



**Restructure, Survive, Succeed!**

Peter Werwath, Enterprise Advisors



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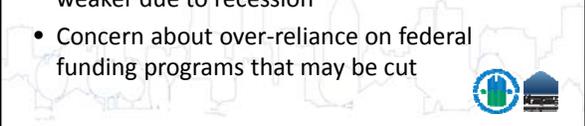
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### Common catalysts for change

- Organization's overall revenues, net revenue, and/or net assets are declining
- Major funders see problems and are pushing for changes
- Future stream of developer fees will be weaker due to recession
- Concern about over-reliance on federal funding programs that may be cut



Side 2

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### Strategic planning for tough times

- Typical ingredients of successful restructuring
  - At least two strong champions on staff or board
  - A business planning consultant who can help break through outdated assumptions and culture
  - Careful fact-finding and analysis on the front end
- Pragmatic goals that override wishful thinking
  - To focus future efforts on best opportunities
  - To maximize positive community impacts
  - To increase net revenues and assets



Side 3

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### Three brief case examples

- Successful single-family developer and second mortgage lender reacts to down market
  - Moves into LIHTC rental housing development
- Rental housing developer elects to sustain itself by property management & acquisitions
  - 100% funded by mgt fees and net revenue
- New homebuyer nonprofit aims to diversify
  - Uses CDFI TA funds to investigate “low risk” development and mortgage brokering



Slide 4

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### Advance homework

- For each program or development activity:
  - Conduct a SWAT analysis
  - Cost-account net revenues and look at trend
  - Examine fitness of staff and leadership
- Score each activity
  - On financial viability, capacity to deliver, client demand, community impact and other factors
- Investigate possible new lines of business
  - Use similar examination and criteria



Slide 5

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### Typical decision making process

- Schedule a board retreat for decision-making
  - Provide briefing materials and (ideally) options in advance
- Use a facilitator, ideally a business planner
  - To focus on facts & nudge toward tough decisions
- Make decisions to abandon, hand off, improve staffing or downsize low-scoring activities
- Make decisions to invest more or stay the course with high-scoring activities



Slide 6

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### Common barriers to change

- Founder's syndrome – i.e., long-time leader stuck in old ruts
- Fundamentally poor or opaque operations
- Focus on "saving" particular staff members rather than the organization
- Resistance to abandoning long-time activities and constituencies vs. getting highest impact
- Inability to get good data – for example, cost accounting particular activities

Slide 7

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### Best case outcomes and benefits

- A fresh new focus on activities for which the organization is truly capable and effective
- Staff reductions & possibly strategic new hires
- Sometimes, a change in top leadership
- Often, better accounting and success metrics
- Recommitment by existing funders
- New funding resulting from new activities
- Positive community impacts assured

Slide 8

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**The Big Picture: Creating Sustainable  
Nonprofit Real Estate Developers**  
**STRENGTHMATTERS®**  
Eileen Fitzgerald  
Acting CEO, NeighborWorks America



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**BEFORE: Double Oaks, The Housing Partnership,  
Charlotte, NC**





Slide 2

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**AFTER: Double Oaks, The Housing Partnership,  
Charlotte, NC**





Slide 3

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Before (Construction Site had been a parking lot)  
The Frederick, AHC, Arlington, VA



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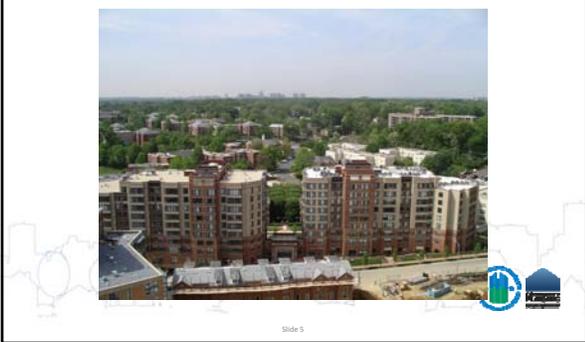
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After (right building had been a parking lot)  
Park at Courthouse (left) The Frederick (right),  
AHC, Arlington, VA



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## STRENGTHMATTERS®

([www.strengthmatters.net](http://www.strengthmatters.net))

- Collaboration bringing national and local affordable housing organizations together with investors to increase capacity to produce and preserve affordable homes.



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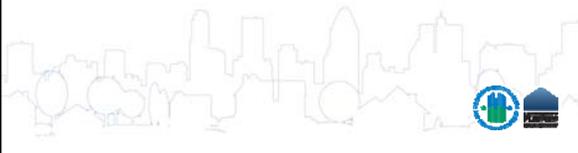
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**STRENGTHMATTERS®**

- Housing Partnership Network, SAHF (Stewards of Affordable Housing), NeighborWorks America
- MacArthur Foundation support 5 years
- 200,000 affordable rental units impacted



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**STRENGTHMATTERS®**

- Mission: Support growth of strong housing nonprofits to increase affordable housing development through:
  - Financial reporting best practices;
  - Data warehouse to benchmark financial information
  - Best practices for sponsor underwriting and monitoring guidelines for investors
  - Recommendations to reduce policy constraints confronting nonprofit real estate developers



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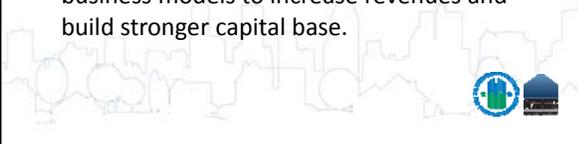
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**Initiatives/Principles:  
Performance Benchmarking**

- Organizations can lower operating costs and improve operations by comparing financial and operational data with peers in affordable housing industry.
- Nonprofit owners consider alternative business models to increase revenues and build stronger capital base.



