



Nonprofit financial and real estate resources
Where nonprofits come first

Facility Planning and Financing Workshop for Nonprofits





About IFF

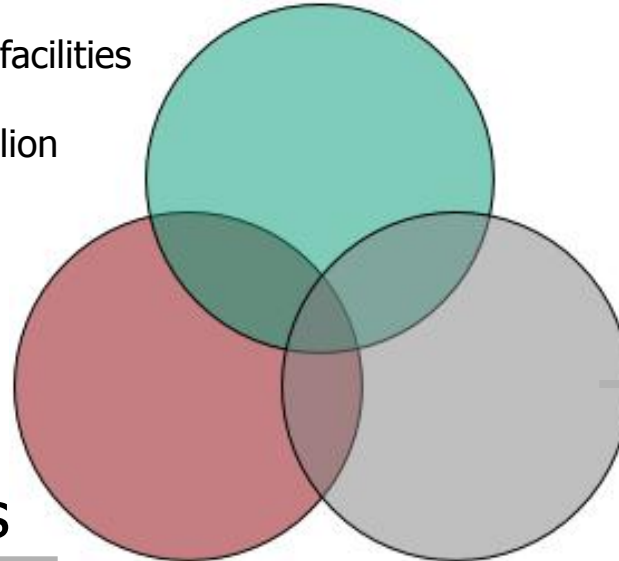


- Nonprofit lender and real estate consultant founded in 1988, with over \$200 million in assets
- CARS™ rated AAA+1, one of four in the country with the highest rating
- Assists nonprofits across sectors serving low-income or special-needs populations, including health care, education, child care, and housing
- Operates in Illinois, Indiana, Iowa, Missouri, and Wisconsin with investment and support from banks, insurance companies, religious investors, foundations and government
- Provides significant experience with staff backgrounds in: commercial banking, community and economic development, nonprofit operations, real estate, planning, engineering, green design, and architecture



Loan Program

- Accessible capital for nonprofits
- Tailored solutions for community facilities
- 5-year to 15-year loans
- Financing from \$10,000 to \$1 million



Real Estate Services

- Affordable facilities planning and project management
- Effective community development

Research

- Community investment analysis
- Nonprofit financial health studies

“Well placed, well planned, well designed, well financed. It’s not an ideal. It’s what should be.”

- Trinita Logue, President, IFF



Special Programs

Through our loans and real estate consulting, we help nonprofits plan, find, finance, and develop their facilities.

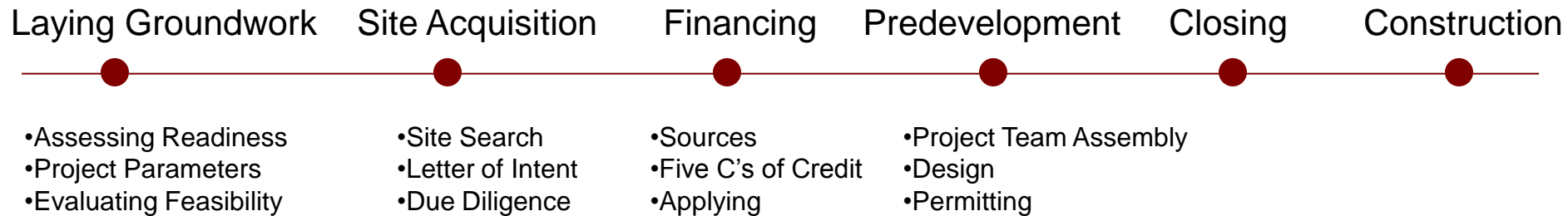
Other special programs include:

