

FISCAL: SPOTLIGHT ON SOCIAL ENTERPRISE (PART I)

CAPLAW 2009 National Training Conference

June 24, 2009
2:00 p.m. – 3:30 p.m.

Seattle, WA

David H. Carelton

Executive Director
Kitchens with Mission
227 Bellevue Way, NE #567
Bellevue, WA 98004
david@kitchenswithmission.org

Ken Robinette

CEO
South Central Community Action Partnership
PO Box 531
Twin Falls, ID 83303-0531
P: (208) 733-9351 ext. 3002
ken@sccap-id.org

Handouts:

1. David Carelton PowerPoint – Kitchens with Missions
2. Ken Robinette PowerPoint – Setting Up and Operating “Fees for Services”
3. Appendix PowerPoint

Kitchens With Mission

“A Life Changing, Job Training Network”



FARESTART

“FareStart provides a community that transforms lives by empowering homeless and disadvantaged men, women, and families to achieve self-sufficiency through life skills, job training and employment in the food service industry.”

Annually:

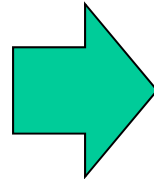
- Services to 600
- Training to 350
- Up to 3000 meals a day
- \$60,000 a week in self-generated revenue

In order to expand its mission impact FareStart will help others to adopt and adapt the model both regionally and nationally.

KWM Goals

Regional & National dissemination:

- Deliver the model to partner programs in a manner that suits their communities needs.
- Increase mission impact by providing services and training to more people.
- Improve effectiveness and foster innovation among programs through shared community.
- Provide benefits and maintain standards for all partner programs.



Collaborative Vision

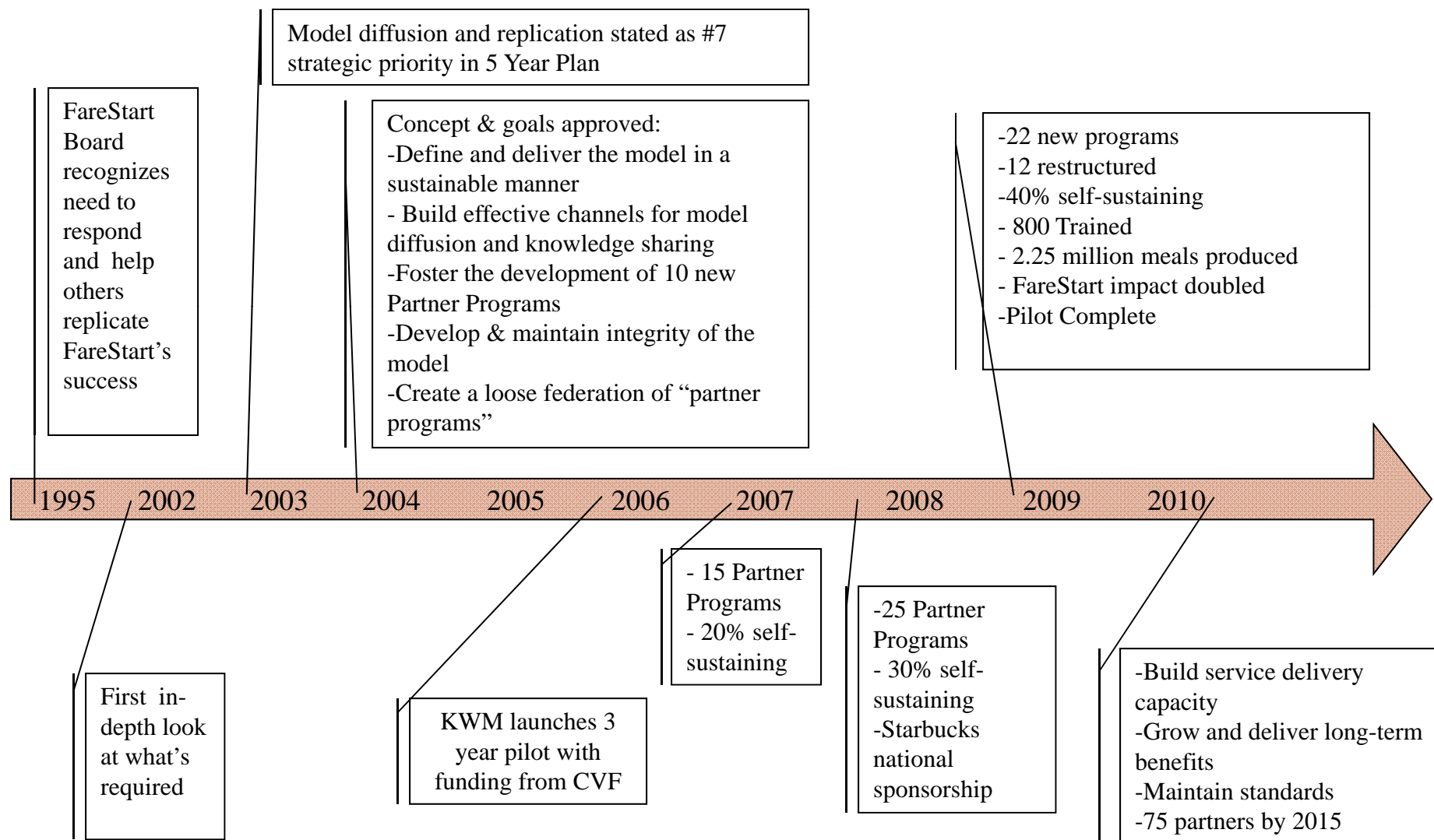
Build and lead a strong collaboration of thriving local independent foodservice training and employment programs that:

- Share a common vision, mission, values and service philosophy.
- Actively share information and lessons learned.
- Spur local innovation, increase quality and consistency.
- Leverage collective strength to grow and apply direct benefits and sponsorship.

“Kitchens With Mission facilitates communities that provide food service based training, employment, and tangible paths to self-sufficiency.”



Quick KWM History



Transforming lives through job training and placement in the food service industry

- 1. Empowerment through Training.** Empower the lives of individuals facing barriers to employment through comprehensive foodservice training, soft skills training, and supportive services, along with targeted job placement and job retention efforts.
- 2. Social Enterprise.** Self-generate revenues through food-service-based social enterprise(s) that provide real-life training opportunities for trainees, financial support for the program and a touch point with the community.
- 3. Cost-effective, Nutritious Meals.** Provide benefits to trainees, the program and the community through the economic efficiencies of a well-run kitchen that prepares nutritious meals for disadvantaged populations and others on a contract basis, and/or to the community on a retail basis.

Key model elements fall within the following functional areas:

1. Program development – well defined vision and goals, clear communications
2. Program administration – clear governance and oversight, adequate financial support
3. Partnerships and collaboration – diversity and commitment of stakeholders
4. Social services – delivery of wrap around and job basement services
5. Training services - technical, life and employability skills training
6. Business operations – facility safety and sanitation, efficiency and effectiveness of social enterprise businesses

Primary KWM services driving value to Partner Programs include:

1. Assessment and strategic planning.
2. Model definition, adaptation and customization.
3. Model integration and implementation.
4. Ongoing network support, program analysis and standards maintenance.

		Partner Program Phase of Development					Timing and Value of Service
Value Matrix		Exploration and Feasibility	Planning and Development	Launch/ Start up	Stable	Growth/ Transition	
Service Offerings	Strategic Planning and Preparedness	High Value	High	High	Medium	High	
	Organizational Development	Medium	High	Low	Low	Medium	
	Staff Development	Medium	High	High	Low	Medium	
	Leadership Training	High	High	Low	Low	High	
	Technical Assistance, Training, Program & Operational Assessment	High	High	High	Low	Medium	
	Start-up Documentation	High	High	High	Low	Medium	
	Fund Development - Leverage and Awareness, grant review	Low	High	Medium	Medium	High	
	Sponsorship Benefits	Low	Low	High	High	High	
	Employer Connections	Low	Low	Low	Medium	Medium	
	Analysis & Accreditation	Low	Low	High	High	High	
	Graduate and Outcomes Tracking	Low	Medium	Medium	High	High	
	Network Association, Community and Shared Benefits	Low	Low	High	High	High	

