TOWARD FINANCIAL SUSTAINABILITY: GUIDANCE FOR STRONG PLANNING THAT GOES BEYOND PANDEMIC RESPONSE

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The landscape created by COVID-19 has intensified the challenges facing nonprofit leaders. From a fiscal perspective, nonprofits now face additional obstacles when securing funding, maximizing real estate, and proving creditworthiness.

On September 16, 2020, three long-time nonprofit advisors offered guidance on overcoming many of these obstacles, with a specific view toward the next three years. A selection of their top insights is captured within this document.

TOWARD FINANCIAL SUSTAINABILITY: KEY TAKEAWAYS

SURVIVE, AND SEIZE OPPORTUNITY, BY WORKING TOGETHER

BY DUNCAN WEBB
WEBB MGMT

There are a variety of ways that nonprofits can work together in terms of four progressive levels of engagement: cooperation, coordination, collaboration, and consolidation. Keep in mind that, regardless of the level, internal mission alignment and affirmation of your organization's value are both essential to the success of your efforts.

I. Cooperation

If nothing else, organizations in the nonprofit sector must join with each other to share information, provide mutual support, and learn how to become a constituency capable of influencing public policy. While there is some competition within the sector, the benefits of sharing information far outweigh the risks of compromising competitive advantage. Conveners, such as those behind the Culture@3 Zoom call in New York City, are a very helpful force in bringing groups together at this level.

II. Coordination

A clear example of coordination is joint advocacy, such as collectively pushing for policy and legislation that benefits the sector. Examples of today's major advocacy areas include:

- Funding in support of program delivery and operational sustainability.
- Nonprofit-related expansion of the New Market Tax Credit and Opportunity Zone programs.
- New rules that make it easier for nonprofits to merge and change their legal status.
- Continuing protection from eviction.

Another type of coordination work is the creation and operation of districts, where there are community-supporting nonprofits active in the same neighborhood. This has been a huge success in the cultural sector, where groups come together to create a district identity, work together on district issues, provide joint programming, and benefit from joint promotion. Fourth Arts Block on the Lower East Side, now known as FABnyc, is a great example.

III. Collaboration

Among Webb Mgmt's favorite ideas for collaboration between nonprofits are:

- Create a marketing services organization, either within one of the collaborating groups or as an independent entity, to deliver specialized services such as graphic design, media buys (made cheaper by the combined purchases of member groups), primary research, analytics and social media programs.
- Combine back office operations, with one administrative team taking responsibility for the continuing operation of multiple groups. The combined team can hire and manage staff, administer benefits, fundraise, and more.

TOWARD FINANCIAL SUSTAINABILITY: KEY TAKEAWAYS

- Invest collectively in enterprise-level software. Programs that provide online payment processing, automated billing systems, IT service management, customer relationship management, occupational health and safety, and other business systems typically come at a high price point.
- Share facilities. In New York City, these efforts are most successful when one group serves as an anchor tenant (in the case of leased space) or as the group's landlord (in the case of owned space).

IV. Consolidation

Mergers, acquisitions, and other forms of consolidation have been very slow to come to the nonprofit sector. Federal and State laws make changes in legal status difficult and expensive. There is little financial incentive for these combinations. And most importantly, leaders of nonprofits tend to retreat from opportunities to combine once they confront the probable loss of power and control in the resulting organization.

In these challenging times, the sector must push harder for the combination of organizations that will allow for the continuing delivery of programs and services. And the leadership of individual organizations must push the question of mission-delivery to the fore. If that mission is best delivered in a combined form of organization, as opposed to a crippled or reduced individual one, then that combined form must be seriously pursued.

It is a question of carrots and sticks. We can already see the sticks getting bigger: the terror of running out of cash, losing a space, or having to furlough more staff. But we need to work on the carrots: making it easier to change legal status, more rewarding for those who are willing and able to put aside self-interests in favor of the greater good, and less challenging financially. SeaChange Capital Partners is a funder who understand the need for incentives. Through its affiliated funds, SeaChange provides grants "to encourage and support mergers, joint-ventures, shared back office, programmatic alliances, and other types of formal, sustained collaboration between nonprofits."

All of these outward-facing steps can help the nonprofit sector survive this moment. But they also represent opportunities that go beyond the pandemic and recession. Once these fires have swept through the forest of nonprofits serving New York City, the ones left standing will be stronger and better able to serve our beloved City and those in need.

TOWARD FINANCIAL SUSTAINABILITY: KEY TAKEAWAYS

NONPROFITS' OPPORTUNITY FOR SPACE SHARING, AND RESPONSIBILITY FOR PRESERVING COMMUNITY ASSETS

BY PAUL G. WOLF
DENHAM WOLF REAL ESTATE SERVICES

Real estate has always had an outsized financial role for nonprofits in New York City. Depending on the relative health of a nonprofit, the current climate may provide organizations with significant real estate opportunity or, alternatively, turn existing property into a liability.

