



Tough Times Call for Tough Action: A Decision Framework for Nonprofit Leaders & Boards

August 2020

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Introduction

SeaChange Capital Partners at a Glance

Mission: Champion Nonprofits Facing Complex Challenges

Grants

- Makes seed, exploratory and implementation grants
- Supports mergers, JVs and other collaborations between nonprofits

Loans

- Makes flexible, high-impact loans to support capital needs
- Target investments of \$250K-\$750K
- New York City only

Consulting

- Advises nonprofit clients facing organization or financial challenges
- Engages in financial analysis, fund design, risk management, and transaction support

Insights

- Shares insights from on-the-ground experience with nonprofits
- Proposes solutions relevant to broader community

Trusting Long-Term Relationships and the Partner of Choice for Funders Seeking to Help

THE LODESTAR FOUNDATION

Seeking meaning from philanthropy

BROOKLYN
COMMUNITY
BAIL
FUND

HECKSCHER
FOUNDATION
for CHILDREN

ALTMAN
FOUNDATION

SHELTERING
ARMS

Children and Family Services

GOOD
SHEPHERD
SERVICES
We see what can be.

turning point brooklyn
the right turn for a brighter future

THE NEW YORK
COMMUNITY TRUST

NY
CT

SeaChange

2

Tough Times Call for Tough Action

8 Step Framework for Tough Decision Making

Executive Directors and Boards will need to take decisive action if the nonprofit they lead are to survive the COVID-19 crisis

Process Steps	Initiative	Key Questions
Step One	<i>Refocus on the Mission</i>	<ul style="list-style-type: none"> What best advances the long-term mission of our organization?
Step Two	<i>Understand Your Type of Organization</i>	<ul style="list-style-type: none"> Are we a hibernator, responder or hybrid?
Step Three	<i>Conserve Cash</i>	<ul style="list-style-type: none"> How do we best reduce expenses, delay payments and / or accelerate revenue?
Step Four	<i>Resist Magical Thinking; Shorten Time Horizons</i>	<ul style="list-style-type: none"> When is the right time to take action?
Step Five	<i>Understand the Nexus of Mission, Cash and Control</i>	<ul style="list-style-type: none"> Who can do what to whom?
Step Six	<i>Explore M&A, Divestment, Restructuring or a Dignified Dissolution</i>	<ul style="list-style-type: none"> Should we explore a transaction?
Step Seven	<i>Get Help</i>	<ul style="list-style-type: none"> At each step, what are our organization's needs and what resources are available to us?
Step Eight	<i>Plan For the Future</i>	<ul style="list-style-type: none"> How do we best plan for the post-COVID future?

1 Refocus on the Mission

Mission as the Foundation

- The foundation for all Board and Executive Director decision-making making must be: “**What best advances the long-term mission of our organization?**”
- Board members have a **duty of obedience** to the mission

Concern for the mission must take precedence over concern for history, vendors and partners, funders and even staff



May imply the organization hunker down in a minimally viable state



May be hard on staff / funders / partners / vendors



May require a restructuring or even dignified dissolution

2 Understand Your Type of Organization

Types of Organizations



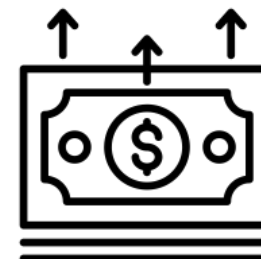
Hibernators

- Unable to operate during crisis (don't pretend otherwise)
- Includes arts organizations, after-school providers, technical assistance firms, etc.
- Must reduce monthly cash burn to a minimum to increase chances of a post-crisis restart



Responders

- Increased program demand due to COVID-19
- Includes primary health clinics, homeless shelter operators, food pantries, residential facilities for the developmentally disabled, etc.
- Service delivery now more difficult and costly (e.g., due to spend on personal protective equipment for staff); largely government funded with the associated complexities



Hybrids

- Offer programs that can be provided despite the COVID-19 crisis, though are not directly related to mitigating its impact
- Includes workforce training and development, advocacy, reentry programs for the recently incarcerated, etc.
- Decisions more complex due to greater degrees of freedom in delivering their programs
- Greatest uncertainty with how funders will view their importance after the crisis

Conserve Cash

Type	Description
Reduce Expenses	<ul style="list-style-type: none"> ○ “Zero-based” budgeting can help identify and prioritize necessary spending ○ Consider staff reductions / layoffs, reduced / deferred compensation for higher-paid staff ○ Review leases to understand grace periods, ability to tap security deposits, any <i>force majeure</i> clauses allowing for nonpayment <ul style="list-style-type: none"> – Avoid paying rent before asking landlord about any rent reduction / deferral – Consider paying only a portion of rent or withholding entirely ○ Ask lenders for payment deferrals ○ Turn off any automatic direct debits to ensure all payments are a deliberate choice
Delay Payments	<ul style="list-style-type: none"> ○ Vendors for vital, ongoing services may need to be paid; consider nonpayment for others ○ Require written Board Chair or Treasurer approval for outgoing cash payments above a <i>de minimus</i> threshold
Accelerate Cash / Revenue	<ul style="list-style-type: none"> ○ Ask funders / Board members with outstanding grant commitments to accelerate grants / gifts ○ Ask funders providing restricted grants to loosen restrictions <ul style="list-style-type: none"> – If a funder cannot be reached, consider Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) regulations
Explore New Fundraising Opportunities	<ul style="list-style-type: none"> ○ Proactively examine all possible government and philanthropic initiatives offering grants / loans <ul style="list-style-type: none"> – Initiative size / duration may be limited; may also come with restrictions ○ Read the fine print: Programs offering <i>reimbursement</i> may not help with immediate cash flow (unless they can be borrowed against now)

