

July 1, 2010

Dear Habitat Tucson Board of Directors and Staff:

Happy New Year ! (i.e. fiscal new year)

Below you will find my fiscal year-end July 2009 through June 2010 report of service and operational highlights at Habitat Tucson.

Thank you each for your contribution of time, talent, and treasure in service to our community and neighbors. You have each made a difference! And we welcome our new Board members: Mike Bryant, Allyn Caywood, Tony Helm, Kevin Larson, Jo Riester, and Adam Weinstein!

Let me begin this report by helping us call to mind Habitat Tucson's mission, organizational values, and current strategic focus – which formed the basis of this past year's annual Board & staff retreat, as it is always important for each of us to remain grounded in the following organizational values, principles, and perspectives:

Habitat Tucson's Mission:

We work to end poverty housing by creating opportunities for homeownership in partnership with low- income families; and by making safe, decent, affordable housing a matter of community conscience and action.

Our operating values:

1. *Partnership* (or mutual investment in delivering “a hand-up, not a hand-out”)
2. *Balancing the individual good with the common good*
3. *Stewardship* (of the community's investment of their trust and resources in our work)

Our current strategic focus:

- To attempt to "Wow!" all those involved in Habitat
- To attempt to double our impact (whether our overall direct-service goals, or within any one element of our work)

The 6 Traits of High-Impact Nonprofits (From the book Forces for Good, in which Habitat is featured):

1. To advocate and serve
2. To be entrepreneurial
3. To inspire "evangelists" for the cause
4. To nurture nonprofit networks
5. To master the art of adaptation
6. To share leadership

I. Here are highlights of our direct-service results, as measured against the goals we had for this past fiscal year:

- We produced and sold 14 Habitat homes, meeting our goal.
- Through a restricted grant from one generous donor, we sponsored 10 Habitat homes in southern MX, doubling our goal.
- Through our direct efforts, and through a partnership with two other non-profits (Old Pueblo Community Services and Tucson Medical Center), we provided 21 non-Habitat low-income families with matching down-payment assistance grants (3 more than the original goal).
- We were unable to rehab any non-Habitat homes, as we had hoped to do with the Pascua Yaqui Tribe (10 units was the goal). However, we were able to free up some "captive" dollars in a Habitat/Tribe joint-account, granting the Tribe \$65K for the rehab of some elders' homes in Old Pascua Village in a subsequent fiscal year.
- In total, we fell only 2 households short of our direct-service goal of providing 47 families with first-time and/or improved homeownership opportunities.
- It should be noted that in our own direct homebuilding work, we were the first homebuilder in Pima County and the City of Tucson to receive the new regional green-building certificates of design and construction. And we made these quality improvements on our homes while also lowering slightly lowering the per unit cost of our homes (although that final cost reduction # won't be available until we close the books on this fiscal year and complete our year-end audit). We need to continue to value-engineer cost out of our homes, while not sacrificing life-cycle quality of the homes.
- Our HabiStore recycling center provided hundreds if not thousands of households with the opportunity to improve their current living conditions, as well as generating \$200K in net surplus funds to subsidize Habitat's mission.
- In the last 30 years, Habitat Tucson has built 325 homes in Pima County and provided the funding for the construction of another 221 homes elsewhere in the world.

II. In addition to the results of our direct service highlights above, we also provided public-policy advocacy leadership for affordable housing, as well as for other interrelated human-services needs in the following ways:

- Provided ongoing representation and leadership on the City of Tucson's Housing Commission and on the City's Housing Trust Fund.
- Assisted the City of Tucson and Pima County in the start-up of the Pima Community Land Trust, which will preserve affordable housing units within the community for a minimum of 99 years.
- Provided technical expertise and leadership in the interfaith-community's "Call to Action" affordable housing endeavor, which resulted this year in the inclusion of guiding principles and 2-decade vision for the City's & County's Consolidated Plan to HUD (vision: "by 2030 everyone in Pima County has safe, decent, affordable housing.")
- Participated in the County's successful NSP2 \$22M grant application to HUD, providing the grant application with some of its strongest community-support matching requirements.
- Led a joint housing commission and interagency sub-committee to remove or minimize barriers to the production of affordable housing through Pima County and the City of Tucson's Development Services Departments.

- Participated on the steering committee of Imagine Greater Tucson (IGT) and provided the first start-up matching grant of \$5K to IGT (which helped them to leverage a \$500K grant) and its initial efforts to prepare a robust, diverse planning process that is expected to incorporate affordable housing and the built-environment into the future vision for our region.

III. Other *unaudited* operational highlights (both achievements and risks; see the attached “Dashboard” for more detailed numbers). Please note: the final audited results and numbers won’t be available until this fall.

