

Planning for a Capital Project

Presented by

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New Jersey Historical Commission
Best Practices for History Organizations

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Ellis Island

- **Introduction**
- **Capital Projects: Impact on Operations**
- **Project Budget & Cash Flow**
- **Funding & Financing Your Project**

NFF connects nonprofit finance to nonprofit success

Serving thousands of nonprofit and funder clients nationwide since 1980

- \$175 million in loans in support of over \$1 billion in projects
- Over 500 customized financial consultations with the Nonprofit Business Analysis
- Hundreds of strategic partnerships to advance the nonprofit sector
- Thought-leadership to advance friendlier funding practices across the nonprofit sector

Experts in nonprofit finance

- Nearly 30 years of experience as a 501(c)(3) Community Development Financial Institution (CDFI)

Serving nonprofits nationwide from seven local offices

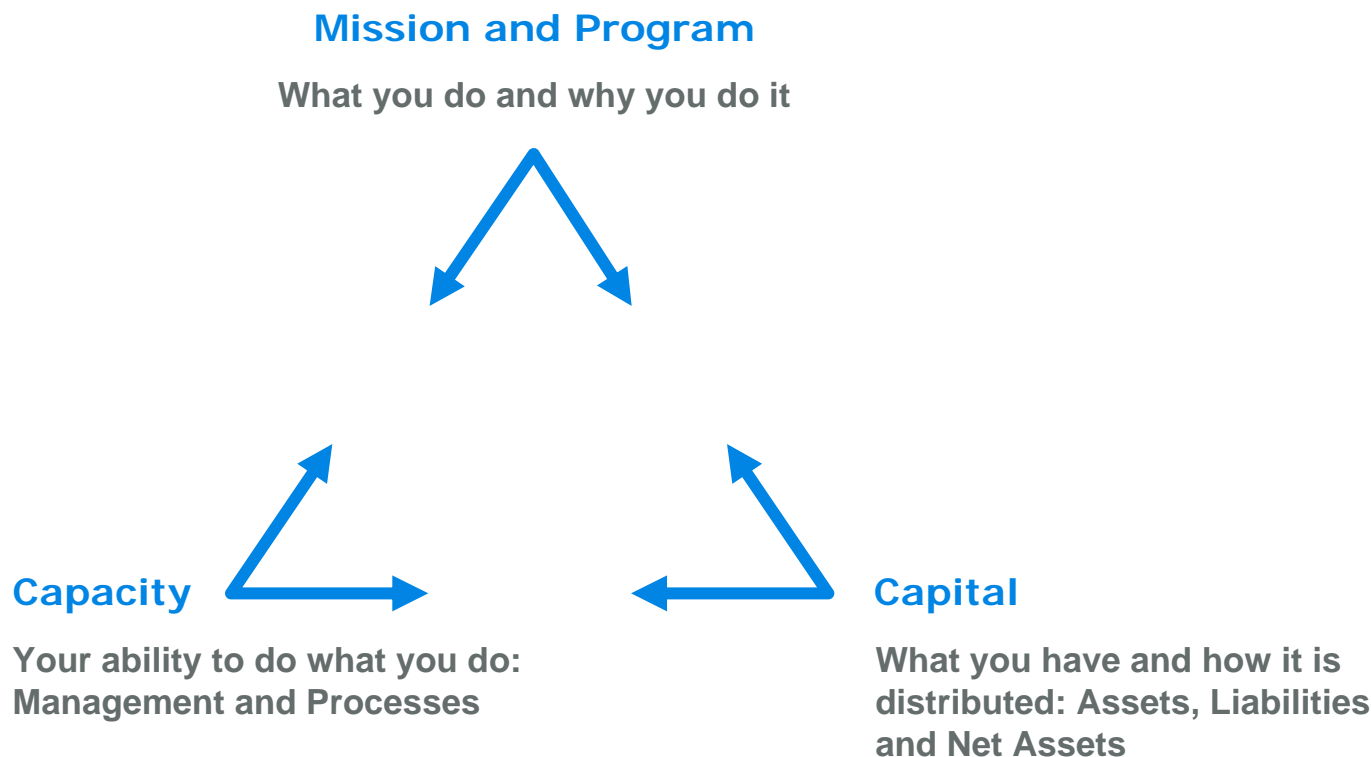
- **Northeast:** Boston, New York
- **Mid-Atlantic:** Philadelphia, Washington, DC, **Newark, NJ**
- **Midwest:** Detroit
- **West Coast:** San Francisco