Setting Up & Operating “Fee for Services”

Presented by:
Ken Robinette, CEO
South Central Community Action
Partnership
Twin Falls, Idaho

CAPLAW Training Conference
Seattle, Washington
June 24, 2009

Agenda

- Agency History and Experience
- Why “Fee for Service?”
- Setting Up Fee for Service
- Developing a Business Plan
- Legal and Financial Steps

Agency History and Experience

- South Central Community Action Partnership's (SCCAP) WZ Program started 1978
- Provided Energy Conservation to 5,500 + Homes
- Trained/Certified Staff avg. 20+ Yrs Service
- Built & Rehab Homes w/Grants & Low-Interest Loans (USDA/Rural Development & HUD)
- In early 1990's WZ'd Homes for Utility Company creating Program Income (*10 CFR Part 600.124*)

Why “Fee for Service?”

- Uncertainty of Federal Funds
- DOE Weatherization Plus~ Leveraging
- Elimination of Program Income Requirements
- Additional Resources for WZ Program
- Staff Retention
- Agency Self Sufficiency
- New Partnerships – Existing Partners Expanded
- Provide Energy Conservation to Middle and Upper Income Homeowners/Business

Setting Up Fee for Service

- Home Energy Management LLC was established in 2005



Saving Energy \$\$ Through Efficiency

Windows ♦ Doors ♦ Insulation ♦ Home Diagnostics

550 Washington St. S.
P.O. Box 756
Twin Falls, ID 83303

(208) 358-0202 Mobile
(208) 358-2240 Office
hem@sccap-id.org

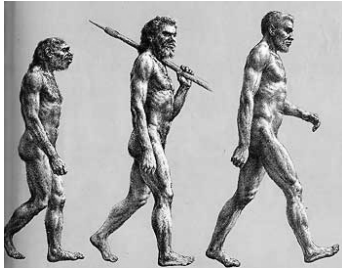
Setting Up Fee for Service



Setting Up Fee for Service

- Started w/Home Diagnostics ~ **Blower Door/Duct Blaster**
- Expanded to: Windows-Doors-Insulation
- Roofing-Decks-Painting
- Medicaid (ADA Bathrooms/Wheelchair Ramps)
- USDA/Rural Development (loan & grant program)
- National Home Builders Association- NHBA
- Developers/ General Contractor-Private & Federal
- Idaho Power Pilot Contract- 151% to 250% OMB

Setting up Fee for Service



Why We Set Up Fee for Service

- Knew we wanted to expand our resources
- Knew what we were good at
- Knew there was a need in our communities
- Knew there were legal & administrative steps

So, where to start first?

Laying the Groundwork for Fee for Service

- Board Support and Approval
- Meet the Mission of Organization
- WZ Staff/ Administration Staff Buy In
- Other Agency Staff
- Created a Business Plan (with help)

Before You Begin

- Take Time to Reflect
 - A solid foundation is as critical as good management,
 - New businesses can mean long hours and sacrifice (win some - lose some)
 - "Success" can be defined many ways
 - Be Confident that you will succeed

Before You Begin

- Prepare an Assessment
 - Organization's skills, interests, and business ideas
 - Organization's assets for the business
 - Cash
 - Equipment
 - Human
 - Other

Help Available to Develop Plan For Fee for Service

- SCORE (Senior Corps Of Retired Executives) is a non-profit association providing free counseling and low-cost workshops to small businesses throughout the United States.
- SCORE provides entrepreneurs with free, confidential face-to-face and email business counseling.
- The website hosts a "Business Toolbox" and on-line learning center that brings together the expertise of successful business owners. <http://www.score.org>

Help Available to Develop Plan For Fee for Service

- Small Business Administration Marketing Research
www.sba.gov/starting_business/marketing/research.html
- Competitive Analysis
www.sba.gov/starting_business/marketing/analysis.html
- Office of Advocacy – Economic Statistics & Research
 - The SBA Office of Advocacy provides a wide variety of free searchable databases, working papers, quarterly indicators relevant to small businesses and geographic-specific business informationwww.sba.gov/advo/research/