Schools	Housing	Sustainability	Health Care
<p><i>Building stronger schools</i></p> <ul style="list-style-type: none"> • Charter school credit enhancement services for projects over \$1.5 million • Financial packaging to identify and coordinate funding • Support for start-up and replicating charter schools 	<p><i>Revitalizing communities</i></p> <ul style="list-style-type: none"> • Housing development services for nonprofits, developers and housing operators • Affordable housing financing to fill project gaps 	<p><i>Providing sustainable solutions</i></p> <ul style="list-style-type: none"> • Energy Performance Program* identifies, finances, and implements energy upgrades • Energy efficiency loans help finance a range of projects from new construction to renovations/retrofits 	<p><i>Well financed, well planned spaces</i></p> <ul style="list-style-type: none"> • Planning, construction, and financing for large-scale projects through Health Centers for Healthy Communities. • Tailored solutions for community health centers.

*IFF's Energy Performance Program (E2P) is currently open to new participants in Chicago Metro and Rockford. Learn more at iff.org/sustainable-solutions.



Phases of a Facility Project



Technical Assistance Worksheet #7: Approaching a Real Estate Project

Organizational capacity considerations:

- Strategic plan
- Board acceptance & buy-in
- Financial health of agency
- Pending legislation

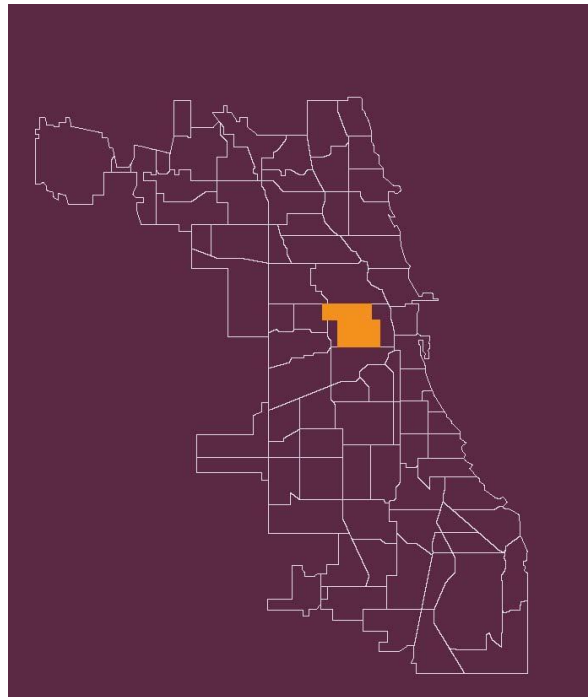
How much space do you need?



Sample Space Plan

PROGRAM SPACE	# of rooms	SqFt. per room	Total SqFt. needed
Classroom/Training	2	800	1,600
Counseling rooms	6	100	600
Conference room	1	400	400
ADMINISTRATION			
	# of employees	# SqFt. per employee	Total SqFt. needed
Executive Director	1	150	150
Director of Counseling	1	100	100
Social workers	8	80	640
Reception Area/Admin Area	1	300	300
MISCELLANEOUS			
	# of rooms	SqFt. per room	Total SqFt. needed
Kitchen/Pantry	1	300	300
Toilet Rooms	3	75	225
Maintenance	1	150	150
Circulation @ 30%			1,340
TOTAL SPACE NEEDED			5,805 Square Feet

Where should your new facility be located?

