

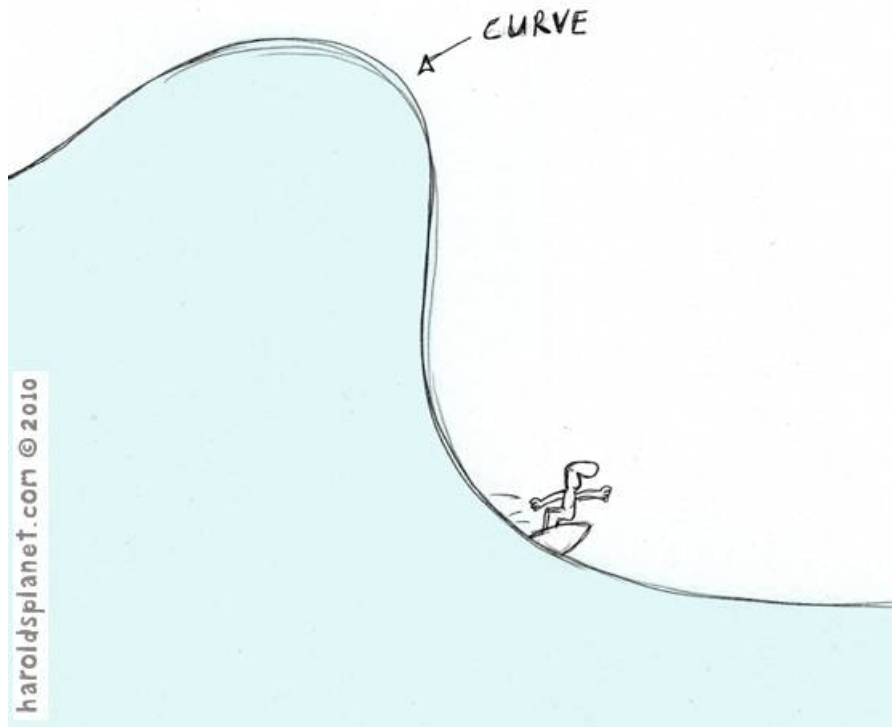
# Building Sustainable Organizations: Early Warning Systems

May 9, 2012



- Introductions
- Early Warning Systems
- Putting the Profit in Nonprofit

HOW TO STAY  
AHEAD OF THE CURVE



- What is your risk appetite?
- What risk(s) does this project pose?
- Does it align with your risk appetite?