**“We’re in the
business of
helping nonprofits
run better.”**

*–Clara Miller
NFF President & CEO*

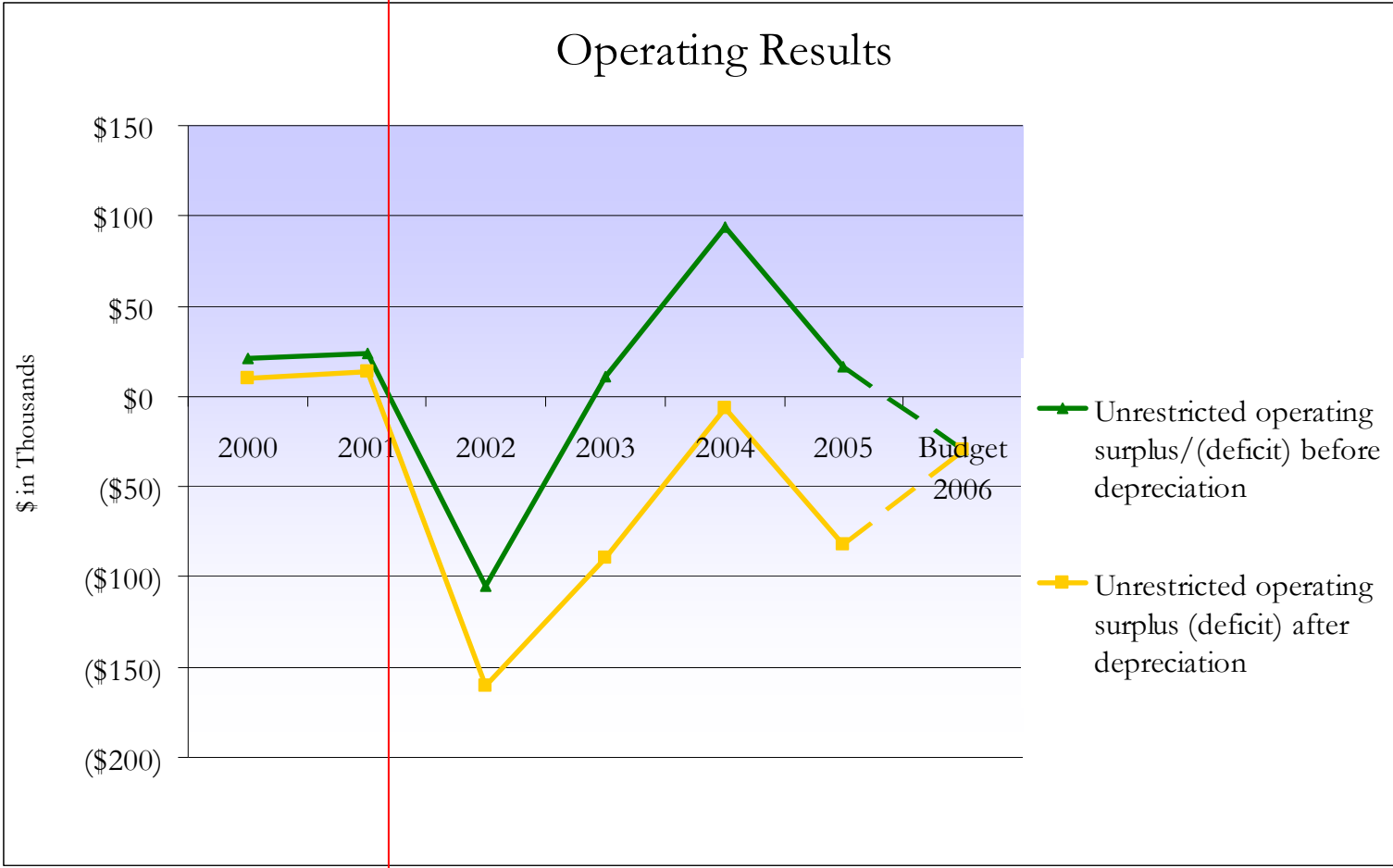
NFF Helps Keep Nonprofits in Balance and in Business

Establishing and maintaining a balance among these three critical components is essential to an organization's long-term health and viability