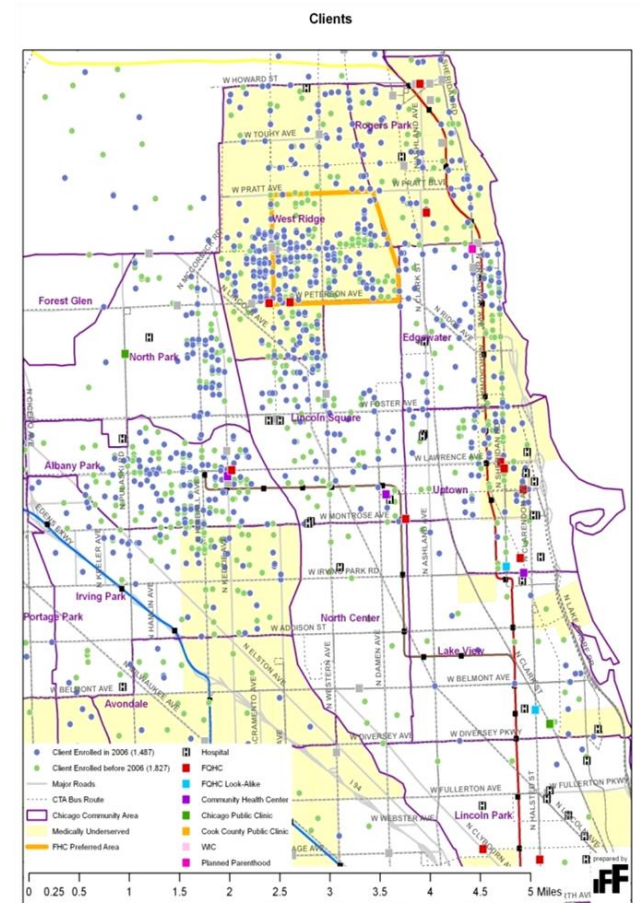


Location considerations:

- Current clients
- Potential clients
- Geographic/community boundaries
- Residential vs. commercial
- Access to site/public transit
- Funding tied to geography
- Real estate market
- Locations of competitors and collaborators

Goal is to identify:

- Search area
- Desirable characteristics to consider when evaluating potential sites



What will your facility project likely cost?
And can you afford it...



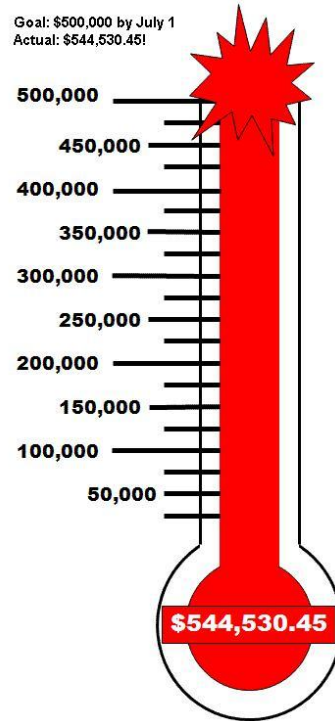
Components of a project budget:

- Property Acquisition
- Hard Costs (construction)
- Soft Costs:
 - Architecture and engineering
 - Financing, legal, insurance, and taxes
 - Developer/project manager
- Furniture and Equipment
- Other:
 - Contingency
 - Construction interest
 - Organizational/ramp-up costs

Sample Development Budget

Acquisition	\$1,382,327
Hard Costs	\$373,038
Soft Costs	\$78,469
Furniture, Fixtures, and Equipment	\$72,000
Contingency	\$78,526
<hr/>	
Total	\$1,984,360

Can your agency afford your project?



Questions to consider:

- What can your agency afford?
- What is the fundraising environment?
- Is your agency a good candidate for financing?
- Should your agency lease or buy?
- Should your agency build new or renovate?
- What is the best option?

Develop a program expansion budget:

- Project revenue:
 - New/expanded program revenue
 - New revenue sources
 - New fundraising
- Project expenses:
 - New personnel
 - Added costs based on more clients
 - Increased facility size and occupancy costs
 - Reserves
 - Start up costs
- Compare new revenues and expenses:
 - Is there a surplus?
 - How does it change over the projection period?



