

Opportunity Through Education



Background and Introduction

Organizational Assistance, LLC was hired March 2014 to assist Early Childhood, Inc. in charting a course for long-term sustainability – of both the organization and its most significant asset, the property – and continued success in the community. Most urgently, Early Childhood was in need of a sustainability plan that would position it for successful refinancing of its current building loan in early 2015.

Between April and June 2014, Organizational Assistance completed an assessment of Early Childhood, Inc. finances, property, management and governance, then worked with

members of Early Childhood Management Team to develop a comprehensive sustainability plan that is informed by that assessment. The overall plan includes identification of critical issues, strategies to address those issues, and a plan for implementing the strategies.

To complete the organizational assessment, the consulting team:

- Interviewed all of the current management staff, members of the Board and Policy Committee, and several external stakeholders.
- Conducted research in the field regarding best practices and the possibilities for both real estate financing and raising new funding from private grant sources.
- Met with the lenders via conference call, and directly with each individually, and worked closely with representatives from the current group of lenders.

To complete the sustainability plan, we:

- Organized a “Sustainability Working Group” (SWG) made up of six members of the Management Team (and not including the CEO). The SWG met three times to analyze the SWOT findings, craft appropriate strategies to address the critical issues, identify short and long term recommendations, and develop the plan for implementing the recommendations.
- Worked directly with the CEO, to communicate our findings and recommendations (as they were emerging), gain her insights and suggestions, and continually engage her in this process for her input and buy in.
- Held a full-day retreat that brought together the entire management team along with members of the Board and Policy Committee to review our findings and recommendations, prioritize work on the various strategies, and provide input on the implementation plan.

This document summarizes the critical issues, strategies and recommendations for each, and briefly states considerations that will be important for Early Childhood to keep in mind as they move forward with implementation.

Critical Issue: The Property

Strategies and Rationales

(1) Refinancing

Rationale: Early Childhood faces January 2015 deadline for refinancing. This is a short-term priority.

(2) Build Project Reserves

Rationale: The project has cash reserves at present, but lender requirements and future capital needs will create the need for increasing reserve levels.

(3) Preventive Maintenance

Rationale: It costs more to fix something after it breaks than to keep it from breaking. Preventive maintenance is a must for any facility, no matter how new or how old. Potential lenders will want to know that Early Childhood is capable of taking care of the facility and prepared to finance the costs.

Recommendations

Short-term recommendations:

- a. Obtain take-out financing of \$8 million, unwinding the NMTC investment, and setting Early Childhood on course for permanent, sustainable ownership of the property
- b. Budget for making deposits into reserves for debt service and replacement, with deposits starting in 2015-16
- c. Plan, budget for, and implement systems for preventive maintenance and repairs and replacement of major systems.

Long-term recommendations:

- a. Establish systems for monitoring and reporting on property performance, identifying concerns and enabling leadership to take proactive steps to maintain the viability of the property
- b. Implement a comprehensive system of ongoing repairs, preventive maintenance and replacement of major systems to extend the useful life of the property while keeping unexpected repair expenses to a minimum
- c. Grow reserves through regular deposits of unrestricted funds, with those reserves dedicated solely to the property

Important Considerations

- The property houses Early Childhood administrative offices and 10 classrooms, and since it was built in 2008 it has been the flagship of their fleet of 10 early childhood centers. With a looming deadline of the end of 2014 to pay off the current lenders and exit the NMTC structured financing, Early Childhood is facing a major financial, programmatic and image loss if they cannot secure permanent financing.
- In order to get approved for a new, permanent loan, Early Childhood will have to convince potential lenders that:
 - The operating deficits of recent years are not likely to repeat in the years to come
 - The core funding sources are secure, and Early Childhood is on the way to tapping into new, less restrictive sources of revenue

- Building systems, management and reserves are all established and serving the property well
- The property is attractive and well-built, and Early Childhood has had the good fortune of several years with relatively few maintenance issues. However, as it ages there is a growing need for systematic preventive maintenance, regular inspections of all systems, and planning for work on major systems. This work will require annual funding from the operating budget for maintenance, and deposits to a replacement reserve for future capital needs.

Critical Issue: Financial Stability – Budget Control

Strategies and Rationales

(1) Budget Control

Rationale: Raising more money and controlling spending are two sides of the financial stability equation. Our review revealed numerous areas for improvement with budget monitoring and control. Early Childhood has had operating deficits in recent years and needs to show it can operate at break-even or better to be sustainable.

Recommendations

Short-term recommendations:

- a. Closely manage budget performance, making mid-year adjustments to spending and allocations as necessary
- b. Revise the current year budget for break-even or better, including a contingency
- c. Limit new expenditures to those absolutely necessary to achieve contractual obligations and meet the needs of the children
- d. Free up time for senior finance managers to work on overall budget management, cash flow projections, and analysis and financial planning
- e. Increase the involvement of all senior management in budgeting and cost controls

Long-term recommendations:

- a. Continue practice of tight budget controls, cash flow management, and financial analysis
- b. Add systems for internal reporting including the use of dashboards and notifications of emerging problems

Important Considerations

- The Finance Department is one of Early Childhood' strengths, with good systems and people in place. The organization has had years of clean audits and federal

reviews. The recommendations in this section are designed to build on those strengths.