Help Available to Develop Plan For Fee for Service

To order the
Indian Social Entrepreneur's Guides
Call 877-922-9262
or
www.acf.hhs.gov/programs/ana
Administration for Native Americans

Four Phases of Business Planning

- Assessing Market Demand
- Performing a Preliminary Feasibility Study
- Preparing a Business Plan
- Securing Financing

Assessing Market Demand: Where to Gather Market Research

- Primary Research:
 - Survey target markets.
- Secondary Research:
 - Business Associations/Chambers of Commerce
 - Competitors and comparable enterprises
 - Consultants and public accountants
 - Insurance agents, lenders, and realtors
 - Suppliers and vendors
 - Surveys

Assessing Market Demand: Pricing Considerations

- Your cost (to produce, operate, and sell)
- Your competitors' prices
- Your customers' perceptions of/reactions to all the prices offered.
- Remember that customers relate price to value

Is your product/service a "good bargain" or "top of the line"?

Performing Feasibility Study

- Identify the technical and managerial resources needed to start and operate your planned enterprise;
- Estimate the "capitalization requirements" of your planned business – the funds required to purchase essential assets and cover initial operating expenses;
- Prepare "forecasted financial statements" that predict the financial condition and performance of your planned business;
- Assess the relative degree of risk inherent in your business venture; and
- Determine the organizational and personnel requirements of your planned business enterprise.

Performing Feasibility Study: Capitalization Requirements

- Pre-business planning and development
- Equipment, facilities, tools, vehicles, and other start-up "assets"
- Employees, inventories, and supplies for business operation
- Cash ("working capital") to cover inventories, payrolls, and operating costs until profits accumulate

Preparing a Business Plan: Essential Components

- Cover Sheet
- Statement of Purpose (of the plan)
- Table of Contents
- Executive Summary
- Description of Business
- Market Analysis
- Organization and Management
- Financial Analysis
- Supporting Documents

Preparing a Business Plan: Organization and Management

- Legal Form of Organization
 - Sole proprietorship, partnership, small corporation, joint venture, cooperative
- Management Plan
 - Organizational chart, management qualifications, roles and responsibilities
- Employee Development Plan
 - Recruitment, training and supervision

Preparing a Business Plan: Financial Analysis

- Capital Requirements
- Structure of Financing (Equity/Debt)
- Financial Forecasts (3 Statements)
 - Year 1 – Month by Month
 - Years 2 & 3 – Annualize
- Break-Even and Ratio Analyses
- Historic Financial Statements (for existing businesses)

Preparing a Business Plan: Supporting Documents

- Appraisals of land, real property, equipment
- Product descriptions, photographs, specifications
- Tentative buy/sell or lease agreements
- Cost quotes from contractors, equipment dealers, insurance agents, suppliers

Then package it all together and you
have

“Your ***Business Plan***”

Legal and Financial Steps for HEM

- Received Board Resolution to create For-Profit dba – Home Energy Management (HEM)
- Created the HEM Board of Directors
- Received Board Resolution for Zero Interest Loan to HEM from Agencies non-federal cash account
- HEM had signed Promissory Note for Loan & Operating Agreement
- HEM applied with State of Idaho for Articles of Organization as LLC

Legal and Financial Steps for HEM

- HEM applied for Employer Identification Number
- HEM applied for an Idaho Income Tax Withholding Account Number
- HEM purchased General Liability Insurance
- HEM set up Workers Compensation Insurance
- HEM applied for building Contracting Licenses with Bureau of Occupational Licenses

Legal and Financial Steps for HEM

- Agency set up Commercial Lease Agreement for:
 - office space, utilities, furnishings and office equipment
- Set up HEM Accounting Procedures
- Opened Post Office Box
- Purchased accounting software

Legal and Financial Steps for HEM

- Developed Management Plan
- Developed Employee manual
- Created job descriptions with hourly rates
- Hired Manager, Fiscal officer, Crews
- Purchased HEM diagnostic equipment

