

Communiversality

Sabathini Community Center: Transition of Improvement

**Prepared in partnership with
Sabathini Community Center**

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Sabathani Community Center

Transition of Improvement

Overview

Over the last two semesters a great deal of time and effort has been spent at Sabathani Community Center. Upon arriving the organization was a social service organization in financial difficulty looking to meet the needs of its community. Though Sabathani provides great service to the community it serves it also needs to be able to financially remain viable while meeting the demands of an ever changing community and non-profit environment. One of the assignments of this project was to provide Sabathani with alternative models of operation for their community center. Over the past two semesters we have examined different models of operation, but have also worked with leadership to help ensure that any changes or suggestions that we made would have a greater opportunity at success. This included helping Sabathani gain a better understanding of its financial situation and how to adjust to maintain a balanced budget, while also changing the community center's mindset from a social service organization to a community development organization ready to meet the needs of the community it serves. Though there is still much work to do, the organization is making steps in the right direction.

Methodology

I, Dave Henriksen, and Gary Miller of Change Inc., have worked together alongside the Sabathani management team and board members to help institution this transition into improvement. Gary and I have spent roughly 50% of our time in conversations with individual board members, managers, and management team members. Through these qualitative interviews we were better able to determine the current mindset of Sabathani leadership and also what they would like to see Sabathani become. We also spent time quantifying Sabathani's current situation including an in depth analysis of the financials and an improved budget balancing process. Finally we examined different models of operation that coincide with the new direction of Sabathani and evaluated current opportunities in relation to possible different models of operation.

Financial Analysis

A key component of evaluating alternative options was to examine the current financial situation of Sabathani. I conducted a financial analysis which resulted in developing a new budgeting tool which helps Sabathani manage their budget to the changing non-profit funding environment and empowers managers and senior management to take responsibility and become accountable for their own performance. This culture was missing due to former executive directors who consistently ran their budget at a deficit and then would go out and fundraise to make up for the

difference. As a result of this work, Sabathani is transitioning their culture to become more accountable and produce a balanced budget which will allow Sabathani to remain financially viable.

Financial Statement Analysis

Sabathani recently had a computer systems crash and did not have their data backed up. This made the financial analysis extremely difficult, since it was all in paper records and not very detailed. However, even looking at the broad picture (Income statement) we gained a good snapshot of Sabathani’s financial position. The general perception of the board and management team was that Sabathani was not performing well, but no one knew how bad things were. Many individuals struggled with the concept of depreciation and net income and felt that even though Sabathani was reporting a negative net income there was a non-cash item of depreciation that made up for the difference. I examined the income statement for the past seven years and concluded that Sabathani is in more trouble than they thought. I presented my findings to the management team and the board and they were very surprised and felt an increase sense of urgency for change due to the analysis. I took the time to review with the board financial statement analysis and provided them with the graph below:

Revenue	How much money came in the door
- Expenses	How much money we used to get that money
- Depreciation	Reduction in the value of a thing due to usage or passage of time.
= Net Income	How much we have after expenses
- Fund Transfers	Allocation of money to other areas
= Net Assets	Net Worth

After the review of financial statement analysis I walked Sabathani through the operations of their program and building operations. Both were not performing exceptionally well. Below is a copy of the income statement presented to the board and the management team:

	2002	2003	2004	2005	2006	2007	2008	Total
Program	\$(141,810)	\$(109,432)	\$(92,342)	\$34,754	\$67,290	\$(157,099)	\$30,541	\$(368,098)
Building	\$(178,968)	\$(369,653)	\$(282,947)	\$(255,951)	\$(426,121)	\$(188,215)	\$(345,937)	\$(2,047,792)
Temporary	\$(45,756)	\$(126,852)	\$(5,211)	\$317,797	\$(232,326)	\$(128,094)	\$241,021	\$20,579
Net Income	\$(366,534)	\$(605,937)	\$(380,500)	\$96,600	\$(591,157)	\$(473,408)	\$(74,375)	\$(2,395,311)
Depreciation	\$283,929	\$285,157	\$290,380	\$300,652	\$298,073	\$278,916	\$241,385	\$1,978,492
Net Income	\$(82,605)	\$(320,780)	\$(90,120)	\$397,252	\$(293,084)	\$(194,492)	\$167,010	\$(416,819)

As illustrated in the graph above, Sabathani was in a very difficult circumstance if changes were not made. During the presentation I emphasized the fact that despite there is depreciation on the building which is a non cash item; Sabathani is still losing money and has been forced to draw on its reserves. Additionally, it was made clear that depreciation should be used as a gage for how much the value of their assets is decreasing and how much money Sabathani should be setting aside for future capital improvements. Below is a chart showing the decrease in net assets for the organization:

	2002	2003	2004	2005	2006	2007	2008	Total
Net Assets Beginning	\$ 4,997,602	\$ 4,631,068	\$ 4,002,253	\$ 3,621,753	\$ 3,718,353	\$ 3,127,196	\$ 2,653,788	
Net Assets End	\$ 4,631,068	\$ 4,025,131	\$ 3,621,753	\$ 3,718,353	\$ 3,127,196	\$ 2,653,788	\$ 2,579,413	
Difference	\$ (366,534)	\$ (605,937)	\$ (380,500)	\$ 96,600	\$ (591,157)	\$ (473,408)	\$ (74,375)	\$(2,395,311)

I was also able to point out that funding for new programs and capital expenditures had gone down and Sabathani should prepare to find different sources for funding of their programs. From this analysis, the board understood the urgency for change. This analysis and presentation set the stage for a new budgeting tool, a change of culture, and new opportunities.

Budgeting Tool and Follow-up

In part due to the understanding of the difficult financial situation as explained above, Sabathani made great strides in their budgeting process. In 2010 Sabathani was able to make the proper cuts to programs and administration salaries to bring the budget to a zero balance. Next Sabathani needed a tool that would help them balance the budget instead of waiting till the end of the year and realizing they were tens and even hundreds of thousands of dollars short of their budget goals. Along with the work of Jim Stillman and Mike Miller we put together a variance report that was easy to read and well understood by each of the program managers. This variance report would tell each manager how their respective program/department performed the prior month as compared with the budget. The budget would be based on the 2010 projections, but also includes a component of variation. For example; if Sabathani realizes in June that they will not receive funding from a specific source, the budget is adjusted accordingly so that at the end of the year Sabathani can balance the budget according to actual funds and end with a positive if not balanced budget. Below is an example of what the tool looks like. In Green and Red you see how the manager is doing year to date in each category. If they are negative it is Red and the manager knows they need to make some corrections (this does not include all line items of a manager's budget, but is illustrated here to see an example):

	Mar 10	Budget	Variance	Jan - Mar 10	YTD Budget	Good/Bad Variance	Annual Budget
6400 · Dues, Licenses, Subscriptions	201.00	825.01	(624.01)	4,270.94	2,474.91	1,796.03	9,900.00
6510 · Staff Development/Tuition	199.00	312.52	(113.52)	289.00	937.32	(648.32)	3,750.00
6515 · Meetings, Seminars, Conference	0.00	550.02	(550.02)	459.97	1,649.82	(1,189.85)	6,600.00
6530 · New Hire Expenses	41.51	70.85	(29.34)	41.51	212.35	(170.84)	850.00
6590 · Other Employee Expenses	0.00	116.69	(116.69)	80.64	349.79	(269.15)	1,400.00
Total 6500 · Employee Expense	441.51	1,875.09	(1,433.58)	5,142.06	5,624.19	(482.13)	22,500.00
6700 · Bad Debt/Refunds	610.44	875.00	(264.56)	835.44	2,625.00	(1,789.56)	10,500.00
6800 · Interest/Bank/Credit Card Chrg	212.89	83.34	129.55	251.89	249.94	1.95	1,000.00
6900 · Depreciation Expenses							
6920 · Depreciation - Equipment	1,528.50	1,500.00	28.50	4,585.50	4,500.00	85.50	18,000.00
6930 · Depreciation - Bldg & Property	16,666.67	16,666.67	0.00	50,000.01	49,999.97	0.04	200,000.00
Total 6900 · Depreciation Expenses	18,195.17	18,166.67	28.50	54,585.51	54,499.97	85.54	218,000.00
9999 · Administrative Allocations	0.00	0.00	0.00	0.00	0.02	(0.02)	0.00
Total Expense	151,829.87	178,742.23	(26,912.36)	447,331.77	537,723.27	(90,391.50)	2,192,961.83
Net Ordinary Income	(7,540.60)	(50,613.66)	43,073.06	(77,590.15)	(165,637.85)	88,047.70	602.20
Net Income	(7,540.60)	(50,613.66)	43,073.06	(77,590.15)	(165,637.85)	88,047.70	602.20

Like any tool, a tool is only as good as the people that use it correctly. Mike Miller the director of operations will need to call each manager three days after they have received their budget and talk to them about why they are doing well or performing poorly. If they are performing poorly it will be expected that each manager will have a plan of action of how they will correct their problem and improve by the following month.

This tool provides Sabathani with the ability to balance their budget and help solidify the change of culture to one of accountability and fiscal responsibility.