- The Finance Department must enhance its capacity through adding accounting staff and incorporating budget and cash flow management into its software systems, adding regular monitoring and analysis to its culture of financial management.
- Strategic program planning cannot happen in the absence of budget planning, and vice versa. Senior staff who focus on program must work closely with their counterparts in Finance. The only way to accomplish this kind of coordination is by communicating regularly; sharing ideas, goals and concerns; and collaborating on decisions.
- A change in organizational management culture will be critical to its sustainability: At present, all managers are expected to exercise their commitment to quality programming and integrity in all of their work. Similarly, all will need to practice a commitment to managing Early Childhood programming in concert with its fiscal realities.

Critical Issue: Financial Stability – Raising New Funds and External Relations

Strategies and Rationales

(1) Raise Funding from New Sources

Rationale: Early Childhood needs to increase unrestricted revenue (i.e., funds not restricted by government grant requirements) so that the Agency can adequately fund both the property and new positions. Also, more diverse funding – including tapping other government funding streams – is needed to reduce reliance on Head Start/EHS.

(2) Increase Visibility

Rationale: Increasing the visibility of Early Childhood is critical to (1) raise the agency's profile among prospective donors, (2) raise visibility in the community to maintain and increase enrollment, and (3) "get the community more involved so they know what we are doing, will be interested in working here, and support us"

Recommendations

Short-term recommendations:

(Raising new funds)

- a. Increase # of children in wrap around, increase attendance of those enrolled
- b. Increase # of slots in private day care at market rate

- c. Advocate for restoration of Abbott/wrap around eligibility/payment levels
- d. Increase rental of space for one-time only and regular events by assigning outreach to current staff
- e. Identify and apply to private foundations this year with current staff
- f. Begin to reach out to prospective individual donors (start with alumni)
- g. Budget for sustainability initiatives (i.e. new staff, consultants, etc.)

(Raising visibility)

- h. Clearly define job descriptions (responsibilities and skills needed) for positions that will engage in different kinds of “marketing (e.g., to prospective parents for enrollment, to prospective donors, including alumni)
- i. Enhance website as tool for external relations

Long-term recommendations:

- a. Continue to increase enrollment #s in wrap around
- b. Continue to increase # of market rate slots and increase rates over time
- c. Begin aggressive marketing for space rental is for 2015
- d. Create, fund, and hire qualified staff for a new Development and Communications Department to:
 - Continue to identify and apply to private grants
 - Identify and apply to other government funding sources that complement existing programs
 - Build base of individual donors
 - Develop initiatives for earned income (e.g., training and technical assistance on a fee basis, leasing space, etc.)
 - Manage outreach and rental of space for events
- e. Define job description for someone dedicated to website enhancement, identify resources for funding that position

Important Considerations

- Early Childhood has considerable strengths to leverage toward raising new funds. The organization has longevity in the community, steady growth, committed and talented staff/leadership, and thousands of alumni – which present a tremendous opportunity to build base of individual donors. They also have high quality and innovative programs (such as the Father Involvement Program) that can be marketed to both private funders as well as turned into earned income streams (through training and technical assistance activities) and state of the art facilities that can be marketed for greater rental income.
- There is strong interest among private foundations in expanding access to high quality early childhood education. Early Childhood is not well known to private philanthropy or is only known for what the organization offered in its early years (e.g., cotillions). Early Childhood need to reach out and introduce or in some cases re-introduce itself to private funders.

- Early Childhood should explore opportunities to increase its earned income, including expanding things already in place such as more actively leasing the event space in the building, operating fee-for-service contracts for public agencies, and private day care, and possibly expanding into offering training and technical assistance services to other agencies.
- Currently, Early Childhood lacks the both the external visibility and internal capacity to substantially increase the share of its funding that comes from sources other than its core government grant programs. Early Childhood is not as well known as it should be – the organizational needs to be at the table (in nonprofit, philanthropic worlds, not just Head Start) and needs to raise its visibility.
- To successfully raise funding from new sources and increase visibility, Early Childhood will have to add capacity (through new staff or consultants) in the following areas: private sector fundraising, communications and marketing, and enterprise development. In addition, the CEO/ED will need to increase her involvement in private fundraising, especially in meeting with and building relationships with prospective donors.

Critical Issue: Efficient Internal Operations and Capacity to Implement Changes

Strategies and Rationales

(1) Improve Operational Efficiencies

Rationale: In general, greater efficiency saves an organization time, money, and frustration. For Early Childhood in particular, the recommendations here for improving efficiency are especially important for lessening dependence on a very busy CEO and freeing up her time to focus on high level strategy, management, and relationship building for resource development.

(2) Maximize Creativity and Collaboration among Staff to Problem Solve

Rationale: Staff typically know best what will or won't work to solve an organizational problem (such as how do we get parents to "swipe" to confirm students' attendance or how do we find more wrap-around eligible families). Creating a culture where staff are expected to work across programs to put their heads together to solve problems will contribute to greater efficiency.