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### Performance Benchmarking: Data Warehouse

- Web-based platform (CoopMetrics)
- Common chart of accounts
- 35 organizations, 80,000 units in warehouse
- Membership expanding annually
- Compares financial information
- Help Desk support
- Asset Management users group



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### Initiatives/ Principles: Financial Reporting Best Practices

- Transparency and consistency of financial reporting across nonprofit real estate industry is essential to attract investment
- Developed by Strength Matters CFO Working Group
  - Financial Reporting Best Practice Papers (21)
  - Webinars



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### Initiatives/ Principles: Enterprise Level Investment

- Promote investment in nonprofits at the enterprise level
- Strength Matters Lender Working Group
  - Best practices for evaluating debt and equity investments in nonprofits
  - Sound underwriting and monitoring practices



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### Initiatives/ Principles: Enterprise Level Investment

- In Development by Lender Working Group
  - Five-year cash flow template
  - Development pipeline report
  - Debt/guarantee schedule



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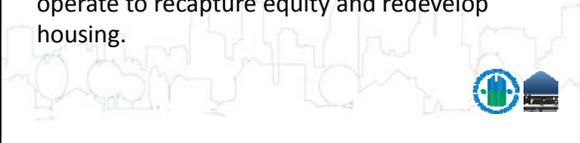
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### Initiatives/ Principles: Policy Reform

- NeighborWorks cannot be involved in policy reform discussions
- See discussions at [www.strengthmatters.net](http://www.strengthmatters.net)
- Reforming policies so that nonprofit real estate developers can more efficiently use the assets they operate to recapture equity and redevelop housing.



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**SURVIVAL STRATEGIES FOR SUCCESSFUL NONPROFITS**  
**Surviving and Thriving in Today's Tough Economic Environment:**  
**LESSONS LEARNED**

Ginny Tranchik  
Director of Financial Management Assistance  
Local Initiatives Support Corporation



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**Communicating with stakeholders: *More important than ever***

**Finances**

- Audited financials with consolidating schedules/ recent unaudited financials
- Debt schedule and status of debt negotiations
- Budget to actual
- Two year cash flow projection
- Pipeline/ inventory/ performance of properties

**Organization**

- Key staffing/board changes
- Cost cutting measures undertaken
- Changes in programmatic offerings
- Strategic or business plan



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**Customizing Technical Assistance**

What are the critical issue(s) that need to be addressed? Needs may be many so spend time thinking about the organization's priorities.

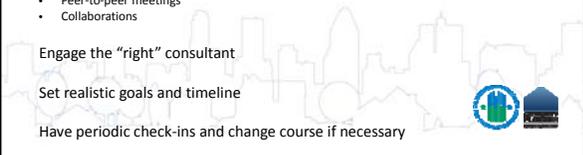
Solutions come in many shapes and sizes.

- Business planning
- Organizational assessments and process improvement
- Preparing cash flow projections
- Board development
- Succession planning
- Executive Director coaching
- Peer-to-peer meetings
- Collaborations

Engage the "right" consultant

Set realistic goals and timeline

Have periodic check-ins and change course if necessary



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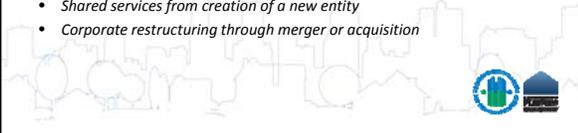
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### The Continuum of Collaboration

**Networking → Coordinating → Cooperating → Collaborating → Integrating**

Explore alternative ways to collaborate including joint ventures, shared services and even mergers and acquisitions

- Occasional collaboration
- Project-specific joint ventures
- Contract for services between entities
- Shared services from creation of a new entity
- Corporate restructuring through merger or acquisition



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### The three T's that can make or break a collaboration

**Time**

- Collaborative efforts take time to develop.

**Turf**

- Issues surface when an imbalance, perceived or real, of benefits to the collaboration partners occurs.

**Trust**

- Can be influenced by prior or current troubled working relationships, or by lack of understanding on how agencies or disciplines operate, or by personal factors such as personality or temperament of an agency representative.



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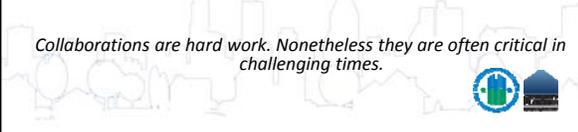
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### Before moving forward...

- Groups considering entering into a collaboration need to be very clear regarding their goals and expectations, asking themselves how do they best fulfill the organization's mission and strategy to be effective.
- Be sure the collaboration makes sense on the face of it before committing precious time and money.
- Partnerships may raise myriad practical issues: combining compensation plans, cultures, programs, budgets, and donors. Are the groups ready to commit for the long run?
- Talk to your funders and others in the community. Are they supportive?

*Collaborations are hard work. Nonetheless they are often critical in challenging times.*



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