Sample Program Expansion Budget

	Current Operations	New Operations
<u>Revenues</u>		
Government Contracts And Service Fees	\$489,600	\$734,400
Fundraising (10%)	\$48,960	\$73,440
Total Revenues	\$538,560	\$807,840
<u>Expenses</u>		
Personnel & Benefits	\$389,180	\$511,253
Program Expenses	\$98,000	\$130,000
Other Expenses	\$47,500	\$71,250
Total Expenses	\$534,680	\$712,503
Revenues Minus Expenses	\$3,880	\$95,337

What is the surplus?

$$\text{Revenues} - \text{Expenses} = \$95,337$$

What debt can that support annually (with a debt coverage ratio of 1.2)?

$$\$95,337 / 1.2 = \$79,448 \text{ annually}$$

What is the monthly payment?

$$\$79,448 / 12 = \$6,621 \text{ monthly}$$

At \$6,621 per month, how much can be borrowed?

		Term of Loan in Years		
		5	10	15
Interest Rates	5%	\$350,851	\$624,237	\$837,260
	7%	\$334,374	\$570,243	\$736,626
	9%	\$318,956	\$522,673	\$652,787

Sample Operating Pro Formas

		Year 1	Year 5	Year 10
Scenario A	Revenue	908,421	983,304	1,085,647
	Expenses	885,616	962,904	1,073,858
	Net Operating Income/ Cash Flow	22,804	20,399	11,789

Continuing to Rent

		Year 1	Year 5	Year 10
Scenario B	Revenue	908,421	983,304	1,085,647
	Expenses	851,986	922,167	1,018,146
	Net Operating Income	56,435	61,137	67,500
	Debt Service	49,074	49,074	49,074
	Cash Flow After Debt	7,361	12,063	18,427

Purchasing new site

Lease or Buy?

Lease

Pros:

- No upfront costs
- Flexibility for future
- Less responsibility for maintenance
- Landlord pays for improvements

Cons:

- Adds to landlord assets
- Renovation costs

Buy

Pros:

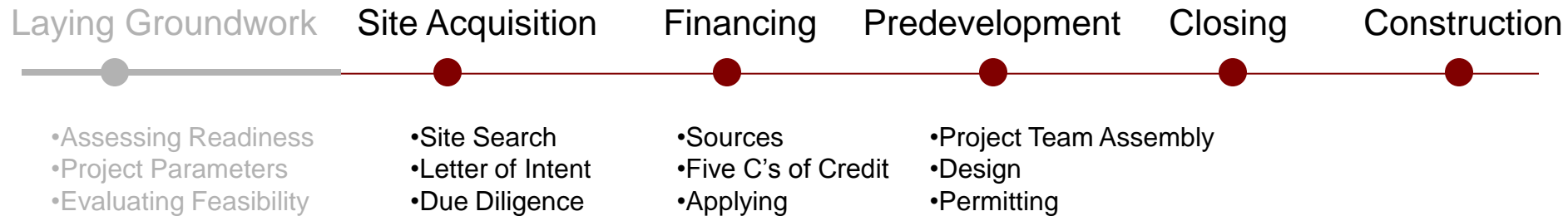
- Long term solution
- More control over property
- Adds to agency assets
- Real estate appreciation

Cons:

- Significant upfront costs
- Renovation costs

When considering a facility project, it is important to know:

- Reasons for the project
- Space needs
- Preferred location
- Anticipated project cost
- Financial feasibility



Steps:

- Search for sites
- Complete preliminary analysis
- Negotiate/complete letter of intent
- Conduct due diligence/secure financing
- Refine project budget and financing strategy
- Purchase building or sign lease

Possible types of sites:

- Parochial or other repurposed nonprofits
- Government or city-owned
- Privately owned, including:
 - Vacant land
 - Retail, office, or industrial space

Search for sites:

- Search published listings
- Contact local government agency/elected official
- Hire broker
- Visit the neighborhood



Preliminary site evaluation:

- Zoning/code considerations
- Systems
- Structural condition
- Construction type
- Environmental conditions
- Does the program fit?