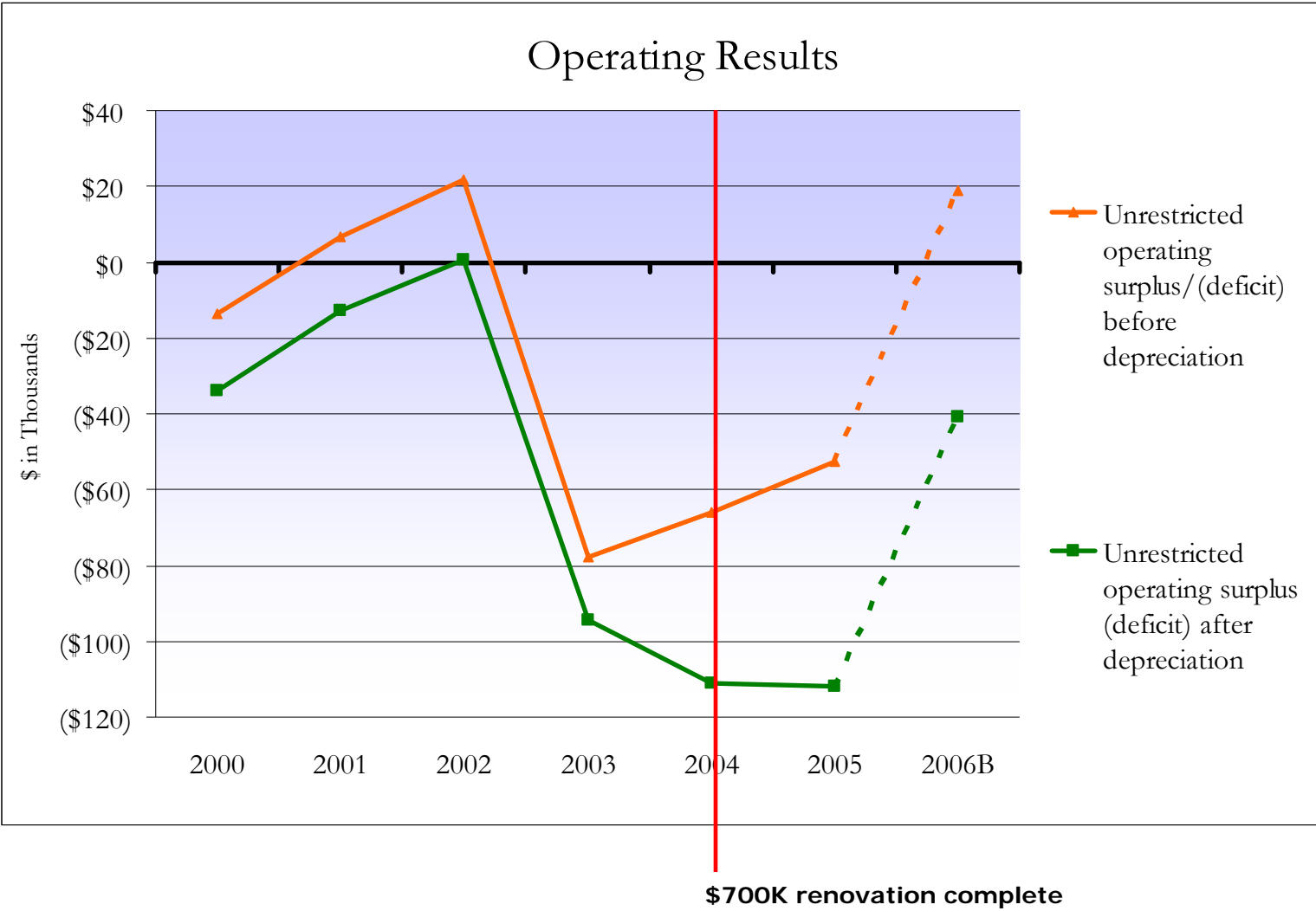
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Museum: Post-Project Operating Performance