Performance Evaluations

In addition to helping produce a new monthly budgeting tool, I uncovered a new problem. Currently Sabathani does not utilize performance evaluations for their management team or their program managers. I wrote a memo to the board chair who will have a discussion with Gary Miller about implementing performance evaluations. Apparently it is fairly common for non-profits to not have performance evaluations, however, performance evaluations are essential at Sabathani and below I have outlined why.

Performance evaluations:

- The framework and tool used to produce results for a company
- Clearly connect the goals of the organization to the individual leaders
- Provides a prioritization roadmap for a leader
- Keeps leaders focused on what is really important
- Allows senior leaders to continuously monitor leader performance (could be monthly)
- Provides for organizational agility

Sabathani should have specific large goals as a whole including net income, operating margin, number of individuals served, employee satisfaction, amount of money raised, ...etc. Then the management team should have specific goals or targets that they are required to achieve in order to make the broader organization goals a reality. If managers only have a job description there is no way to objectively measure how well or poor each manager is doing. Performance evaluations will be vital as Sabathani moves forward in a community development mind-set. That mind-set will need specific goals for the organization and each leader in the organization will need to have a measurable way for them to contribute to those goals. If managers do not understand how they can achieve their goals, they will need to be trained to improve. It is also imperative that the Executive Director have a performance evaluation, which should be conducted by the board chair.

At the beginning of the year there should be a mid-point evaluation and then finally a year end evaluation where it is determined if the manager or management team member, did or did not meet their specific goals. If they did meet their goals they should be entitled to a pay increase. If everyone met their goals and the organization met its organizational targets then they get an even larger increase. Those need to be factored into the budget as well.

In order for this idea to move forward, Sabthani's board will need to re-establish performance evaluations. This could and should take place as soon as June 1st. Realistically Sabathani needs an executive director to help ensure the proper function of these evaluations and he/she will need to sit down and discuss these evaluations with the Board.

Qualitative Research: Changing a Mindset

In addition to assisting in creating a culture of accountability and fiscal responsibility, Gary Miller and I worked hard to change the mindset of the organization to not just be a social service center, but to focus on community development. Early in our process the director of Sabathani and the board chair resigned. This helped facilitate some of the change in culture. Though we were not able to have a say on the new board chair, she has proved to be a great asset for the organization and supports Sabathani's change into the future. A new Executive Director has not yet been appointed and Sabathani is using an interim director while they continue to search.

Between Gary and me we meet weekly with the senior leadership team to talk about day to day operations and also the broader future of the organization. Gary met individually with each board member to help them understand how changing Sabathani's mindset to be a community development organization would be in the best interest of Sabathani. Overtime through both Gary and I's efforts we have begun to see a change in the organization to one empowered and excited for change. Though this may not be reflective of every individual, as a whole we have seen a shift to more accountability, responsibility, and community development focus. The work done in finances and qualitative research is part of the groundwork needed to be able to tap into new opportunities.

Current Opportunities

There are a myriad of opportunities that have presented themselves to Sabathani over the past few months. Some of these opportunities came naturally and one was brought in externally and fits well into the current opportunities at Sabathani.

1. The American Indian Opportunities Industrialization Center (AIOIC) received a two year grant and will be utilizing space at Sabathani for their program. They will likely utilize 3,000 square feet which will fall in the range of \$5,000-10,000 a month in revenue for Sabathani. Sabathani is currently still in negotiations for price, but it will be effective this year. This organization will fit well with the community development mind set since AIOIC is a national chain of organizations that train low income people for trades and careers.
2. Hennepin County is looking to decentralize their offices and create hubs in the communities they serve. According to Angelique Brown, Sabathani Board Chair, she feels Hennepin has sought out Sabathani as a location due to its location in south Minneapolis and because of the newly created Sabathani mindset to be a community development organization and not just a social service organization. Hennepin is looking to utilize 30,000 to 40,000 square feet and refurbish whatever floor they are on. It will likely be the first floor. This opportunity is more than just an idea, Sabathani has been working with the county commissioner and he has given the idea his support. This opportunity would result in roughly \$300,000 to \$400,000 a month in revenue for Sabathani and will likely occur in the next two years.
3. Both Gary Miller and I have had conversations with Glenn Ford (CEO Praxis Marketplace) and is an acquaintance of Angelique Brown. Glenn Ford is a former Vice President of Pepsi Co who has a passion for food and particularly grocery stores. He is from a poor urban neighborhood in Chicago and knows the impact high quality low cost grocery stores can have in a community. Due to his extensive research and established partnerships Ford has the ability to construct grocery stores across the country and has the ability to compete with large chains such as Wal-Mart and Target. Ford views his idea grocery stores as much more

than an Aldi, where a big chain drops cheap food in an area. He feels that when grocery stores are done correctly they can build the community surrounding the store, provide jobs, and create a stronger infrastructure surrounding the store. There are various ways for this to work for Sabathani. I will divide some of the options into three categories; Finance, Ownership/Contribution, and Location.

