Chris Palazzi (Director of Development) informed me that the expansion process has begun.

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MHfH also offers home maintenance education and runs a very successful Restore in Randolph. The Re-Store expanded to online sales in 2022 but reported a net loss of \$121K due to the initial investment in technology and infrastructure that the expansion necessitated (written off as current expenses).

Finally, MHfH has been known to advocate for local housing issues, though I note that there is no mention in this year's application of the Homeless Trust Fund concept that they were advocated for last year in collaboration with other local stakeholders. In a follow-up email, Chris Palazzi stated that the HTF idea was not supported by the County Commissioners which was a huge setback (I am not surprised. This concept seemed untenable to me, which I noted in last year's comments).

In other news, MHfH's longtime CEO Blair Schleicher Wilson has officially retired as of July 31, 2023 and Liz DeCoursey, COO for 17 years, is acting as Interim CEO while MHfH conducts a national search for a replacement. Chris confirmed that Liz has "thrown in her hat" for the permanent role and that most of the employees would be happy to see her as CEO, but the Board wants to ensure that they complete a national search and find the best candidate. The merger with the HfH of Greater Plainfield and Middlesex County is complete and Chris reports that it is going well. Over the course of the year, the Board lost three members and gained four for a total of 19 members.

Equity Revolver Fund

The Equity Revolver Fund ("ERF") concept was first proposed to the Foundation when we met with Chris Palazzi and a consultant on December 5, 2022, in our conference room. The basic gist of the concept is that MHfH would create a \$10M fund (on the phone, Chris said he would actually be fine with \$5M) that could be used for the immediate acquisition of land or homes for the MHfH development program. Access to immediate funds will save MHfH the need to apply for funds and wait for government grants when an opportunity presents itself in today's competitive real estate market. The families who purchase the homes would pay their mortgage to MHfH and, eventually, MHfH would be able to sell the mortgage to a third-party lender, allowing them to replenish the fund with the mortgage proceeds. Banks are willing to purchase these mortgages to fulfill their [Community Reinvestment Act](#) obligations. The ERF should save HfH money since they will save on interest payments on bank loans and HfH also intends to invest the fund to garner interest. During our meeting, MHfH did admit that they will have to still raise some money on each project to account for the total cost of a development project, but the use of in-kind donations of services combined with the savings from the ERF will minimize this amount in a meaningful way. The proposal clarifies that MHfH will only release funds that can be directly replaced by the sale of the mortgage, thus keeping the fund consistently level. So far, MHfH has received a \$2M commitment from the Margaret A Darrin Charitable Trust along with a \$50K commitment from the Mimi Starrett Foundation.

For FMKF, the ERF concept is attractive for several reasons. Primarily, it allows the Foundation to support the work of a long-time trusted grantee that works directly in the Morris County community. Additionally, the revolving fund concept (like the campaign that we supported for the Adirondack Land Trust in 2023) promotes long-term fiscal sustainability and self-reliance for the organization, which can act quickly and nimbly without relying on cumbersome government grants

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and bank loans in a competitive real estate market. This grant would align nicely with our recent grant to Monarch Housing for the Landlord Incentive Program in Morris County, along with our overall commitment to fostering self-reliance in our community for individuals *and* nonprofits.

I recommend that we pledge the budgeted \$200K for the equity revolver fund over three years. For GOS, I recommend keeping MHfH at \$45K in GOS until the Equity Revolver Fund payments are complete and then consider moving them to \$50K at that time (so in 2026). Since the pledge must go before the Board and we are committing to a 3-year partnership, I suggest that we also pledge the GOS amount for the next three years if possible. This would be a total commitment of \$335K for 2023-2025 in the following breakdown:

2023: \$70K ERF/\$45 GOS

2024: \$65K ERF/\$45 GOS

2025: \$65K ERF/\$45 GOS

JJK COMMENTS: Before I comment on the Equity Revolver Fund, I want to highlight a few accomplishments from their 2022 work. First of all, MHfH has one of the more interesting partnerships we have seen from our affiliates, with the Roxbury High School's Structural Design class building, every year, a modular home on its campus which then becomes a Habitat home. What a wonderful example of hands-on learning! One has to hope these students become not only future volunteers but advocates for affordable housing.

Secondly, while Habitat's impact on new homeowners is always somewhat limited by the size and scope of construction, it is important to not underestimate the critical work of the Aging in Place and Neighborhood Revitalization programs. I noted the significance of these programs in my comments on Habitat for Humanity of Durham: "I want to highlight the home repair program and how it opened my eyes to the importance of this work in the years to come. We know that America is facing a rapidly increasing senior population. The request notes that by 2040, the number of adults 65 or older will represent more than 21% of the population. With seniors spending much of their days at home, the quality of housing becomes all the more important. I appreciate how HfH works to not 'just think about how the building will age; we focus on how the person will age.' They do this by modifying homes to include bathroom safety equipment, lowered appliances, raised toilet seats, and stabilizing banisters and stairs."