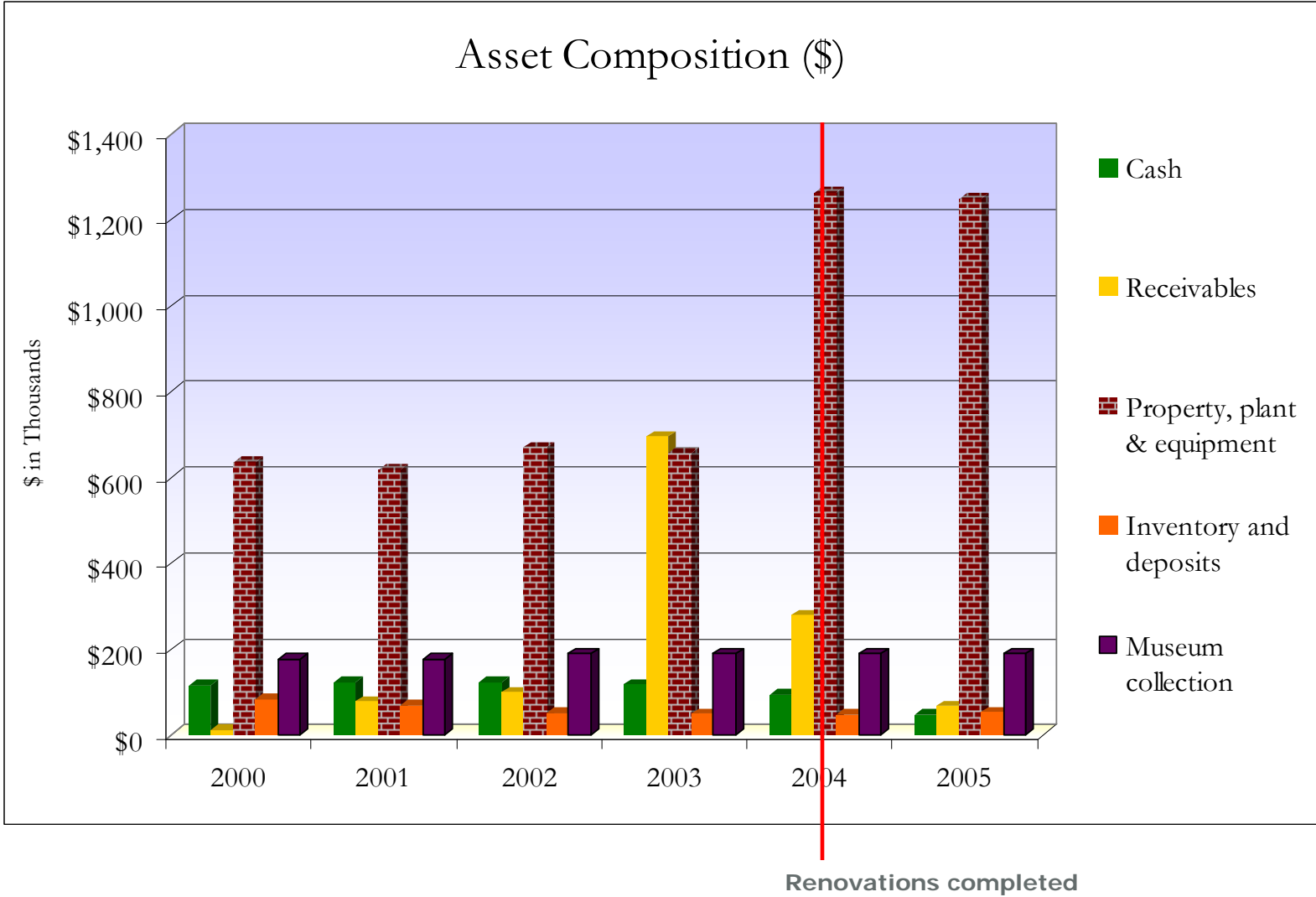


**\$3.8 million expansion
and renovations completed.**

Historic House Museum: Post-Project Operating Performance



Changes to the Balance Sheet



- Deficits while operating revenue catches up to operating expenses during ramp-up period
- Lower contributed revenue – contributions to operations may decline because donors are giving to capital campaign instead
- Lower earned revenue due to curtailed programming, i.e. museum closure during renovation
- Additional staff needed, or current staff over-extended during capital project implementation

7 Signs of a Healthy Project



- 1. Clear, concise mission and goals**
- 2. Financial stability**
- 3. Stable board and management**
- 4. Evidence of growing community support and audience demand**
- 5. Scope of the project is suited to organization's needs and capacity**
- 6. Checks and balances for emotional thinking**
- 7. Back-up plan**

- Are we chasing \$\$\$ or a facility opportunity?
- Is the proposed programming within our mission?
- What are our core competencies?
- Do we have the right expertise on the board?
- Is the board actively engaged in planning?
- What is the proposed project size and how does it relate to the current organization size?
- Do we have to do this alone? Are there partnership opportunities to minimize risk?

Partners/Partnerships/Stakeholders

- Clients/constituents
- Staff
- Board
- Government
- Program partners
- Funders
- Non-constituent community

Figure out from whom you want to seek active participation, versus those whose reaction you simply want to predict.



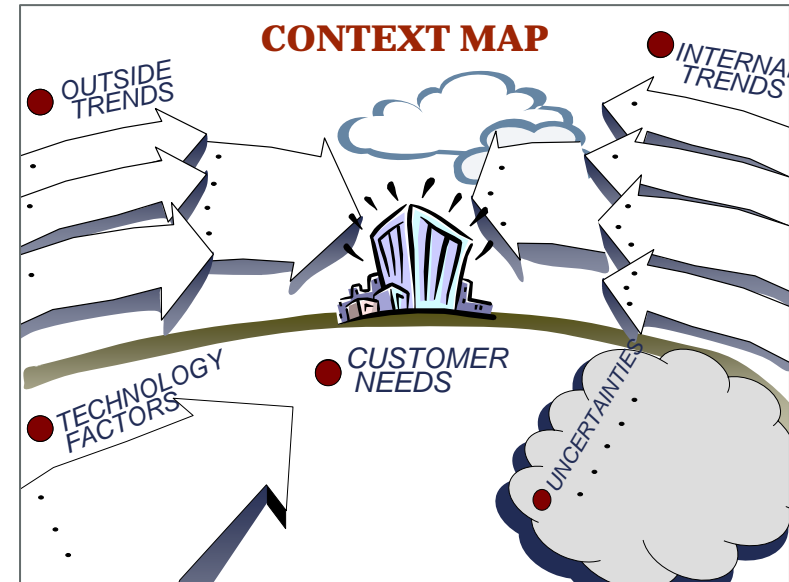
If there is no “fundable” demand, there is no business case...