Components of the Letter of Intent:

- Purchase price/lease rate
- Due diligence period (30 to 90 days)
- Contingencies
- For purchase:
 - Earnest money deposit
 - Fees and expenses
 - Zoning, inspections and financing contingencies
- For lease:
 - Tenant build out allowance
 - Rent escalation
 - Utilities and common area maintenance

IFF Podcast: What to Look for in Negotiating a Lease

- Things to consider when negotiating with a private owner or landlord:
 - What they have invested
 - How well do they understand your business
 - What are their goal
 - *Don't assume that just because the market is soft the owner will take any price*
- Things to consider when negotiating with a parochial entity or governmental entity:
 - Mission and fit with yours
 - Broader community plans or goals
 - How their finances work and what they are trying to achieve
 - Process, timeline, and decision makers

Due diligence items:

- Zoning/code review
- Building systems
- Layout/fit of the program
- Renovation cost estimate
- Title search (for purchase)
- Appraisal (for purchase)
- Further environmental testing
- Conversations with funders

Project new operating budget:

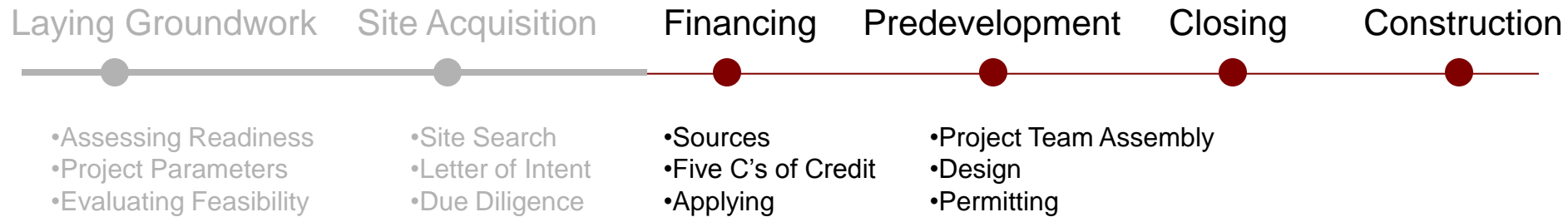
- Mortgage or lease/ taxes/ insurance
- Utilities
- Maintenance
- Payroll
- Administration



Sign Lease or Purchase Agreement



Phases of a Facility Project



Potential sources of funds:

- Grant funds or foundation program related investments:
 - Location-specific
 - Initiative-focused (example: Illinois Clean Energy Community Foundation for “green” projects)
- Capital campaign
- Bank or CDFI financing:
 - Debt service could be supported by current rent payments and a portion of the surplus (current or projected)
- Government resources:
 - Examples include Historic Tax Credits, TIF funds, Community Development Block Grant (CDBG) funds, New Market Tax Credits, and many others
- Agency equity



Financing: Sources

Project financing can be as simple as securing a single loan or grant...

Project Costs	\$ Amount	Sources of Funds	\$ Amount
Acquisition	275,000	Agency equity	300,000
Renovation	<u>300,000</u>	IFF loan	<u>275,000</u>
Total	\$575,000	Total	\$575,000



Financing: Sources

...Or more complicated involving many layers of financing.

Project Costs	\$ Amount	Sources of Funds	\$ Amount
Acquisition	1,900,000	IFF loan	1,300,000
Construction	10,950,953	LIHTC equity	8,071,727
Soft costs	1,486,083	HOME loans	3,250,000
Reserves	339,050	Ground lease	1,900,000
Developer fee	<u>1,574,844</u>	Bank legal equity	50,000
		Foundation grant	600,000
		Government grant	239,082
		Donation tax credits	258,000
		Energy tax credits	36,632
		Federal loan	252,000
		Deferred developer fee	<u>293,489</u>
Total	\$16,250,930	Total	\$16,250,930

Coordinating the timing of financing sources and construction timelines is critical to project success.