Feasibility

Predevelopment

Construction

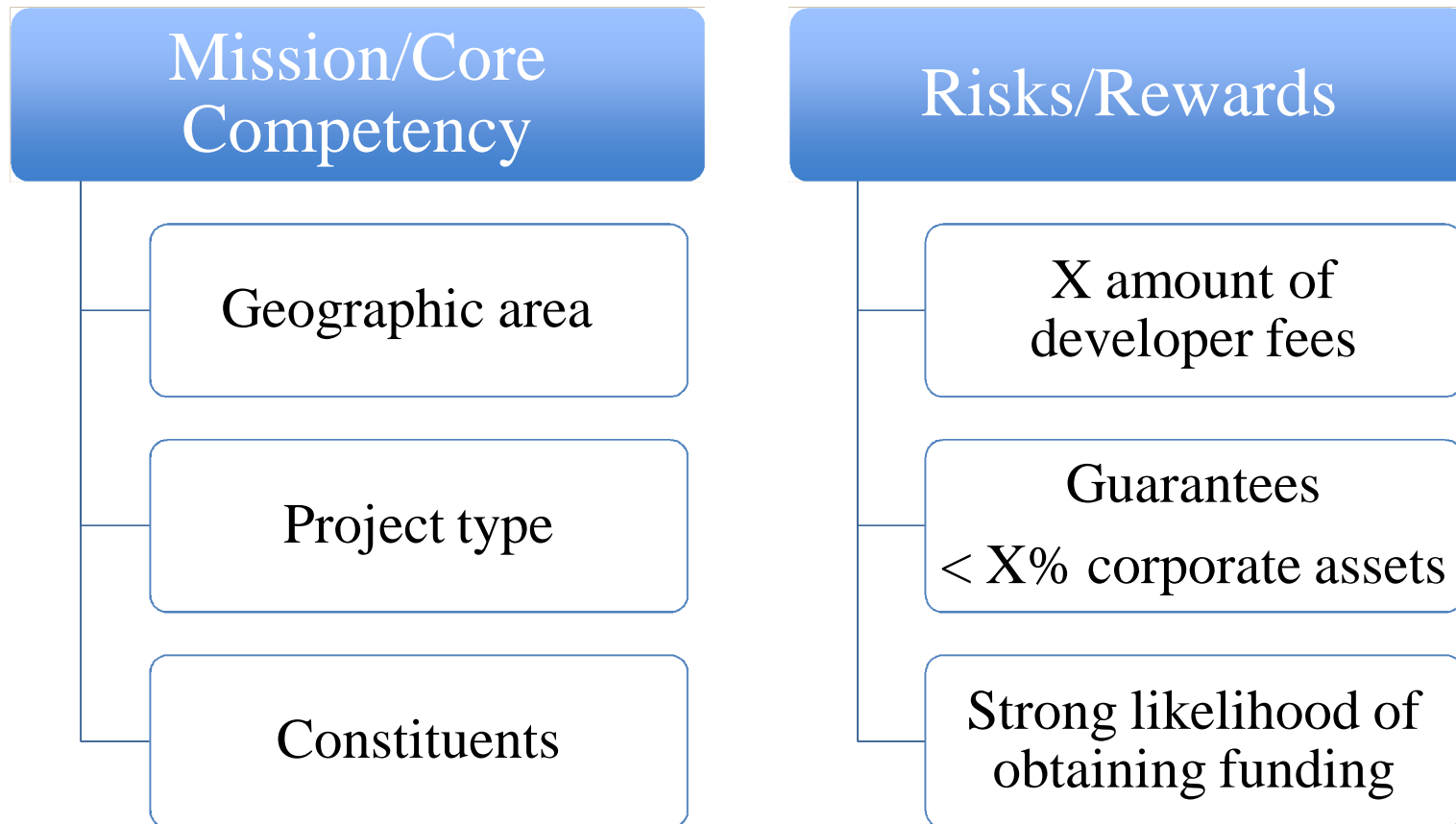
Operations

Year 15/End of Compliance

### Feasibility

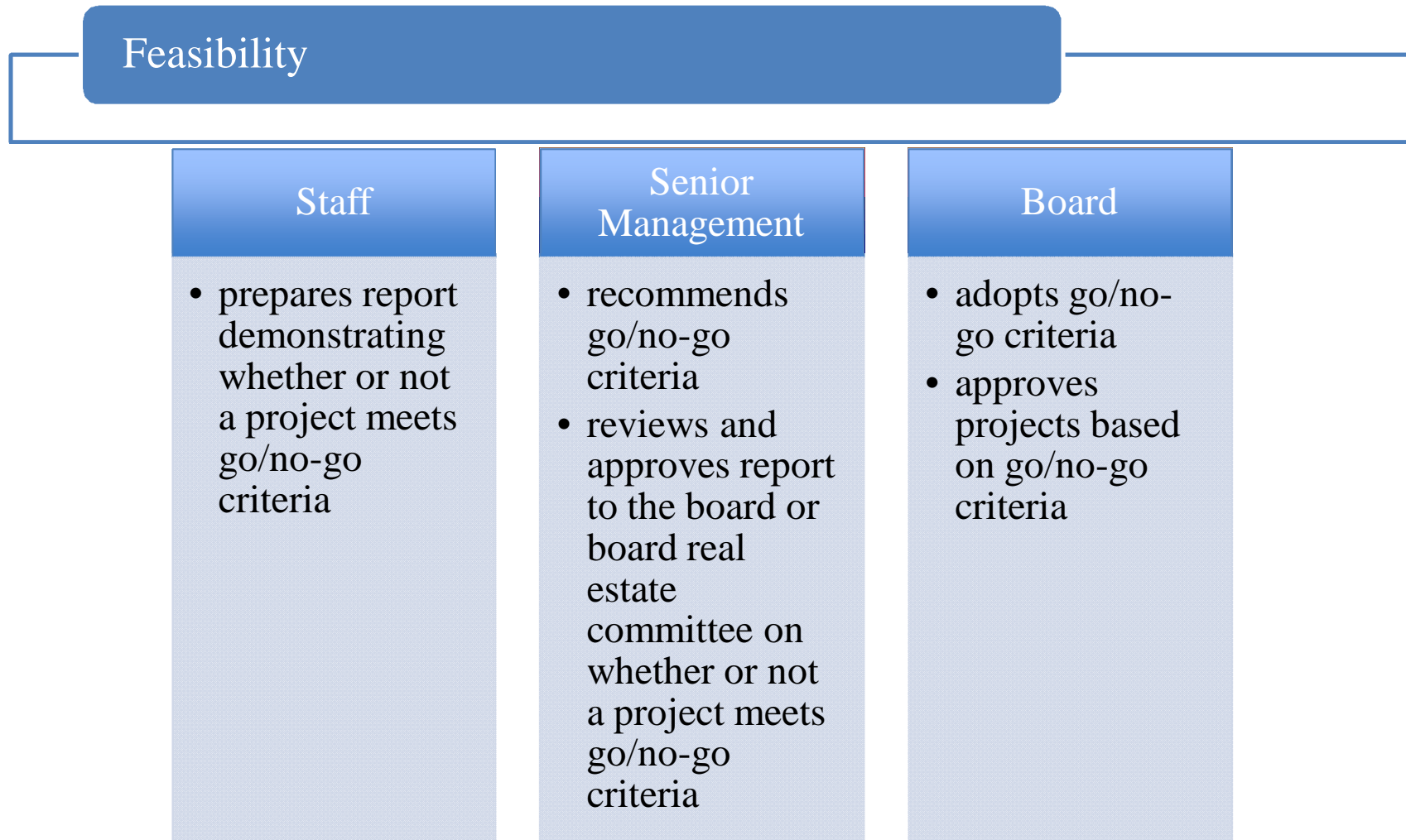
Develop go/no-go criteria

Create internal underwriting guidelines



## Feasibility – Develop go/no-go criteria

THRESHOLD	MODEL
<b>RISKS</b>	<b>RISKS</b>
<ul style="list-style-type: none"> <li>Guarantees must be less than ___% of corporate assets</li> </ul>	<ul style="list-style-type: none"> <li>Guarantees must be less than ( ___ – 5)% of corporate assets</li> </ul>
<ul style="list-style-type: none"> <li>Strong likelihood of obtaining funding as measured by a score of at least ___ based on the state