- What is the difference between NEED and DEMAND?
 - What is the real demand for new services?
- How do we assess demand?
 - Look in the mirror
 - Ask the folks that are potentially paying for the service

What is the competition in the community?

Who is best suited to offer this service? Are we?

What are the SWOT tests of the organization’s programs?



Depreciation: Unintended Financial Consequences



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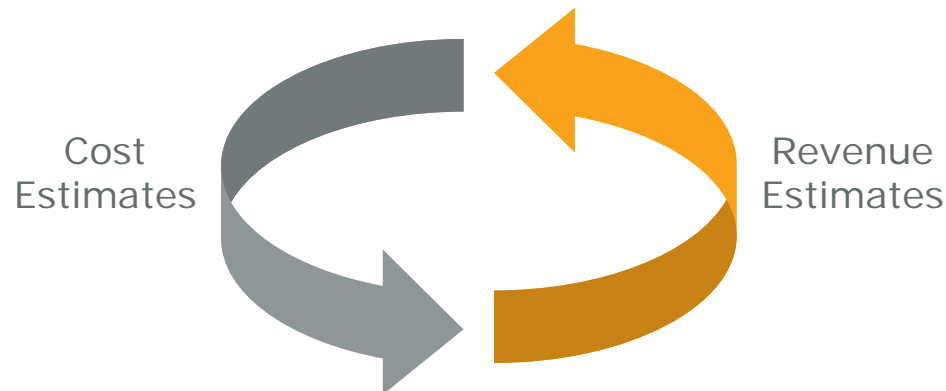
Financial Planning

- Project budget (one-time, up-front costs)
 - Sources and uses of funds
- Capital campaign budget
- New operational budget/projections (ongoing costs)
 - Plan for growth. What is the financial impact?

Financial Impact

- What is the current economic climate and what is the future of our funding?
- What kind of revenue will the new program(s) bring?
- What are the additional costs of adding new program(s)?

Planning is an Iterative Process



Fundraising

- Preplanning
- Feasibility study
- Strategic study
- Cultivation of prospects
- Prospect research
- Recognition events
- Grant preparation
- Printing & mailing
- Travel
- Consultants
- Org audit
- Contingency