Finance: The project can and would need to be financed through various ways. Ford is working to raise capital from private investors to help fund his corporation as a whole and could specifically focus on funds for a building on Sabathani's campus. The grocery store would likely be set up as a for-profit grocery store and would distribute earnings to investors. The store could be set up as a non-profit, but it would have a substantial impact on the funding resources. The City, County, or State could also provide some funds but it does not look promising. The total cost of the grocery store would be 5.7 million dollars. Roughly 2 million would be raised through equity and the remaining 3.7 million dollars would be financed over time. Sabathani could sell the land the grocery store would need and invest that into the grocery store business and generate returns for themselves to help fund operations.

Ownership/Contribution: Sabathani would not operate the store; it will be run by Ford and his team. However, Sabathani will work closely with Ford and his team to provide opportunities for community members and Sabathani program users. Sabathani could also invest in the grocery store using retained earnings and/or using money from donors to invest in the store. This would allow for Sabathani to invest in a business that generates returns and provides operating revenue for Sabathani's programs. This would allow for a smaller amount of donations from outside contributors and allow for Sabathani to begin to be able to be financially sustainable on its own. Additionally, Sabathani could also begin a vertical farming operation which would supply the store with lettuce which would produce jobs and increased income for Sabathani (18 month payback at 500k net income per year).

Location: The grocery store could be located in back of the school, but is not recommended by Ford. Another option is to be located where Sabathani's current location is and would require the community center building to be torn down. However, Sabathani could utilize the parking lot space for the new store and build on top (Put Minnesota Community Action on top) of the building and put a parking lot behind both Sabathani and the new grocery store. The vertical farming could be located in a greenhouse away from the facilities or could be located on the top floor of Sabathani or even on the top floor of the grocery store.

In regards to tearing down the current building Sabathani would need to examine the cost of refurbishing the old building vs. the cost of investing in a new building and investing in the grocery store. There may still be a way for Sabathani to keep its current building and place the grocery store next to the school and have parking in the back, but it would require an architect to come in provide an estimate for the size of the building. The grocery store would need to be 30,000 square feet.

At first glance this project may seem a little out of the ordinary; however it could be the means whereby Sabathani reaches financial sustainability and continues to build the community it serves. It would also be a major change to the view of the community. The whole process could take around one year to be up and open. The biggest variable is how long it would take for politicians (city council, CPED, and prominent community members) to approve the plan. However, Glenn Ford is committed to making this work and has proved successful in other areas of the country and in another area in north Minneapolis.

After having had several conversations with Glenn about his project we will have Glenn present his ideas to Angelique, the Board Chair and the management team by the end of May

4. Minnesota Community Action Partnership (MNCAP) is also interested in space at Sabathani. They are not interested in using current space, but would like to build on Sabathani land. They are currently waiting on grant approval before they can begin in depth negotiations. MNCAP is interested in producing vegetables that the community needs, but lacks access to. This relationship would fit extremely well with the grocery store concept and they could be the source of lettuce and other vegetables for the local grocery store. Additionally the grocery store has the ability to build on top of the store which is where MNCAP could be located.
5. Lastly, another option would be to sell the building and the land and move Sabathani to a new smaller location where Sabathani could just run its programs and take the money from the sale of the land to fund new business and program ideas and move to a new location. According to Christianson and Company, who provided an appraisal of the building and land, said that Sabathani could sell its land and building between \$2,430,650 and \$7,291,950. After considering all the opportunities that are available to Sabathani if they keep the building (mentioned previously) it would appear that Sabathani would not need to pursue this option. Sabathani should keep their building and fill it with the new tenants outlined above.

Conclusion

In conclusion, through my work, along with the work of Gary Miller, we have helped to create a sense of urgency to change at Sabathani. We have worked to change the mindset of the organization from being a service center to a community development center. Though the change is not fully complete, they organization is moving in the right direction. There are a myriad of options that await Sabathani. Sabathani should pursue the Glenn Ford Grocery Store and place it on the East side of the current Sabathani building. Then they can house Hennepin County in their current building and they can also place Minnesota Community Action on top of the newly built grocery store. The Sabathani board and executive team will need to decide with Glenn Ford how they would like to structure the finances of the transaction. I recommend that Sabathani actually sell the land to Glenn Ford and use that money to invest in the store as a shareholder. Then they will receive dividends annually that they can use to finance their operations.

Even though there is a great deal of work ahead for Sabathani, the future still looks bright, assuming they can balance their budget, conduct performance evaluations to ensure that they receive the proper outcomes, and pursue the previously outlined options. Sabathani will need to select a good executive director that can execute these options and also has a sense of urgency going forward.