Over the past six months, many nonprofits have sprung into action. Some tenants have received rent deferrals, while others have broken their leases and transitioned to a fully virtual environment. Some transactions that were negotiated before mid-March have been abandoned, and others have been renegotiated to the benefit of the tenant/buyer. Other organizations have embraced a "wait and see" mentality, either by taking no action or by building more time into the decision-process through a short-term lease extension (or otherwise).

Everyone involved in real estate is currently experiencing some level of struggle: tenants, landlords, nonprofit owners, and lenders. As the crisis drags on, and specifically as prohibitions against foreclosures expire, there will be increased defaults among nonprofits and for-profit building owners alike. There will be increased opportunity to purchase commercial condominiums, buildings, and development sites and discounted prices. In addition, organizations of all kinds will be seeking new space that reflects the needs of revamped operations.

Your Organization's Opportunity (and Responsibility)

If your organization has affordable real estate, really strong credit, and/or highly competent leadership with spare capacity, then you are in a strong enough position to consider:

- Anchoring a new shared space project, either within existing space that you control or within newly acquired property.
- Extending your fiscal strength to others by co-signing a lease, providing a guaranty on a loan or mortgage, or even providing a direct loan.
- Providing expertise that helps your community plan and implement a shared space project, or another form of efficiency-generating collaboration.

If your organization has decent resources, financially and otherwise, and confidence that you will survive this crisis as long as you maintain your operational rigor, then you have some opportunity as well. Depending on your organization's willingness to take on risk, you might consider:

- Committing to a new space that reflects your current operating needs, although Denham Wolf recommends a short-term agreement (i.e. less than 2 years) and with options to terminate early and extend. These terms will help preserve your organization's flexibility.
- Positioning yourself as a space sharing partner. To do this well, organizations must:
  - Clearly define your needs, including a realistic understanding of what you can afford.
  - Develop consensus among your board, executive team, and other stakeholders in advance, which will allow you to move quickly when opportunity arises.
  - Be ready to compromise.

TOWARD FINANCIAL SUSTAINABILITY: KEY TAKEAWAYS

- Reducing your real estate obligations to the bare minimum by moving to a smaller space, temporarily transitioning to a fully virtual environment, or securing an alternative option at a co-working facility or otherwise.

Finally, if your organization is at risk of closing, you still have the opportunity to participate in the sector's survival. In addition to fighting to preserve your mission-related assets, such as your programs and staff, Denham Wolf encourages organizations with unique real estate assets to keep them in service to the community.

For example, your organization may own its space but be at risk of defaulting on a loan or real estate taxes. Especially if that space is purpose-built, consider the role that the asset could play if you relinquish it. In some cases, selling property to a high-end residential developer may generate the most income, but that kind of transaction can leave a major void in some communities. Conveying a real estate asset to another nonprofit has the potential to save that organization from the costs of creating their own performance space, school, or health center from scratch. There are even some funders that are willing to help with the process of securing a new nonprofit user and preserving the asset's value.

TOWARD FINANCIAL SUSTAINABILITY: KEY TAKEAWAYS

STRONGER TOGETHER: COLLABORATION BETWEEN NONPROFITS AND BETWEEN FUNDERS

BY SUNIL K. AGGARWAL
THINK FORWARD FINANCIAL

Tax Exempt Bonds have often been a good match for nonprofits' financial needs. Prior to the pandemic, nonprofits looking to finance new capital projects or to refinance and restructure their existing debt had access to a robust municipal bond market with very low interest rates. For organizations with strong credit, opportunities for refinancing and restructuring have emerged; ThinkForward has recently seen rates as low as 2.50%. Slowly, organizations with weaker credit may begin to see some lower rates as well, since overall interest rates will continue to be low.

Somewhat similarly, **Commercial Banks** had been competitive in seeking out new nonprofit financing opportunities before the pandemic. After detangling themselves from the new federal funding programs, banks refocused on payment deferment and loan forbearance requests from their clients, and that prioritization of short-term client needs has remained. Nonprofits with strong credit have a chance to securing new bank lending, but the project has to be right. With real estate prices dropping so dramatically in New York City, for example, it can be difficult to determine a true appraisal value. On the operating side, nonprofits that qualify for the Federal Reserve's Main Street Lending Program have the best opportunity for securing new financing, both short-term (through the Federal Reserve's program) and long-term (through their new banking relationship).

Specialty grant or loan programs, which are typically funded by various foundations and corporations, are also an option. For nonprofits with weak credit, they may be one of the only current options for financing. These programs are typically managed by **Community Development Financial Institutions** (CDFIs) such as the Nonprofit Finance Fund or the Local Initiatives Support Corporation (LISC). Many such programs have started in specific response to the pandemic, with low-interest loans and grants designed to fill the gaps left by other programs.

