# FROM SURVIVAL TO STABILITY: INSIGHTS TO INSPIRE FISCALLY RESPONSIBLE DECISION-MAKING DURING COVID-19

## A POSTSCRIPT TO THE NYN MEDIA WEBINAR

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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 June 11, 2020, three long-time nonprofit advisors offered guidance on overcoming many of these obstacles, with a specific view toward the next three months. A selection of their top insights is captured within this document.

ThinkForward

DENHAM WOLF
Mission leads; real estate follows.

Webb Mgmt

# FROM SURVIVAL TO STABILITY: KEY TAKEAWAYS

## THE NEXT THREE MONTHS

### BY DUNCAN WEBB, WEBB MGMT

To successfully navigate this pandemic and its impacts, an organization must first and foremost affirm its desire to continue, and then ask and answer the following questions:

- Is our mission still valid, and are we delivering value to the community?
- What's happening with our customers, and are they still in a position to participate in our programs and services? Some quick surveying of current customers would be very helpful at this point.
- Which programs can we deliver in the short-term that align with our mission, respond to the current market, and deliver sufficient revenues to sustain our organization?

The most important step in the next three months is managing liquidity. How do nonprofits ensure that there are sufficient funds in the bank to keep going? Thus, the exercise of building a monthly or even weekly cash flow forecast is essential. The forecast should start with projections around delivery of programs. What earned revenues can they generate? Are there grants and donations possible for the specific program? And after deducting direct costs, are these programs delivering positive revenue in the short-term?

A second part of the exercise is forecasting general sources of contributed income and fixed costs, including staff, administration, facilities, and financing. And then there may be some cash reserves available to support short-term operations. The challenge is to go through this exercise month by month in order to end up with the bank balance sufficient to carry on.

The next critical step for all nonprofits is to design and execute a communications strategy that delivers the basic message that the organization can and should survive, with the support and assistance of stakeholders, including staff, board members, funders, vendors, partners, and beneficiaries. The messaging should stress the following:

- We have a plan to get through this.
- We're going to make it, with your help.
- We are listening to you and your concerns about the future.
- What we do matters, and we are therefore determined to continue.

All of this work, from the mission-check through the messaging, should be led by the executive director or CEO. But there are important opportunities for staff, volunteer leadership, and others to participate. And that broader participation will lead to a stronger sense of alignment and purpose moving forward.

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## WHERE IS THE MONEY?

### BY SUNIL K. AGGARWAL, THINK FORWARD FINANCIAL

In projecting income, and for persevering through the current climate, it is essential for nonprofits to understand the funding and financing sources available to them. Several variables – such as an organization's size, banking relationships, and ability to act quickly – will be a factor in securing financial resources.

#### Nonprofit Programs with Short-Term Opportunity

- The Federal Paycheck Protection Program (PPP)
- Loans or Grants from Community Development Financial Institutions (CDFIs)
  - Funded by foundations, commercial banks, and the Treasury to provide working capital and facilities resources
  - Under the HEROES Act, $1 Billion has been newly allocated for CDFIs for the benefit of nonprofits
  - Some local CDFIs include the Nonprofit Finance Fund, the Local Initiatives Support Corporation (LISC), the Low Income Investment Fund (LIIF), Blue Hub Capital, TruFund Financial Services, and Pursuit Lending
- New York State's New York Forward Loan Fund (NYFLF)

#### The Inside Scoop from 20+ Banks

- It's a tight market across the board. Banks are going to have very little room to take risks for the next six months and possibly into 2021.
- Nonetheless, there are engaged, proactive, and relationship-forward banks that want to work with nonprofits.
- It is more critical than ever to present banks with a solid case. Without a healthy balance sheet and strong credit, organizations will have difficulty securing new financing.
- Bank staff is stretched thin, and their workloads are still increasing. Administering pandemic-related loan programs has proven taxing for all sides. In addition, banks are actively working with existing clients on deferment requests, loan modifications, potential bankruptcies, and more.
- Time is of the essence. Speak to potential lending institutions sooner rather than later.

#### Preparations for 2021

- For recipients of forgiven SBA loans, organizations need to discuss with their CPA how the loan forgiveness will be treated in regard to next year's financial statements.
- Organizations should be upfront with funders and lenders, even if their current financial health is poor. Benefit of the doubt is more likely to be given now than in 2021. By building trust early, an organization will be better positioned to request modifications, covenants, and deferments.

# FROM SURVIVAL TO STABILITY: KEY TAKEAWAYS

## CUTTING REAL ESTATE EXPENSES WHILE PROTECTING MISSION

**BY PAUL G. WOLF, DENHAM WOLF REAL ESTATE SERVICES**

Reducing expenses is a priority for all organizations, especially in the current climate. For nonprofits that lease, rent represents a large portion of operating expenses; real estate expenses are typically second only to personnel. For nonprofits that own real estate, the combination of a mortgage, maintenance costs, and carrying costs can add up quickly.

### The Burden, and the Opportunity

Even in a crisis, mission leads and real estate follows. Reducing the financial burden of real estate may be an urgent priority today, but mission must remain the highest priority. Despite urgency to cut costs quickly, nonprofits must consider the long-term impacts of making significant changes to their real estate. It is essential to assess the options before acting. To do so effectively, an organization needs to understand what it has and be very clear and candid about what it wants. For example, how substantial was the investment to customize the current real estate? Is the rent below-market? How many years are left on the lease? Organizations should also examine how their current spaces support mission. Given missional priorities, is less space an option? Will the current location remain appropriate? Clarity about needs and capacity will lead to better decision-making.

Similarly, organizations must thoroughly understand their needs in order to successfully pursue a shift in their real estate. As with so many components of nonprofit leadership, communication is critical. It can be incredibly helpful to survey stakeholders, especially staff and program participants, about their expectations. Space usage is likely to look different in the short-term, and perhaps even in the long-term. Self-aware organizations are better able to prioritize and, in the case of real estate, make for stronger negotiators.

### Recommendations for Nonprofits that Lease

- Read your lease! There may be some opportunities for savings, such as:
    - The possibility of rent abatement due to interruption of essential services
    - The right to sublet or assign space
- Engage your landlord. By working together, you're more likely to find creative solutions, such as:
    - Agree to extend or shorten your lease in exchange for more favorable rent
    - Defer rent payments
    - Seek early termination
- Keep in mind that landlords will expect documentation, specifically documentation of negative financial impacts, when considering relief-related requests.
- Real estate transactions are rarely quick. If you hope to make a major change to your real estate, and quickly, you should be prepared to pay a premium for the expediency.
- Double-check your insurance coverage. While most policies do not cover business interruption due to a pandemic, your policy may be the exception.
- Expense reduction, on its own, is rarely a good enough reason to pursue a major organizational change. Nonprofits must prioritize programs, the participants of those programs, and the mission that underpins it all.

# MEET YOUR ADVISORS

### DUNCAN WEBB, WEBB MGMT

email: duncan@webbmgmt.org | website: www.webbmgmt.org

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.

### SUNIL K. AGGARWAL, THINKFORWARD FINANCIAL

email: sunil@thinkforwardfinancial.com | website: www.thinkforwardfinancial.com

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.

### PAUL G. WOLF, DENHAM WOLF REAL ESTATE SERVICES

email: pwolf@denhamwolf.com | website: www.denhamwolf.com

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. As an industry leader, Paul's insights and creative approaches, together with those of Co-President Jon Denham, provide the underlying framework for all of Denham Wolf's services. 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. He currently serves on the board of the STREB Lab for Action Mechanics.

Webb Mgmt ThinkForward DENHAM WOLF