Housing Finance Agency's scoring system for projects</li> </ul>	<ul style="list-style-type: none"> <li>Score of ___ based on the state HFA's scoring system for projects</li> </ul>
<ul style="list-style-type: none"> <li>Projected positive cash flow for 15 years after stabilization without recapitalization</li> </ul>	<ul style="list-style-type: none"> <li>Projected positive cash flow for 25 years after stabilization without recapitalization</li> </ul>
<ul style="list-style-type: none"> <li>Projected operations generate enough cash to pay for property management and asset management fees</li> </ul>	
	<ul style="list-style-type: none"> <li>No carrying costs if project not funded</li> </ul>
	<ul style="list-style-type: none"> <li>No political costs</li> </ul>
<b>REWARDS</b>	<b>REWARDS</b>
<ul style="list-style-type: none"> <li>≤ 50% of developer fee is deferred</li> </ul>	<ul style="list-style-type: none"> <li>No developer fee deferred</li> </ul>
<ul style="list-style-type: none"> <li>≥ \$ ___ amount of developer fee*</li> </ul>	<ul style="list-style-type: none"> <li>\$1 million anticipated developer fee</li> </ul>
	<ul style="list-style-type: none"> <li>Projected operations generate \$ ___ amount annual surplus cash after accounting for cost of services</li> </ul>
	<ul style="list-style-type: none"> <li>Strengthens community and/or political support</li> </ul>