(1) Ensure All Positions Filled with Appropriately Qualified and Trained Staff

Rationale: It will be critical for Early Childhood to not only continue hiring and developing program staff to ensure continued high quality of its programming but also to make sure that new staff positions identified in the sustainability plan are filled with the right people.

Recommendations

Short-term recommendations:

(Operational Efficiencies)

- a. Make decision making more efficient – delegate more decisions to managers, managers delegate more to their staff
- b. Review and update SOPs for all program areas and ensure they are implemented and monitored
- c. Hire COO (experienced and qualified, based on a proper job description); give that position the appropriate level of authority
- d. Ensure IT systems functioning across sites
- e. Enhance website as tool for efficiency (e.g., streamline enrollment)

(Staff Collaboration)

- f. Improve internal communication to ensure consistent flow of information “up and down” between sites and Management
- g. Enhance teamwork – among Management Team and among staff – through teambuilding and problem-solving activities and practices

(Staff Positions)

- h. Hire qualified HR Director to: ensure qualified staffing and appropriate job descriptions, manage team/morale building, manage training and cross-training , ensure productive utilization of time
- i. Ensure clear, consistent, transparent process in place for all hiring and staff assignments
- j. Adopt clear, consistent, sensible salary scale

Important Considerations

- Early Childhood has strong and effective management staff who have worked well together to ensure that the agency passes its federal reviews every three years and regularly meet all licensing requirements. However, there have been missed opportunities for addressing issues or improving efficiency/saving or re-couping costs when issues cut across departments and can best be addressed through a cross-department team. It will be important for managers to make the time to

identify these issues, create teams to address them, and foster a culture of problem-solving among all staff.

- This plan suggests some organizational restructuring – by adding a COO and eventually a Development and Communications Department – which should be implemented carefully and with input and buy in from other senior staff/managers. By hiring a COO, Early Childhood will, over the long run, enhance management capacity and efficiency and free up CEO time for fundraising and external relations. However, in the short term, these kinds of changes can create confusion and uncertainty. It will be important to meet with senior staff individually and collectively to listen to concerns, get input and feedback, and communicate progress.
- Early Childhood has had a commitment to hiring from within, which can be seen as a real strength. However, there are a number of critical management positions, including new positions that will be added, that require professionals with the appropriate skills and qualifications to ensure even greater levels of effectiveness and efficiency. Early Childhood will need to balance its commitment to providing staff with opportunities to advance with the agency's interests and needs.

Critical Issue 5: Governance and Leadership Succession

Strategies and Rationales

(1) Strengthen Board Capacity

Rationale: The Board has committed members who have been involved a long time. While this can be seen as a strength, it's also a weakness in that the Board is missing opportunities to bring new skills and networks to the organization.

(2) Adopt Leadership Succession Policy and Plans

Rationale: It is an accepted best practice for nonprofits to have plans for both planned and unplanned leadership transitions. We think it will be especially helpful for Early Childhood to discuss future leadership needs – at the both the Board, CEO, and CFO levels – to keep Early Childhood on the path to sustainability.

Recommendations

Short-term recommendations:

(Governance)

- a. Assess how well Board is meeting governance (oversight) and support responsibilities and identify areas for improvement
- b. Revisit and revise Board job descriptions based on assessment

- c. Identify skills, experience, and relationships needed to address gaps and refine recruitment and nomination process
- d. Establish an active committee structure

(Leadership Succession)

- e. Agree on procedures that should be followed when the CEO or other senior manager is out (beyond time/duties covered by planning form)
- f. Adopt leadership succession policy for planned and unplanned transitions of senior positions (CEO, CFO, COO)

Long-term recommendations:

- a. Increase Board role in resource development (including outreach and relationship building)
- b. Implement Board recruitment following agreed on process
- c. Review and revise committee structure and recruitment over time
- d. Implement model for fundraising support
- e. Carry out a succession planning process that engages senior staff and Board in developing concrete strategies and plans for planned and unplanned transitions

Important Considerations

- The sustainability planning process identified ways in which the Board of Directors needs to be more engaged – in fundraising and external relations, for example – to ensure sustainability. There was also consensus that the Board needs to bring in members with different skills and relationships to increase Early Childhood’ visibility and raise new funds from the private sector. As Early Childhood focuses on Board development, it will clearly need to balance the governance responsibilities required by its current primary funder (Head Start) with the governance needs of a large nonprofit organization with a more diverse funding base and that owns a significant asset.

Concluding Observations

The three-month sustainability planning process provided Early Childhood Senior Staff and Board with a much better understanding of the organization's challenges, both organizational and financial. There is a common understanding of the urgency to get refinancing on the property, a greater sense of "what it will take" to do so, and evidence of a commitment to the teamwork needed to resolve the critical issues and get the work done.

Successful implementation of the Sustainability Plan will require the buy-in of staff at all levels of the organization so that all staff understand the changes being made and their own role in achieving sustainability. It will be important to adopt a clear implementation plan with assigned roles and to create and carry out a monitoring process with monthly reviews and reports. It will also be important to create a vehicle for communicating and celebrating progress internally and to foster a culture that embraces change and collective ownership of sustainability tasks and results.