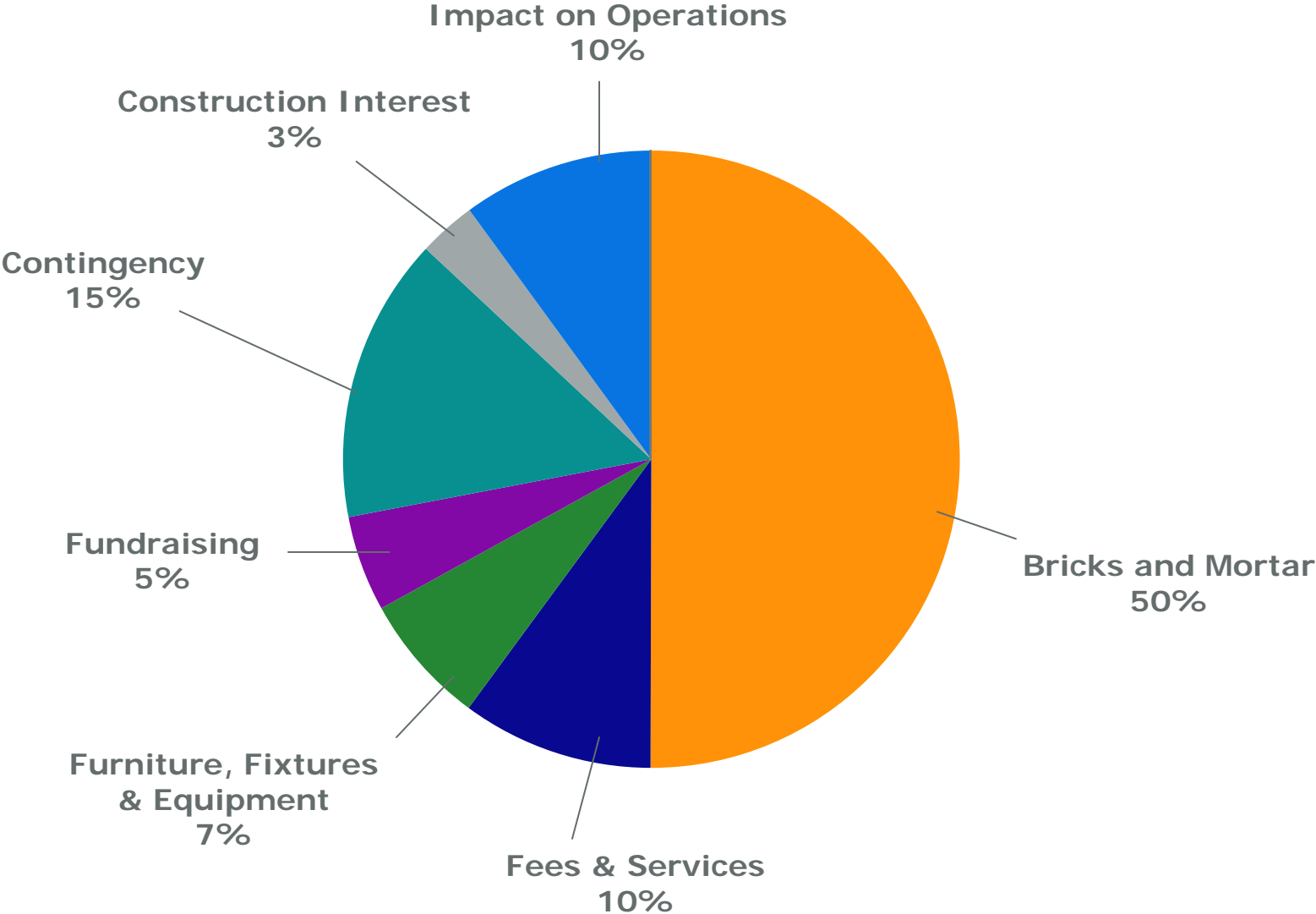
Hard & Soft Costs

- Purchase price
- Construction
- Fees & permits
- Furniture, fixtures & equipment
- Bank interest & fees
- Architect & engineers
- Moving & storage
- Building reserve
- Predevelopment
- Taxes & assessments
- Legal fees
- Project manager
- Consultants (ADA, HVAC)
- Signage
- Security
- Insurance
- Contingency

Operating

- Opportunity cost
- Program growth
- Staff growth
- Admin & occupancy
- Transition deficits
- (elim. of rental exp)
- (add rental income)
- Contingency

Cost Rules of Thumb



- **Pre-development/Pre-construction Period**
- **Construction Period**
- **Post Construction Period**

Cash Flow Worksheet



	months	1	2	3	4	5	6	7	8	9	10	11	12	YR1	YR2	YR3	COST
Cash Sources																	
Cash on Hand		150												150			
Government Grant												50		50			50
Foundation/Corp.				35						50				85	35		120
Individuals/Benefits			25				68					73		166	150	150	466
TOTAL SOURCES		150	25	35	0	0	68	0	0	50	0	123	0	451	185	150	786
Cash Uses																	
PREDEVELOPMENT COSTS																	
Deposit/Down Payment		10												10			10
Planning Fees		5	8					8						21			21
Site Purchase		25												25			25
CONSTRUCTION COSTS																	
Hard Costs					125			175			215			620	25		645
Arch/Eng Fees			15			10			5			5		35			35
Construction Supervision				10			10			15			15	50	5		55
POST CONSTRUCTION COSTS																	
Paint & Finishes											45			0			0
Telephone & Equipment														45			45
Furniture													35				35
Utility hook-ups								10						10			10
Exterior Equipment														0			0
Moving														0	10		10
FINANCING																	
Financing Fees														0			0
Interest														13	33	27	73
FUNDRAISING COSTS																	
Development Counsel		10			5			3			3			21	3		24
New Staff														0			0
Printed Materials		12												12			12
Misc. Development Costs		15					10							25			25
SUPPORTING COSTS																	
Legal Fees		15												15			15
Consultant Fees														0			0
Security														0			0
Occupancy Costs (new)														0	7	10	17
OPERATIONAL IMPACT																	
			7			7				9				34	15		49
BUILDING RESERVE																	
														0	12	15	27
TOTAL USES		92	23	17	130	10	27	186	15	24	263	5	179	971	110	52	1133
Period Cash Change																	
CASH SOURCES LESS CASH USES		58	2	18	-130	-10	41	-186	-15	26	-263	118	-179	-520	75	98	-347
CASH (NEED) EXCESS		58	60	78	-52	-10	41	-145	-15	26	-237	118	-61	-520	75	98	-347
LOAN PROCEEDS		0	0	0	52	10	0	145	15	0	237	0	61				
NET CASH POSITON		58	60	78	0	0	-41	0	0	26	0	118	0				
CUMULATIVE LOAN		0	0	0	52	62	62	207	222	222	459	459	520		445	347	

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Funding vs. Financing: What is the difference?