## Create Internal Financial Underwriting Guidelines

Realistic revenue and expense trending

Inclusion of all fees – asset management,  
property management, resident services

Long-term property performance

### Predevelopment

Review risk criteria at various milestones

- Preacquisition spending over X amount or beyond specific items that the board has approved
- Entering into a contract over X% of the organization's liquid assets

Mitigate risk at acquisition

### Predevelopment

#### Staff

- prepares report demonstrating whether or not a project meets go/no-go criteria when a triggering event occurs

#### Senior Management

- reviews and approves report to the board or project review committee on whether or not a project still meets go/no-go criteria

#### Board

- determines which triggering events require review
- approves at those junctures

### Construction

Use risk categories to prioritize focus of monitoring

Risk category criteria

# Risk Categories

On Target: the project requires no special action, and should continue as planned

Monitor Closely: the project faces major problems that will need further action if the problems are not remedied

Workout: the project faces serious problems that require action and decision making by the board and senior management

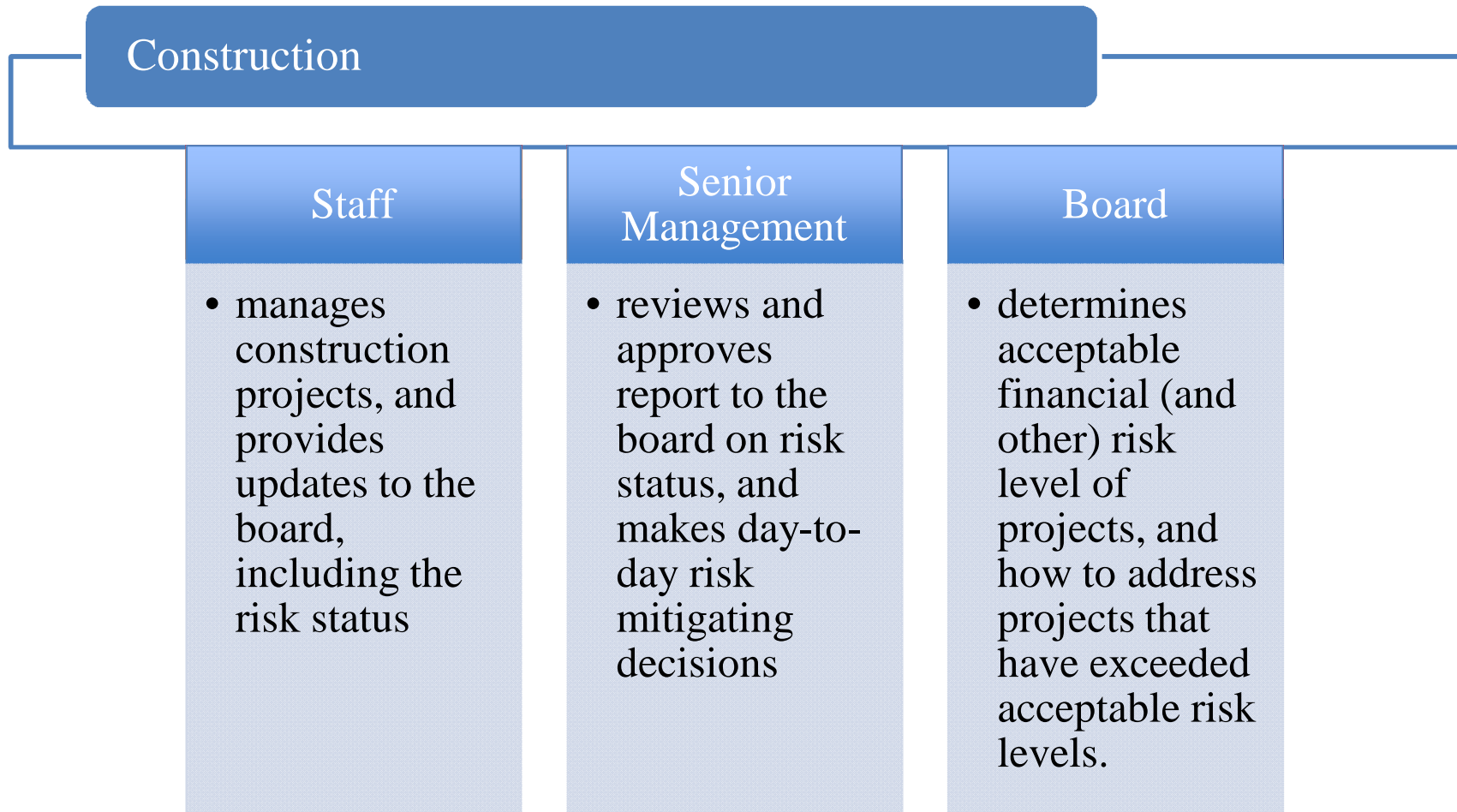
## Risk Category Criteria

Scope

Schedule

Sources and Uses

Tax Credit Adjusters



### Operations

Create a dashboard to provide at-a-glance information

Include performance categories in the dashboard

Performance criteria



# Performance Categories

Performing: require no special action and limited board review

Watch List: are at risk, and should be monitored more frequently, with appropriate actions taken as needed

Workout: face serious problems that require action and decision-making by the board and senior management