Loan officers seek to answer the **five C's of credit**:

- Does the organization have the credit, references, integrity and character to manage debt?
- Is there financial capacity to support the project and service debt?
- What is the capital contribution from the borrower to the project?
- What collateral is or will be available to secure the debt and what is the value of that collateral?
- What is the impact of the current economic and operating conditions of the borrower, the sector, and the larger economy?

Demonstrated agency strength:

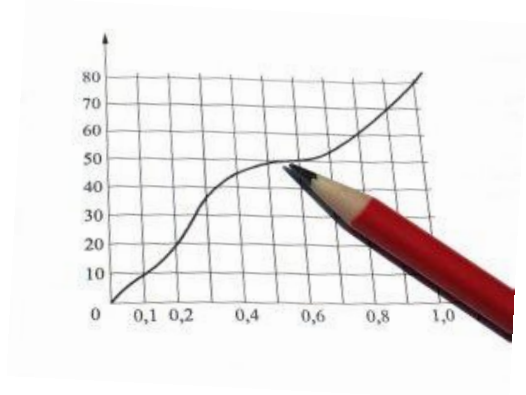
- Organizational history
- Management team

Demonstrated financial strength:

- Surpluses
- Diversification and stability of funding sources
- Strong audited financial statements
- Net assets

A case for the project:

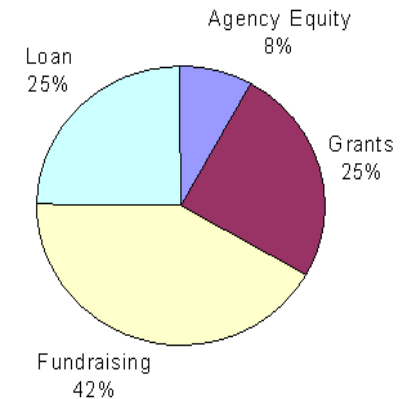
- Demand, market analysis
- Financial program projections
- Debt coverage ratio



A well-planned project:

- Project development team
- Project budget
- Sources of funding

Funding Sources



Considerations in the current environment:

- Economic downturn means continuing tightening of credit requirements
- State budget crises have led to program cuts and potential reimbursement delays
- Lender issues that may arise:
 - New, lower appraisals affect Loan to Value (LTV)
 - Acceleration of pay-downs may be required
 - Personal or corporate guarantees may be required
- Capital campaigns can be affected:
 - Pledges may slow down or are renegotiated
 - Other funders may discount them
- Access to line(s) of credit can be critical

How IFF loan program is different:

- Flexible, below-market interest rate loans only to nonprofits
- Borrow up to \$1.5 million per project
- Long-term loans – up to 15 years fully amortized
- Cash flow lender – loan applications are evaluated based on an organization's ability to service the debt
- No loan-to-value limitations (no appraisal required)
- Minimal equity contribution (as low as 5% of total project costs)
- Leasehold improvements eligible
- Often layered with other sources of financing

IFF's standard loan product is a 15-year mortgage up to \$1.5 million for real estate:

- Acquisition
- Renovation
- Construction

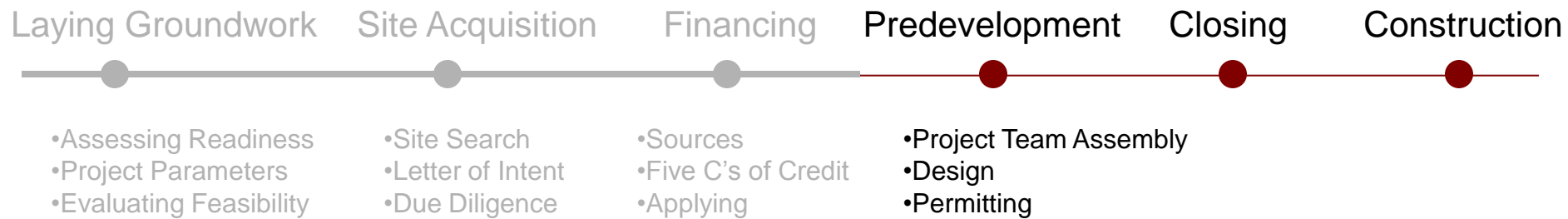
Loans as small as \$10,000 are available for:

- Equipment or vehicle purchase
- Facility repairs
- Maintenance
- Energy efficiency upgrades

For more information about IFF's Loan Program, visit [**iff.org/loan-program-overview**](http://iff.org/loan-program-overview).