- **Funding** – Covering the costs of the capital project with contributed revenue and organizational financial resources

- **Financing** – Using debt, short-term or long-term to pay for costs related to the capital project

Capital Campaigns: Keys to Readiness



- 1. A Diversified Donor Base**
- 2. A Broad Base of Volunteers**
- 3. A Strong Case for Support**

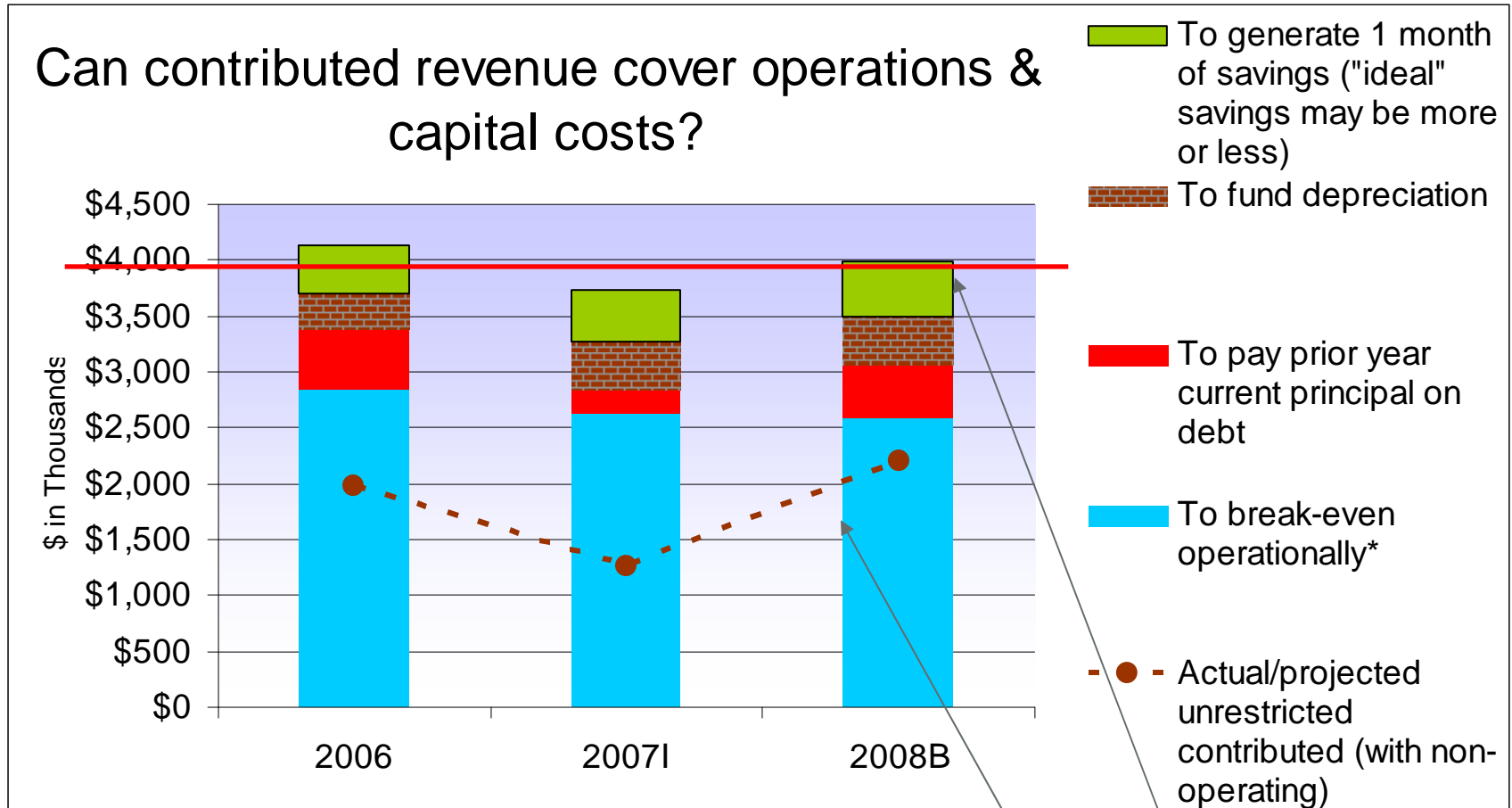
6 Stages of a Capital Campaign



- 1. Planning**
- 2. Identify and Research Prospects**
- 3. Preparation**
- 4. Cultivation**
- 5. ASK**
- 6. Acknowledge and Clean Up**

What is "the Goal"?