Some of the funders behind these specialty programs include:

- The New York Community Trust, along with the Ford Foundation and Bloomberg Philanthropies and others, was the first one to come up with a $95-million emergency support program. It was managed by the Nonprofit Finance Fund, a local CDFI.
- The Ford Foundation, the MacArthur Foundation, and others leveraged their strong financial position, issued bonds, and raised more than $1 billion for new philanthropic initiatives.
- The Mellon Foundation and MacArthur Foundation have both established interest-free loan programs for smaller arts and cultural organizations.
- The Schusterman Family Foundation provided capital to various CDFIs in order to facilitate PPP loans for minority-owned businesses and smaller community-based nonprofits.
- Seven Jewish foundations came together with the Jewish Federation of North America to create a $91 million fund for frontline service agencies that serve the Jewish community.

In addition to foundations, large corporations have provided funds for these specialty programs. For example, Costco Wholesale committed $25 Million to LISC's Black Economic Development

TOWARD FINANCIAL SUSTAINABILITY: KEY TAKEAWAYS

Fund, which was seeded by Netflix. LISC expects $100 million in commitments for this fund and will focus on investments in urban and rural communities, making deposits in Black-owned banks, and offering financing to minority-run businesses, charter schools, affordable housing projects, and other institutions that support economic development in communities of color.

Across the current lending landscape, there are creative examples of **organizations working together**. As incremental market changes occur and new programs arise, all nonprofits will benefit from sharing the information with each other. Organizations should be in regular contact with the local chapter of major CDFIs, since they not only provide funding but also serve as a resource for industry contacts, City agency contacts, and technical expertise. Nonprofits that serve similar communities or advance similar causes would be wise to advocate for investments in their specific issue area. Numerous foundations and corporations have already stepped up to pool their resources, and there is more to be done.

In addition, ThinkForward strongly encourages nonprofits to seek out financial advisors that specialize in bonds as well as bank financing and other alternative funding sources, including tax credits and philanthropic giving. In this challenging environment, all options must be explored.

MEET YOUR ADVISORS

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Duncan Webb founded Webb Mgmt in 1997 to provide management consulting services to the nonprofit arts sector. The firm has completed more than 450 assignments for the advancement of communities, organizations and facilities. Duncan began his career in commercial lending and international finance, then migrated to the nonprofit sector to focus on producing, marketing, sponsorship, venue operations and nonprofit finance. He has a BA in Economics from the University of Western Ontario and an MBA from the Rotman School of Business at the University of Toronto. A Certified Management Consultant (CMC), Duncan is an active speaker and published writer on nonprofit management and the development, operation and financing of cultural facilities. His book "Running Theaters: Best Practices for Managers and Leaders" published by Allworth Press was the first book ever written on the management of performing arts facilities. A second edition will be released this summer. Duncan taught nonprofit arts administration at Baruch College (CUNY) and New York University from 1991 to 2017.

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Paul is an established leader in the field of real estate, with more than 30 years of development, brokerage, and nonprofit consulting experience. Paul's expertise is shaped by a breadth and depth of experience in New York City real estate and is proven by his strong record of realizing complex projects. Paul's insights and creative approaches bolster the work of Denham Wolf's diverse staff, bringing to bear a high level of technical excellence for every client. As a principal of Denham Wolf, Paul has provided strategic guidance and technical expertise for a range of arts, cultural, community development, healthcare, social service, and educational organizations in New York City. Prior to co-founding Denham Wolf in 1998, Paul served as Senior Vice President of Asset Management at the New York City Economic Development Corporation. In this position, he was responsible for leasing a commercial and industrial portfolio of over 11 million square feet, and he frequently functioned as the market expert to support the City's corporate retention efforts. Paul holds a Bachelor of Arts degree in English and an Executive MBA, both from Columbia University. He is a licensed New York State Real Estate Broker and currently serves on the board of the STREB Lab for Action Mechanics.

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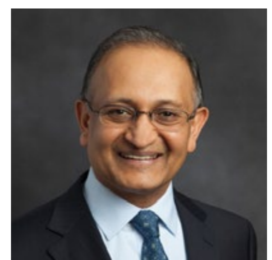

Financing is problem-solving, says Sunil Aggarwal. He realized more than two decades ago that New York's nonprofits and small businesses would excel in a competitive market using solution-based project financial planning. In 2009, "ThinkForward" became the working model for an advisory dedicated to helping small and mid-sized enterprises navigate the funding challenges inherent to mission oriented organizations. To-date, Sunil's practice has structured and placed $2.5B in bonds, loans, and tax credits, specifically for this unique segment of companies. Sunil's experiences as Vice President of the NYC Economic Development Corp. (1990-1997) and later as a senior investment banker (1999-2008) provided early exposure to a wide range of development financing tools. Through the years, Sunil has maintained and expanded relationships with NY economic development agencies, banks, bond and tax credit equity investors, and community development lenders—contributing to the long-term viability and success of hundreds of NY nonprofits. Sunil holds an MS in Quantitative Finance from Carnegie Mellon University and an MBA in Finance from the University of Manchester. He is an SEC and MSRB Registered Municipal Advisor and a Registered Rep with A. Bridge RealVest Securities Corp (broker-dealer), and he holds FINRA Series 7, 50, and 63 licenses.