Legal and Financial Steps for HEM

- Generated cost basis for equipment leasing with DOE and Agency owned equipment
- Purchased cell phones and service
- Set up new accounts with material suppliers

Ready to start making \$\$\$\$

Promoting and Advertising

- Create brochures and business cards
- Phone book yellow pages (Ads)
- Chamber of Commerce (member)
- Media coverage (TV, Newspaper, Radio)
- Trade Shows
 - Home & Garden, County Fairs

Promoting and Advertising

- Developed Management Plan
- Luncheons with civic and business clubs
- Meet one-on-one with Builders and Realtors
- Meet with loan officers at banks and credit unions
- Meet with other State and Federal Agencies
 - i.e. . . . USDA/Rural Development, State Energy Office, Dept. of H & W, County Commissioners
- Word of Mouth

Bids, Profits, and Benefits

- Bid projects timely
- Bid projects to cover all cost and allow profit %
- Win some – Lose some
- Profits create additional income for Agency
- Provides resources not allowed by other programs
- Sustains employees and increases moral
- Increases community awareness
- Ultimate goal to have agency become:

**Self Sufficient & Pay
Taxes**

APPENDIX

**APPENDIX:
HOME ENERGY MANAGEMENT**

Business Overview

1

**HOME ENERGY MANAGEMENT
EXECUTIVE SUMMARY**

The Home Energy Management will begin doing business on October 1, 2005 when it undertakes the provision of diagnostic testing and sealing and full weatherization services on October 1, 2005. The service area will include Twin Falls, Jerome, Lincoln, Blaine, Minidoka, Cassia, Gooding, and Camas counties.

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**Home Energy Management
DESCRIPTION OF BUSINESS**

A. Business Concept

The Home Energy Management is a new business that is scheduled to begin operations on October 1, 2005. The company will be owned, managed and operated by the South Central Community Action Partnerships. The company will provide services to builders and homeowners, which will reduce building energy use and improve air quality.

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**Home Energy Management
DESCRIPTION OF BUSINESS**

B. Service Description

The Home Energy Management will specialize in identifying energy loss and air quality problems and remediation services to reduce energy usage and improve air quality within residential buildings. The average energy savings by the service is twenty five percent of the energy usage reducing energy bills by twenty five percent.

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**Home Energy Management
DESCRIPTION OF BUSINESS**

C. Key Business Factors
The following factors are considered essential to the success of the business.

1. Labor
The technicians of the Home Energy Management have over 30 years experience in auditing residential buildings to determine the sources of air leakage resulting in energy loss. The technicians have performed energy audits on over 400 residential buildings. Each technician is certified in the use of diagnostic equipment and has received 200 hours of training.

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**Home Energy Management
DESCRIPTION OF BUSINESS**

2. Equipment

The Home Energy Management use state of the art precision diagnostic equipment. The equipment includes:

- **Minneapolis Blower Door.** The blower door is a whole house testing system, which indirectly measures duct leakage by pressurizing the entire house to a standard testing pressure. By comparing the whole house test before and after all registers are temporarily sealed, the blower door provides an estimate of duct leakage to the outside. The blower door pinpoints air leakage in the house. The blower door identifies building envelope improvements that will reduce energy use and increase comfort.
- **Minneapolis Duct Blaster.** The duct blaster is used pressure test the duct system for air leaks. A precise leakage measurement is made using an airflow and pressure gauge connected to the duct blaster system. Estimates of efficiency losses from duct leakage can be made from the leakage measurements.

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Home Energy Management DESCRIPTION OF BUSINESS

3. Technical Assistance

The Home Energy Management will receive technical assistance at no cost from the South Central Community Action Partnership. The South Central Community Action Partnership has been providing energy diagnostic services and weatherization services to low income households in an 8 county area for over twenty-five (25) years. In addition, the Home Energy Management will receive training and technical assistance in small business management methods from the Senior Corp of Retired Executives (SCORE) and the College of Southern Idaho Community College. These technical assistance providers are located in Twin Falls, ID and are generally available on a day's notice.