So while every family placed in a new home is a great cause for celebration, it is almost just as significant, given the cost of housing in both Morris County and the Triangle, that people can *stay* in their homes.

For the record, we have been supporting Morris Habitat since 1987, with 33 grants totaling \$959,000. As far as I can tell, these 33 grants have all come in the form of general operating support for Morris County. All this is to say that this strikes me as an appropriate time to consider a more exceptional project from MHfH.

To be clear, the MHfH does use a revolving fund of sorts in that clients have long made mortgage payments to the organization directly, providing the organization with reliable revenue. What makes this more unusual is the rapidity with which MHfH, now armed with a substantial reserve of

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liquid capital, can acquire and build new property, circumventing bank loans and other lines of credit. That said, funds will never be deployed in a greater amount than the total expected revenue generated from mortgage sales to a third-party lender. So, in other words, MHfH is looking to build up a reserve for its projects that will be periodically replenished (and can earn interest when not being deployed).

I concur with LDC's recommendation. I recommend to the Board a total commitment of \$335,000, with \$45K in support for projects in Morris County only and \$70K for the Equity Revolver Fund in 2023. I recommend a pledge of \$65K and \$70 for the equity revolver fund in 2024 and 2025 respectively and a pledge of \$45K in 2024 and 2025.

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FM KIRBY FOUNDATION			
Financial Statement Analysis			
Grantee Name:	Morris Habitat for Humanity	Date:	07/26/23
Prepared By:	DLK		
Grant Request Amt.	\$ 250,000	Type of Financial Report Submitted	Audit
Recommended Amt.	\$ 250,000	Period Covered in Financial Report	12/31/22
	(3 yr pledge for \$200 @ 70/65/65) plus \$50 GOS		
Audit Firm	Nisivoccia LLP	Date of Report Issuance	05/12/23
Opinion	Present fairly		
Basis of Acctg.	GAAP		
Current Ratio (Liquidity Ratio/Working Capital Ratio)	3.82	Amount of Unrestricted Net Assets (Operating Reserve)	\$ 8,443,447
<p>Note: A current ratio measures an organization's ability to pay short-term and long-term obligations. The higher the ratio, the more capable the organization is of paying its obligations. A ratio under 1 indicates that the organization's liabilities are greater than its assets.</p>			
Allocation of Functional Expenses	12/31/2022	%	Must Read Financial Statement Notes
A. Program Service Expenses	\$ 5,295,590	80%	Ideally program expenses should be
B. Management and General	\$ 485,965	7%	at least 70% of total budget.
C. Fundraising	\$ 858,425	13%	
D. Total Expenses	\$ 6,639,980	100%	
Comments/ Notes:			
<p>2023 Budget: The budget projects a \$79K surplus versus a \$1.8M deficit for 2022. HFH has budgeted a large increase in restricted grants (up \$4.3M/1130%). ReStore net profits are budgeted to decline 8% or \$61K from 2021. Net event profits are budgeted to increase 50% or \$87K. Cash proceeds from the sale of mortgages are budgeted to grow \$2.6M / 250%. The budgeted number of homes sold in 2023 is 27, up from 3 homes in 2021. The request for \$50K GOS accounts for less than 1% of HFH's total operating expenses. The \$200K requested for the Equity Revolver Fund equates to 2% of its goal of \$10.0M</p>			
<p>2022 Audit: Total net assets grew by \$2.0M in 2022 versus \$3.7M (\$416K in PPP monies and \$199K gain on sale of mortgages) in 2021. Total support and revenue declined by \$50K (1%), with increases in government grants (up \$1.0M/334%), ReStore revenues (up \$174K/6%) and home sales (up \$49K/11%) being offset by decreases in contributions (down \$854K/21%), donated assets and services (down \$342K), and special event revenue (down \$239K). Program expenses grew by \$975K (23%), with home building up \$484K/23% and ReStore expenses up \$491K (22%). Supporting services expenses were up \$155K (13%), primarily in fundraising. HFH had losses totaling \$16.5K in 2022 on the sale of mortgages versus a gain of \$199K in 2021. As an affiliate of Habitat for Humanity Intl., the Organization must contribute 10% of its cash contributions without donor restrictions and ReStore and event profits to one or more international affiliates. The title for 2022 was \$60K. HFH has an \$800k line of credit that expires in July 2023. There was no outstanding balance as of 12/31/23. The audit mentioned that volunteers worked approximately 24,758 hours in 2022! The audit found no material weaknesses or significant deficiencies in either internal controls or the financial statements. There were no instances of noncompliance with regards to the Federal Government Auditing Standards either. No red flags arose as part of my review.</p>			

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DISPOSITION:

Declination

Hold for review on/about:

Approval for: **\$335,000**

Hold for Board Review

Insert Information: **Enclosed herewith is \$45,000 in support of projects in Morris County; we hereby pledge \$45,000 for like use in 2024 and 2025. Also enclosed is \$70,000 in support of the Equity Revolver Fund, and we hereby pledge \$65,000 for like use in 2024 and 2025.**

Other:

Initials: JJK

Date: 08/23/2023

Check #

Date: