

## **Nonprofit Finance Fund Managing Through The Recession**

Many nonprofits are facing the need to cut expenses as the result of reduced revenues. NFF's goal during the economic downturn is to ensure that:

- No high-performing, socially valuable and hitherto viable organization is allowed to fail through lack of capital alone.
- Nonprofits have access to adequate capital and reliable revenue.
- Management has the tools to accurately project the bottom-line impact of any cuts in programs or services.
- Cost-cutting measures result in minimal program reduction.
- Short-term decisions leave the organization financially sound for the long haul.
- Organizations have the financial tools to plan effectively during the next few years of economic uncertainty.
- Individual organizations (and the field in general) prepare themselves for the need to find new ways of operating and doing business in a new economic and social reality.
- Government, foundations, financial institutions and individuals recognize the need for more enlightened and effective approaches to investment in the nonprofits sector.

To accomplish this goal, NFF has created a comprehensive package of rapid-response services for nonprofits of all types and sizes. The services outlined below can be customized to meet the needs of organizations as determined by factors such as size, mission-focus, financial condition and goals for the future. In addition to decision-making support, we offer guidance in downsizing, turnaround and mergers as well as lines of credit, working capital, cash-flow loans and capital financing where appropriate.

We have also taken steps to expand and deepen our bench, adding senior consultants with deep experience in financial consulting in the nonprofit sector. We have reorganized service delivery around a group of four seasoned regional vice presidents in each of the regions we serve, headed by an executive vice-president.

### **Summary of Services (descriptions below)**

#### Strategic Financial Planning:

- Situation analysis and reforecast support
- Scenario planning
- Program profit and loss analysis
- Presenting with boards, funders and banks
- Help considering mergers
- Presentation coaching and conversations for funders and nonprofits
- Workshops
- Recession planning webinar
- Financial leadership clinics

#### Access to Capital:

- Loan financing and refinancing, extensions/ replacements of lines of credit, mortgages
- PRI underwriting, structuring & management
- Access to New Market Tax Credit and mortgage refinancing
- Workouts of problem loans for PRI makers
- Planning for and raising capital

## **STRATEGIC FINANCIAL PLANNING**

### ***Situation Analysis and Reforecast Support (market wide and individual organizations), including cash flow analysis***

Sound decision making requires accurate, timely, and transparent financial information. We review existing reporting packages, making suggestions for additional or improved tools that can inform financial management, communication and decision making. Clients receive guidance on producing and using monthly cash flow projections - one of the more effective tools for managing through a recession. Templates are made available as needed.

### ***Program Profitability Model (PPM)***

An important tool for managing through an economic crisis, the PPM helps management understand the bottom-line revenue and expense impact of each major program. We work with managers and board members to apply this information to decisions about which programs to expand, change or eliminate in the context of both financial and mission considerations. The PPM offers a clear framework to:

- Tackle operating deficits;
- Look at how to improve the financial bottom line of the organization;
- Prioritize programs within a long-term strategic plan;
- Identify cost savings that may have minimal negative impact on programs;
- Enlist the help of the board and other key employees in improving finances; and
- Balance mission and finance.

### ***Scenario Planning***

In order to plan for the unexpected, we start by assessing historical and current financial conditions. We then work with senior management to evaluate the organizational and programmatic impacts of unanticipated or worse-than-expected shortfalls in contributed and earned revenue. We explore opportunities for new revenue and/or cost savings and help identify triggers to guide mid-course corrections. Through the development of hypothetical budgets under multiple conditions (i.e., best case, worst case), we also provide perspective on preserving and building the balance sheet - the organization's foundation to manage risk and pursue new opportunities.

### ***Financial presentation support, including meetings with boards, funders and banks***

Using financially based data from our assessment, analysis and planning carried out with each organization, we help management create a presentation that will clearly tell the financial story to board members, funders and banks.

### ***Help Considering Mergers***

We offer complete merger and alliance planning services, including feasibility analyses and implementation planning. Feasibility studies include thorough cultural, organizational, and financial analyses. Implementation planning leads to a completed collaboration and includes financial scenario planning based on partners' historic financial performance.

### ***Presentation Coaching***

NFF's financial consultants can provide effective and compelling language to incorporate in presentations and proposals to funders, in order to accurately represent the current financial condition in connection with program objectives. Funders, too, can benefit from these consultations which afford them an enhanced understanding of how their grants and other investments can support or detract from mission.

### ***Recession Planning and Linking Money to Mission workshops (1 day)***

*Linking Money to Mission:* This workshop increases the comfort of managers and board members in reading and interpreting nonprofit financial statements. Workshop participants review the fundamental concepts and capital structure of nonprofit financial statements; discuss techniques for interpreting this data and incorporating it into decision making; and explore how to set goals that help maintain the financial health of their organization.

*Managing through a Financial Crisis:* This practical symposium offers nonprofit leaders the insight, tools, and guidance they need to lead their organizations during this challenging time. Topics covered include:

- How the current market environment will affect nonprofits
- Practical scenario planning and modeling: how to develop smart, strategic responses
- Recognizing the hidden opportunities to strengthen the organization's standing
- Revenue and expense considerations
- Cash flow management and managing credit
- Role of the Executive Director and Board in leading the organization through a downturn

***A Webinar adaptation of the Recession Planning Workshop (90 minutes)***

***Financial Leadership Clinic adapted to recession issues-groups of 3 to 5 nonprofits with similar issues, (2 days spread over one or two weeks)***

This two-day Clinic allows us to work intensively with up to five nonprofits simultaneously. It combines educational seminars with individual financial exercises and peer-based learning. Using the financial information provided in each organization's audited financials, we coach participants in articulating their particular financial opportunities and challenges and setting appropriate financial goals as part of each nonprofit's overall planning and management.

***Referrals, practice sharing, access to NFF case studies, articles and participation in advocacy work on financial practices and access.***

#### **ACCESS TO CAPITAL**

***Loan financing and refinancing, extensions or replacements of lines of credit, mortgages***

NFF makes loans (typically up to \$2 million) for a variety of operating and capital financing needs. Given the current credit squeeze, NFF can often step in where commercial banks have pulled back.

***PRI Underwriting, Structuring & Management***

NFF provides underwriting, structuring and portfolio management services to foundations, government and individuals wishing to make PRIs or looking to facilitate, through some form of credit enhancement, the placement of capital.

***New Market Tax Credit Access and Mortgage Refinancing***

NFF has been awarded \$70 million in New Markets Tax Credits from the US Treasury Department that we use to attract private investment for facilities in low-income communities. NFF is one of the few organizations using these credits exclusively to help finance projects for small and mid-sized nonprofits. Demand for credits is high, and NFF anticipates requesting additional allocations.

***Workouts of Problem Loans for PRI makers***

NFF can help analyze options such as restructuring or workouts for borrowers who are experiencing difficulties with their PRIs.

***NFF Capital Partners***

Capital Partners helps design strategic capital campaigns of \$5 million or more to raise growth capital. Our Sustainable Enhancement Grant (SEGUE) methodology provides the organization and its philanthropic investors with a plan for attracting and managing these growth capital funds.

## Examples Of Projects And Programs Now Underway

### *Decision-making Support for Nonprofits*

We are providing our Tough Times package of services as part of our multi-year engagement with the Capacity Building Initiative (CBI) of the Four Freedoms Fund—a national funding collaborative founded to energize American democracy by supporting and engaging immigrants and refugees and the community-based organizations that support them and advocate for their rights. The Tough Times services are designed to help participants make good strategic financial and programmatic decisions as they manage their organizations through the recession.

### *Mergers and Alliances*

We provided strategic and practical guidance in bringing about a merger between two nonprofits serving Latino immigrant communities to jointly provide health, educational, and workforce training services. The merger was spurred by growing demand and the troubled economy and will allow them to serve the Latino community more effectively and economically together than individually.

### *Leveraged Capital to Assure to Meet The Cash Flow Needs of “Lifeline” Organizations*

In partnership with NCB Capital Impact and the California Primary Care Association, NFF has joined a pool of funders to make a \$16.5 million loan pool available to California health care clinics during the state budget crisis. This is a continuation of an initial \$24.5 million partnership from the summer of 2008 when the state froze its budget. At that time, many clinics were experiencing severe delays in government reimbursements and liquidity concerns threatened service continuation of medical services to low-income communities. Through this collaboration, NFF is helping to meet a vital and urgent need for California health care clinics and the communities they serve.

### *Structured Capital for Change in Community Builders*

Our New England program is negotiation with a major funder to create a pooled grant and PRI fund to provide capital to support strategic alliances and collaborations, including mergers that are under serious consideration among a number of New England nonprofits. With the support of the foundation's CEO and Board, NFF has partnered with the foundation over the last three months to develop a detailed template for the structure and marketing of the pooled fund. With critical input from NFF senior consultant Tom McLaughlin, we have structured this pooled fund to be replicable in other regions of the country.

### *“Equity-Like” Capital to Enable Transformational Growth*

Leading for the Future is a pioneering partnership between NFF and the Doris Duke Charitable Foundation to develop a \$15 million capital fund to selected grantees to transform and strengthen their business platforms in response to a shifting environment. These investments are intended to allow participants to take *transformative* rather than *incremental* steps to remain relevant in their field while ensuring long-term financial viability. We are also working with the participants to develop, where appropriate, an accounting treatment that reveals to their stakeholders whether the planned changes in operations actually happen by making transparent the use of money that “builds” (i.e. capital investment) and money that “buys” (i.e. operating revenue).

### *New Markets Tax Credit (NMTC)*

In 2008, NFF received an additional \$50 million NMTC allocation, which we use to attract private capital and provide loans at reasonable rates to nonprofits serving low-income communities. NMTC loans are available for community facility projects over \$5 million that may involve acquisition, substantial



renovations, leasehold improvements, or new construction of community spaces such as charter schools, health clinics, community centers, arts & cultural spaces, and others. To date, we have approved three loans with our 2006 \$20 million NMTC allocation, NFF financed three projects in 2007 and early 2008, which included partnerships with Citibank and JP Morgan Chase Bank.

NFF's Detroit office recently approved a \$7.5 million NMTC allocation to Thompson Educational Foundation (TEF) to construct the fifth charter school in its K-12 system. TEF is a perfect example to philanthropy partnering with banks and financial intermediaries like NFF to develop community assets. TEF was created for the purpose of investing in effective urban education systems by millionaire Robert Thompson after selling his successful business. The TEF schools are known for high quality instruction, financial discipline, and high student graduation and retention rates. The new school, University Preparatory Math and Science Middle School, is located on the campus of the Detroit Science Center where students will have access to the museums exhibits and educational programming

### **About NFF**

NFF is strongly positioned to expand the availability of operating, project-oriented and innovative capital, along with strategic and practical guidance in financial decision making to the nonprofit sector. We have built a unique base of creativity and practical application in nonprofit finance over more than 25 years. We have a proven track record in applying—with positive results—new financial knowledge and tools in a sector where “business” is often secondary to passion. And we are an acknowledged national leader in formulating and advocating for an improved financial system for the social sector.

We lead the sector in providing financing and financial knowledge to the underserved segments of this market on three levels: volume of transactions, innovation and depth of knowledge. NFF has caused over \$1 billion to flow to the sector as a result of more \$200 million in direct loans and tax credit financings. We have worked extensively with donors and government funders, explicitly to bring about change among groups of grantees. And we are the field leader in knowledge regarding capitalization, financing and financial innovation. By combining our transactional experience in the trenches and our demonstrated ability to communicate complex financial concepts to social idealists, we have built a unique and powerful base from which to move forward.

Over the past two years, NFF has grown from 55 FTE's to 79 FTE's, expanding assets from \$50 million to nearly \$80 million, and added off-balance sheet tax credit allocations of \$70 million for a total assets under management of \$150 million. NFF continues to be the only national CDFI focused specifically on the development needs of community-based nonprofits and social enterprises, particularly capital investment, and is singular in its work in financial technical assistance, research and advocacy.

NFF's portfolio of nonprofit borrowers, the majority of which serve or are located in LMI communities, is stable. We have retained some liquidity to allow us to focus on the emerging challenge and complexity of the current times. Our willingness to lend and our experience providing working capital loans are particularly important during this period, as is our financial technical assistance. Direct workshops, field analysis, coaching and consulting services have grown, and we have worked with over 1,000 nonprofits in the past three years alone. Finally, NFF's newly-created Knowledge and Advocacy services have shown great promise, with an inaugural year of editorial placements in *The Financial Times*, *The Chronicle of Philanthropy*, Independent Sector on-line Newsletter, the On Philanthropy blog of the *Economist* and others; published articles in *Stanford Social Innovation Review* and the *Nonprofit Quarterly* and numerous mentions in press throughout the country. This has been the result of an intentional strategy of change in financial “best practice” in the sector as a whole.