Phases of a Facility Project



During the predevelopment phase:

- Assembly of the project team
- Development and finalization of the scope of work and design
- Permitting and zoning approvals

Key members of the development team:

- Owner's Representative / Project Manager:
 - Guides the agency through each step of the process
 - Negotiates prices and coordinates the activities of involved parties
- Architect:
 - Prepares the design documents
 - Prepares the contract documents (drawings and detail on actual work to be completed, materials to use)
- General Contractor:
 - On site management of entire construction process
 - Performs actual work or hires subcontractors

- Owner's Rep / Project Manager Selection
- Architect Selection:
 - Selection Criteria
 - Contract
- General Contractor Selection:
 - Design – Bid – Build
 - Design – Build
 - Construction manager at risk



Technical Assistance Worksheet #9: Selecting a Project Manager

Technical Assistance Worksheet #10: Selecting an Architect

Technical Assistance Worksheet #11: Selecting a General Contractor

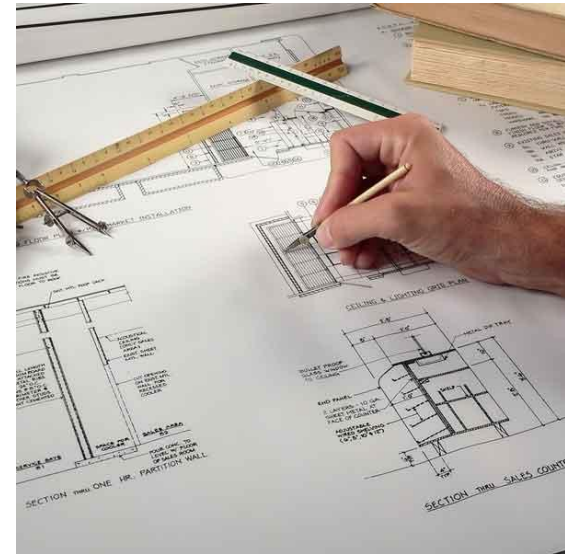
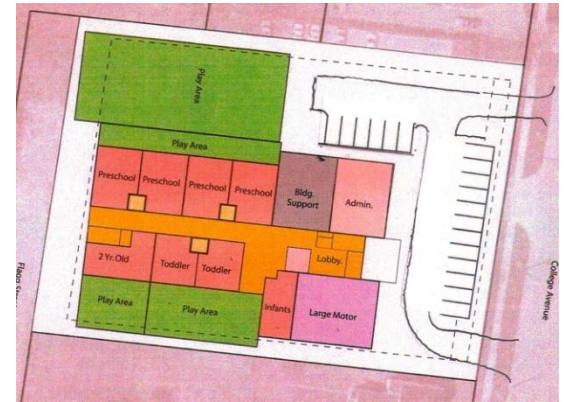
U.S. Green Building Council's LEED™ Green Building rating system:

- Credit based rating system
- Requires green solutions during design and construction
- Level of certification depends on number of credits achieved – certified, silver, gold, platinum
- Requires participation by all project team members



Design Stages:

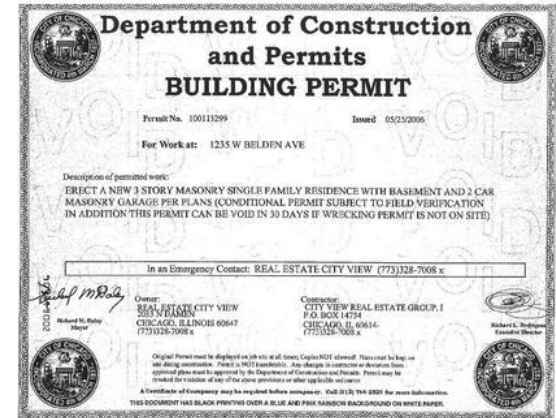
- Programming
- Space planning
- Schematic design
- Design development
- Construction documents



Cost Estimating:

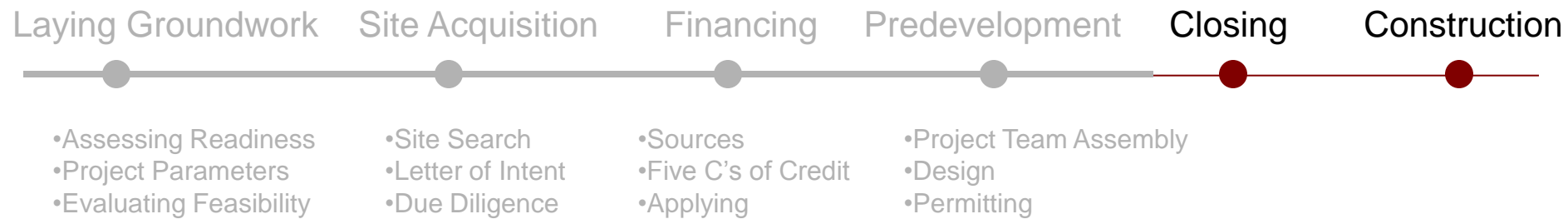
- Unit costs
- Take-off
- Value engineering
- Professional estimator vs. general contractor

- Demolition Permit
- Foundation Permit
- Building Permit
- Right-of-Way Access Permit
- Utility Permit
- Driveway Permit
- Etc. Etc.





Phases of a Facility Project

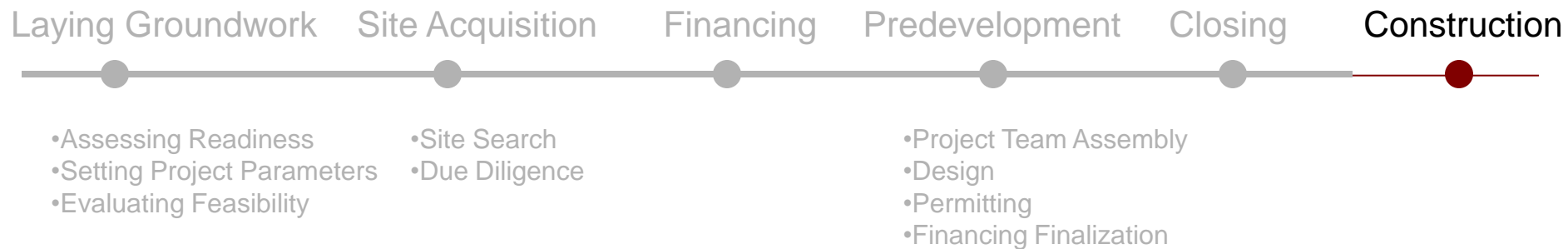


Closing requirements (primary):

- Architect contracts
- General contractor contracts
- Permits
- Commitment letters from other funders



Phases of a Facility Project



What to expect during construction

- Construction meetings:
 - Scope
 - Schedule
 - Budget
- Payouts
- Escrow/lien waivers/retainage
- Change orders
- LEED™ documentation



Final Phases of Construction:

- Substantial completion
- Certificate of Occupancy
- Punch list
- Licensing:
 - Business license
 - Government required license
- Closeout:
 - Warranties
 - As-built drawings
 - Training
 - LEED™ Certification Request



Nonprofit financial and real estate resources

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Additional information available at iff.org

iff.org/tools-and-resources for podcasts and technical assistance worksheets