4 Resist Magical Thinking & Act Fast

Pitfalls of Magical Thinking

- Leaders under duress can unknowingly suffer from “**magical thinking**”
- Magical thinking **delays necessary action**
- Nonprofits operate in an environment with **no margin for error**



~10%

*Nonprofits have liabilities
that exceed their assets*



~40%

*Nonprofits have cash reserves
of less than 2 months*



+50%

*Nonprofits are less
than \$2M*

- Protect against magical thinking by **mapping out scenarios and pre-committing to actions**
 - For example, if our cash falls below X then we will . . . stop paying rent or discontinue a certain program
- Board Chairs and Executive Directors must deliver a critical message to other Trustees: **time and money are more important than ever**
 - Active Board involvement can help a nonprofit stay nimble
 - Daily or “no notice” calls to allow for action with governance

5 Understand the Nexus of Mission, Cash and Control

- Leaders must understand nonprofits' legal obligations, opportunities, and pitfalls
 - Know “**who can do what to whom**” though it may feel too “tough-minded”, “hard-nosed” or “ruthless”
 - **Make swift, dispassionate decisions** – even if those decisions may upset staff and other stakeholders in the near term
-

Key legal obligations and opportunities

- A nonprofit cannot be put into bankruptcy involuntarily by its creditors
- A lender may be able to freeze a nonprofit's accounts for nonpayment
- Unpaid payroll taxes expose Board members to personal liability
- Gift restrictions cannot be challenged by creditors or vendors, even in bankruptcy court.
 - I.e., a grant specified as only for payroll cannot be used to repay debt or rent
- A nonprofit that shuts down may be able to cancel some insurance coverage and get a rebate
 - However, nonprofits should reserve the funds to renew critical coverage (e.g., D&O).

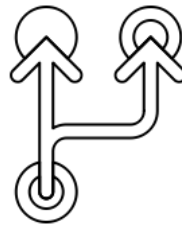
6 Explore Strategic Alternatives

A nonprofit's obedience to its mission may mean that its programs or assets might be best housed elsewhere, in light of the current crisis



Mergers & Collaborations

Combine with (or collaborate in a deep way) another organization, enabling the new / surviving entity to better serve beneficiaries



Divestitures

Spin off a non-core program to another nonprofit able to provide more resources for it



Restructuring

Renegotiate debt, leases, or other contracts to regain financial viability

If a nonprofit concludes it cannot survive the crisis, a **dignified dissolution** can minimize harm and may enable the transfer of assets to other nonprofits

7 Get Help from Advisors

Board Involvement

- Nonprofit executive staff and Board leadership often lack restructuring expertise
- Boards must ensure members with relevant skills ramp up involvement
- Boards should also tap pro bono counsel and consultants

**Boards should consider supporting their Executive Directors by appointing an interim
Chief Restructuring Officer**

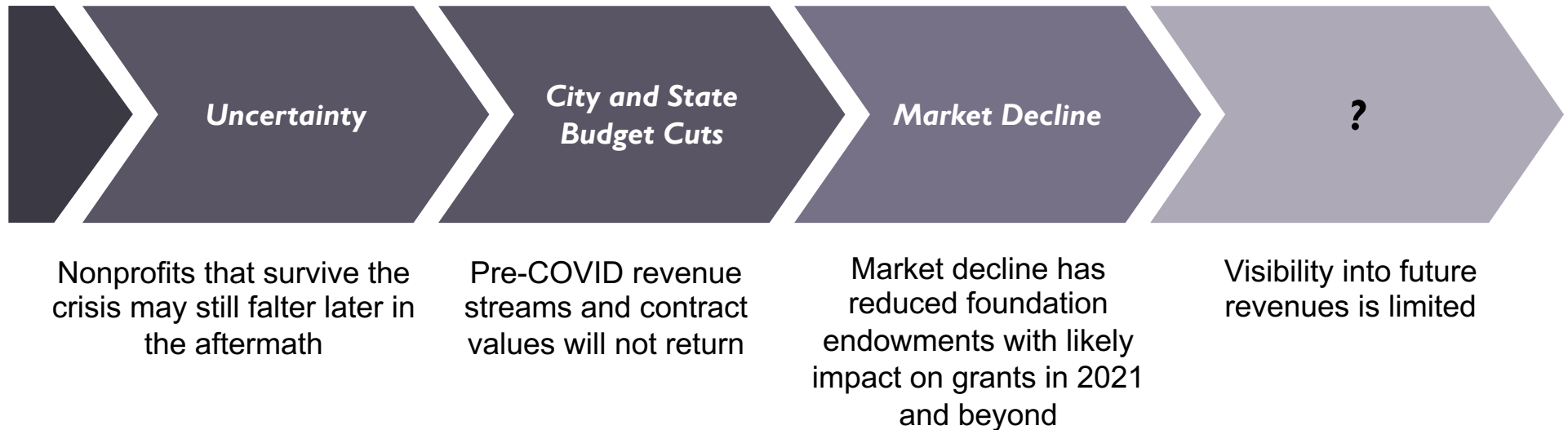


Candidate may be internal like a
CFO...



...or external like an outside
consultant

8 Plan for the Future



Nonprofits can mitigate this uncertainty in a number of ways

- Maintaining an open and regular dialogue with important funders
- Mapping out scenarios for different revenue streams and pre-commit to requisite actions (e.g., reallocating staff or closing a site)
- Explore creative fundraising structures, such as a “restart fund” of grants / loans accessible only when the crisis has passed; board and insider-led “bridge funds”
- Forecast cash burn to ensure existing reserves are adequate for a post-crisis restart; put those reserves in a safe place.



Discussion

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