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Home Energy Management DESCRIPTION OF BUSINESS

D. LOCATION AND PHYSICAL FACILITIES

The Home Energy Management office will be located within the South Central Community Action Partnerships, a non-profit organization providing services to low-income households within an eight county area. The office will be in Twin Falls, ID which is 120 miles from Boise, ID the capital of Idaho. The location is central to the eight county service area. The location of the office provides easy access to suppliers of materials for the services.

The warehouse for materials will be adjacent to the office thus eliminating time for pick up and return of materials and equipment. The Home Energy Management will be leasing office and warehouse space from the South Central Community Action Partnerships.

The office and warehouse are located in the largest population base within the eight county service area. Eighty-four (84) percent of the potential market is located within sixty (60) miles of the office and warehouse.

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Home Energy Management DESCRIPTION OF BUSINESS

E. AGENCY AND OTHER LOCAL BENEFITS

The benefits to the South Central Community Action Partnerships is that the Home Energy Management will further the goals of the agency. This will be accomplished through generating resources to further the mission of the agency which is to provide a wide range of support services in an effort to help individuals and families build bridges toward self-sufficiency.

The services provided by the Home Energy Management will also further the goal of the agency by reducing energy costs, reducing energy usage, and improving the air quality for homeowners in the service area. South Central Community Action Partnerships currently provides the service to low-income households through funding from the Department of Energy. Expanding the service to non low-income households will support the current activities of South Central Community Action Partnerships.

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Home Energy Management DESCRIPTION OF BUSINESS

F. RELATIONSHIP TO AGENCY ECONOMIC DEVELOPMENT STRATEGY

The South Central Community Action Partnerships five year strategic plan has established economic development has a priority for the agency. The purpose is to generate unrestricted resources to further the goals of the agency. South Central Community Action Partnerships is currently doing this through securing the funds and building the agency office. The office was completed in October 2003 and serves as a permanent facility within the community. The building of the office has allowed the agency to free up revenues previously used for rent to expand services to the target population. The office also provides an asset to the agency and was the first step towards self-sufficiency for the agency.

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Home Energy Management MARKET ANALYSIS

A. MARKET DESCRIPTION

In the overall market region of Twin Falls, Jerome, Lincoln, Blaine, Minidoka, Cassia, Gooding, and Camas counties; home ownership is 2% percent higher than Idaho's general population of 72.4 percent. The high percentage of home ownership provides a population that will make home improvements. Studies show that individuals which own their own homes spend an average of \$17,435 per year on home improvements.

The median value of owner-occupied housing units is \$124,878 and the median household income is \$35,927, which is a ratio of housing value to household income of 29% percent. That is 6% below the national average of 35%. The assumption can be made that the households in the service area have 6% percent additional disposable income, which could be used for home improvements.

The number of housing units in the eight county area in 2000 is 69,492 according to the U.S. Census. The number of multi family housing units is 6,949, which results in 62,543 housing units that would comprise the market for the services provided by the Home Energy Management.

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Home Energy Management MARKET ANALYSIS

B. GENERAL MARKET TRENDS

The average cost of energy to heat and cool housing units is 750 dollars per year. This represents a thirty five percent increase in the past five years. The consumer price index documents household income as increasing eleven percent over the same period of time. This has resulted in homeowners looking for ways to reduce home energy costs.

Correspondingly new homeowners are evaluating the energy efficiency of a house prior to purchase. Based on the number of building permits issued in 2002 the number of new housing units being built is 987 which represents an annual growth in housing stock of 1.5 percent per year. Energy efficiency has become an established marketing tool for new homebuilders.

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APPENDIX

Home Energy Management MARKET ANALYSIS

C. COMPETITION

There currently is no company providing diagnostic testing of housing units to reduce energy costs within the eight county service area. Because Home Energy Management will target the specific area they will eliminate long-distance transportation costs and the profit margin required by businesses in Boise, ID. Additionally, because the company is a subsidiary of South Central Community Action Partnerships there are established relationships with each of the communities and the homebuilders in each of the counties.