- Strengthened our balance sheet by conserving cash in interest-bearing accounts; creating cash through a small sale of some mortgage receivables, while maintaining control of those accounts; reducing long-standing operational debt by 13%; and by holding a strong inventory of land with very low holding costs for future development (current land inventory stands at approximately 4 & ½ years at our current production level).
- As forecasted throughout the fiscal year, we do anticipate a year-end surplus. This will be the third year in a row of surpluses, despite a 16% decline in non-bequest cash philanthropy during this same time period (although we should celebrate that our restricted donations this past year were higher than budgeted). We had been forecasting a decrease in our cash position this fiscal year. But we now anticipate breaking-even from a cash-basis perspective or even achieving a small increase in our cash position, due to our effective expense management throughout the fiscal year, including pay reductions in the first half of the fiscal year; strong cash management of accounts receivable and accounts payable; as well as due to some unexpected bequests coming in at the very end of our fiscal year.
- In the process of negotiating the purchase of a permanent/owned facility for our HabiStore, with an annual currently estimated drop-to-the-bottom-line *cashflow* benefit of approx. \$4K/month to \$5K/month on a go-forward basis after the year-one start-up and fall 2010 move-in costs. MORE DETAILS ON THIS IN AN UPCOMING EMAIL AND AT A SPECIAL MEETING OF THE BOARD OF DIRECTORS IN EARLY to MID-JULY.
- Continued to make improvements in our 2-year warranty-call response time, but we need to focus on lowering the # of warranty calls going forward.
- Continued to make improvements in the number of delinquent mortgage payments from homeowners, not an easy feat during this difficult economy of rising foreclosures.
- Launched an employer-assisted housing program with Carondelet Health Network (similar to the existing partnership with TMC)
- Improved governance transparency and performance management tools, like the attached “Dashboard.”
- Built momentum around some well attended house parties and office parties to introduce our work to potential new supporters.
- Continued strong print and broadcast media/PR coverage, with approx. 11 media “hits” per month on an annualized basis.
- Just changed our auditing firm (the first time in 10 yrs).
- Ongoing improvements in our volunteer management program, including annual awards, hours-tracking & recognition, new crew leaders, strong safety record, etc.

- Due to our strong homebuilding track-record over the years, obtained exemption on our general contractor's license from the need for a "qualifying party."
- Current PR or constituency risks include neighbor patience and goodwill during the next 3 years of construction build-out inconveniences at Corazon del Pueblo; as well as a recent complaint filed by a volunteer leader at our Green Valley area subsidiary to former President Carter at Habitat International (see details of this under cover of separate email to be sent after this Report).

IV. Below, please find some high-risk/high-return priorities to keep our eyes on in the next 6-months ... besides our ongoing direct- and indirect-service activities, operations, year-end audit with our new auditors, and ongoing management of our cashflows. Please consult the attached Annual Work-Plan & Budget for further key priority information, as updated with the proposed purchase contract and loan financing for our permanent HabiStore facility. While the Annual Work-Plan and Budget were approved at our May 24, 2010 Board meeting, we will be asking the Board to Approve an amended Plan and Budget at the September 2, 2010 Board meeting, due to the HabiStore purchase and some additional operational changes related to likely grant revenues becoming available (along with their corresponding programmatic expenses). As a reminder, we hope to double our direct-service impact in FY10_11 by providing 74 families with new and/or improved homeownership opportunities.

Things to keep our eyes on during the next 6-months:

- Successful Grand Re-Opening of our HabiStore at its permanent location at 935 W. Grant Road.
- Continuing to ensure sufficient line of operating credit to manage cashflows, in the context of increasing our debt-load for purchase of a HabiStore facility.
- Increasing the number of our philanthropic supporters, as well as increasing the size of the average charitable gift to Habitat Tucson.
- Determining our green "sweet-spot," or finding that optimal balance between providing for and financing housing affordability and environmental sustainability.
- Developing a "deeper-bench" of volunteer educators for our homeowner education services, as well as determining any new service-offerings to provide our homeowners (e.g. credit-bureau reporting; business micro-loans in partnership with another nonprofit; etc)
- Obtaining the City of Tucson's residential Department of Energy grant \$s to launch our rehab program (with the intention of serving up to 10 households this next fiscal year through this new program).
- Ensuring that our nonprofit partners in our down-payment matching-grant assistance program can successfully handle the increased volume of transactions (our goal is to serve 30 families through this program in FY10_11).
- Ensuring that the fee-reduction, fee-subsidy, or fee-exemption concessions that we've historically received from our City & County government partners, as well as any multi-year grant commitments not yet under contract, remain intact during the revenue problems at these entities.
- Continuing to position our organization as the technically credible and moral authority "go-to" advocacy voice for affordable housing among community decision-makers.