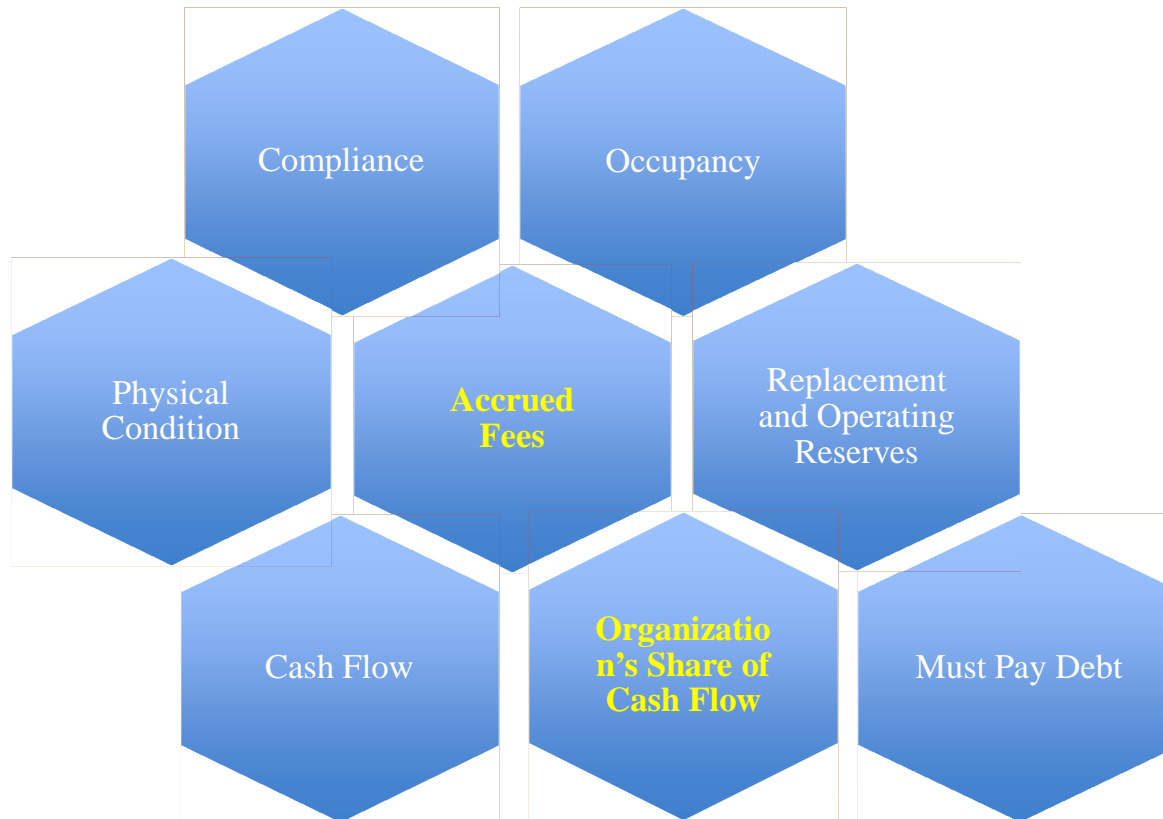
## Operations – Dashboard criteria

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## Operations – Dashboard criteria

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## Early-Warning Systems

Project			Green Briar	Middle City	View Point	Wiggin	Quimby	Bella Vista	Chateau	Whitby
Units			180	185	24	115	106	64	40	100
Occupancy			95% - A	98% - A	80% - C	95% - A	85% - B	64% - C	99% - A	99% - A
Reserves			5 mths - B	6 mths - A	7 mths - A	4 mths - B	8 mths - A	4 mths - B	2 mths - C	1 mth - C
Debt Service			A	A	A	A	A	A	B	A
Accrued Fees			A	A	A	A	B	C	C	C
Cash Flow			A	A	A	A	B	C	A	C
CF to Sponsor			\$3,655	\$0	\$89,017	\$1,543	\$0	\$0	\$0	\$0
Compliance			A	A	A	A	B	A	A	A
Physical Condition			C	A	B	B	B	A	C	B
Taxes			A	A	A	A	A	A	A	A
Scores	Current	A	6	7	5	6	3	4	4	4
		B	1	1	2	2	5	1	1	1
		C	1	0	1	0	0	3	3	3
	12 months prior	A	3	6	5	6	6	4	3	5
		B	3	2	2	2	2	2	3	1
		C	2	0	1	0	0	2	2	2
	24 months prior	A	1	5	6	7	7	5	4	6
		B	4	2	2	1	0	2	1	2
		C	3	1	0	0	1	1	3	0
Notes		Imp planned for 2012		All vacant units have applicants			Occupancy Increasing	Restructuring Debt		

### Operations

#### Staff

- prepares the portfolio dashboard report to the board on projects in operations with recommendations for action on Watch List and Workout properties

#### Senior Management

- reviews and approves dashboard report to the board
- Monitors trends in a portfolio and property specific performance, and makes the day-to-day risk mitigating decisions

#### Board

- provides expectations for the portfolio as a whole, monitors portfolio performance and provides leadership for underperforming projects

### Year 15/End of Compliance

Perform analysis of properties starting in Year 5

The board needs to know:

- Status of limited partner accounts
- Projected value of the property at Year 15
- Debt and potential for refinancing
- Cost of capital improvements and deferred maintenance
- Potential tax liability for the investor upon exit
- Project reserve balances

- [www.EnterpriseCommunity.org/strengthen](http://www.EnterpriseCommunity.org/strengthen)
- Questions?





[www.EnterpriseCommunity.org](http://www.EnterpriseCommunity.org) | [www.EnterpriseCommunity.com](http://www.EnterpriseCommunity.com)