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Home Energy Management MARKET ANALYSIS

D. MARKET PROJECTIONS

Based upon the working capital available to the Home Energy Management the following production goals have been established for the first year:

- Diagnostic testing and duct sealing – 10 housing units in months 1 – 3
- Diagnostic testing and duct sealing – 24 housing units in months 4 – 12
- Weatherization services – 1 housing unit in months 4 – 6
- Weatherization services – 2 housing units in months 7 – 12

The projected production increases in the first five years are as follows:

- Year 1: Diagnostic testing and duct sealing – 246 housing units
Weatherization services – 15 housing units
- Year 2: Diagnostic testing and duct sealing – 290 housing units
Weatherization services – 26 housing units
- Year 3: Diagnostic testing and duct sealing – 319 housing units
Weatherization services – 29 housing units
- Year 4: Diagnostic testing and duct sealing – 351 housing units
Weatherization services – 32 housing units
- Year 5: Diagnostic testing and duct sealing – 386 housing units
Weatherization services – 35 housing units

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Home Energy Management MARKET ANALYSIS

D. MARKET PROJECTIONS (cont.)

Based on the number of existing housing units and the number of new housing starts, to meet production goals of Home Energy Management, the company would only have to penetrate .5 percent of the existing market in year one. The planned growth of the business is twenty percent for the first five years resulting in a market penetration of one percent in year five.

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Home Energy Management ORGANIZATION AND MANAGEMENT

A. LEGAL FORM OF ORGANIZATION

The Home Energy Management will be organized as a Limited Liability Company. The company will be 100 percent owned by the South Central Community Action Partnership. The South Central Community Action Partnerships is a non-profit organization that has been providing services to low-income community members for over thirty-five years. The South Central Community Action Partnerships has over twenty-five years experience in providing weatherization services and 7 years experience in diagnostic testing and sealing.

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Home Energy Management ORGANIZATION AND MANAGEMENT

B. MANAGEMENT AND TRAINING PLAN

The management will be provided by the South Central Community Action Partnership Executive Director with support from the Financial Officer. An Energy Analyst with management experience will be hired to operate the business. Trained staff from the South Central Community Action Partnership will be utilized to perform the services. Training will be made available to employee's to continue and enhance their knowledge in diagnostic testing by attending training courses offered by the utility companies, State Energy office and other companies that provide energy conservation trainings.

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Home Energy Management FINANCIAL ANALYSIS

A. CAPITAL REQUIREMENTS

The total cost of the proposed energy conservation services company is \$9,940. The \$9,940 in new capital requirements will include the following:

Major Equipment Items	\$ 3,000
Materials	\$ 1,500
Supplies	\$ 200
Working Capital	<u>\$ 8,300</u>
TOTAL:	\$13,000

*Supplemental Equity Investment \$ 3,000

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Home Energy Management FINANCIAL ANALYSIS

B. STRUCTURE OF FINANCING

One hundred percent of the financing for the company will be provided by South Central Community Action Partnership. The \$13,000 capital will be an interest free loan with one balloon payment at the end of year four using SCCAP's non-federal cash.

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Home Energy Management FINANCIAL ANALYSIS

A. FINANCIAL ANALYSIS

The month-by-month, first-year Forecasted Statements of Operations and Cash Flows demonstrate that the amount of cash budgeted for materials and working capital will be sufficient to cover the costs of establishing the business.

The annualized Forecasted Statements of Operations demonstrate that profits of \$24,458, \$40,394, \$45,668, \$55,570 and \$66,255 can be realized in the first five years, respectively, for a five-year total of \$232,345. The profits do not include the cost for equipment and federal and state corporate income taxes.

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Home Energy Management FINANCIAL ANALYSIS

A. FINANCIAL ANALYSIS

The annualized Forecasted Statements of Cash Flows demonstrate that the cash balance of the business will increase in five years' time from the \$27,866 to \$161,621—an overall increase of 580%—even after repayment of the \$13,000 loan from South Central Community Action Partnership, the purchase of a company vehicle, and replacement of the diagnostic equipment.

The Forecasted Balance Sheets show the impact of five years' operations on the financial condition of the business. The value of assets will increase from \$13,000 on the startup date to \$172,621 five years later. In the same period of time, the balance of debt will decrease from \$13,000 on the startup date to \$0.

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