Can contributed revenue cover operations & capital costs?



Current projected fundraising goal

Target fundraising goal

*"To break-even operationally" – total expenses less earned revenue.

Capital Campaigns: Effects of the Recession

- Delays and/or expanded timeframes for campaigns
- Extended pledges and multi-year gifts
- Feasibility study more important than ever
- Essential to have a compelling case, effectively communicated

For more recession-related advice and resources see:

<http://www.nonprofitfinancefund.org/details.php?autoID=177>

7 Signals to Go! Capital Campaign



1. **Consensus, commitment & support from key stakeholder groups**
2. **Know thyself**
3. **Reality-based objectives**
4. **Compelling, urgent case for support**
5. **Audience demand & internal capacity to meet it**
6. **Broad and diverse donor base**
7. **Leadership: enlisted and trained**

Types:

- Capital Campaign Bridge Loan
- Construction Loan
- Term/Mortgage Loan
- Bonds
- New Markets Tax Credits
- Equipment Loans

- Used to bridge written multi-year pledges
- Payments will be tied to the intended receipt date of the pledges
- A lender may be willing to bridge the to-be-raised portion of your campaign
- May be possible to structure a revolving loan

- Typically used for new construction, extensive renovations or leasehold improvements
- An interim step towards more permanent financing
- Usually adhere to a maximum loan-to-value
- Funds are advanced based on proof that the work has been completed
- Repayment from permanent financing – mortgage loan or capital campaign bridge loan

- Banks typically lend up to 80% of the appraised value of the building and require a certain cash flow/debt service coverage ratio, typically 1.2x
- Remaining 20%+ must be covered by an equity contribution or a second mortgage
- Structured set monthly payments with an amortization schedule of 5 to 20 years and a call provision
- Most often requires the pledging of the building as collateral – mortgage
- Leasehold improvement loans can be structured as a term loan without the pledging of the building

- Some projects may be eligible for tax-exempt financing
- Bonds are issued by a county or municipality development agency
- Bonds may be purchased by a bank, a tax-exempt fund or individuals
- Tend to have longer amortization periods and call provisions than a conforming mortgage but usually adhere to the 80% loan-to-value
- Drawback is that bonds are expensive to issue

- The US Treasury's New Markets Tax Credit (NMTC) Program provides an allocation of tax credits which can be used to attract private dollars into financially distressed communities
- Some traditional banks, Community Development Financial Institutions (CDFIs), and some government entities have received the allocations
- Projects qualify according to their geographic locations
- Typically have longer amortization periods but the life of the loan is limited to seven years
- Lower interest rates are offered and the loans have equity-like features but require debt service coverage and loan-to-value ratios
- Trade-offs include potential complexity, reporting requirements and refinance risk (generally necessary after the seven-year life of the loan)

What Will the Lender Ask For?



Financial Information

- Audited financial statements
- Current year budget
- Year-to-date financial statements
- Existing debt and borrowing history
- Sources of repayment
- If repayment is from fundraising, copy of the fundraising plan

Organizational Information

- Annual report and brochure
- List of board of directors, key staff
- List of major funders

Project Information

- Project description, scope of work
- Project budget
- Proforma for operations after project completion
- Copies of lease, contract of sale, construction contract, architect's agreement

How Will the Lender Look at the Request?

The “5 C’s of Credit”:

- Character
- Capacity
- Conditions
- Cashflow
- Capital/Collateral

The “5 C’s of Credit”



Character is the willingness of the borrower to honor and understand its obligations and repay the loan in good times and in bad.

The **capacity** of an organization is its ability to provide programming and perform services to its constituents (or more narrowly, how does the organization “handle” new and existing debt).

Conditions relate to how well an organization is situated within its market, how do they compete for scarce resources, how do they measure up against competitors.

Cashflow refers to an organization’s ability to generate sufficient cash from normal operations to meet future obligations including debt service.

If an organization has a strong unrestricted net asset position, a cushion of **capital** is available beyond cashflow.

Collateral is a secondary source of repayment that may be in the form of a blanket lien on all assets or accounts receivable, an assignment of a specific account, a lien on equipment, an assignment of lease, or a lien on owned real estate.

Source: dictionary.com or investopedia.com

To learn more about NFF,
visit us at nonprofitfinancefund.org

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**“[NFF is]...
arguably the most
influential voice
in the ongoing
effort to reshape
thinking and
practice about
nonprofit
capitalization.”**

–The NonProfit Times