MERGER CASE STUDY

Merger between Three Rivers Community Action and Olmstead County Community Action

This case study is based on CAPLAW's interview with Michael Thorsteinson, executive director of Three Rivers Community Action in Minnesota, as well as a review of Three Rivers Community Action's website and IRS Form 990 for the 2011 tax year. This case study presents an example of a merger between a nonprofit CAA and a public CAA.

Three Rivers Community Action

Three Rivers Community Action (Three Rivers) is a nonprofit Community Action Agency (CAA) that serves several counties in Minnesota. It provides a diverse range of services and programs, including housing development, Head Start, senior citizen assistance, and energy assistance.

Olmstead County Community Action

Olmstead County Community Action (Olmstead) was the last remaining public CAA in the State of Minnesota. Olmstead also provided a diverse set of services that included healthcare application assistance, family homelessness prevention, and housing.

Reasons for the Merger

As the last public CAA in the state, Olmstead had entertained the idea of merging with a nonprofit CAA for several years. Upon the retirement of Olmstead's executive director, Olmstead decided to seize the opportunity created by the vacancy in leadership to join another CAA. Merging with Three Rivers made sense to Olmstead because the two organizations had a pre-existing relationship from their work together on housing. Three Rivers also appeared particularly attractive to Olmstead because of its ability to successfully run a housing development program and to manage a diverse set of programs. In addition, Three Rivers was an appealing merger candidate because it was a healthy and financially viable CAA, due in part to its diverse streams of funding that included contributions from private donors.

To Three Rivers, the idea of merging with Olmstead was also attractive. The two organizations had a positive working relationship. Additionally, Three Rivers found it strategically beneficial to absorb Olmstead's service area. By growing its service area, Three Rivers' executive director believed that the resulting organization would be better positioned to compete for federal and state funding. Furthermore, Mr. Thorsteinson believed that the merger would keep the services provided to Olmstead's service area viable and sustainable. As he explained, "[Y]ou have to look at the [delivery] model: how do you keep services in place for people, not just how do you keep people doing jobs when resources decline?" True sustainability is ensuring the future of service delivery, not the promulgation of jobs and positions within a CAA.

How Merger Talks Were Initiated

In anticipation of his retirement, Olmstead's executive director initiated a conversation with Three Rivers' executive director to discuss merging. Afterwards, Three Rivers' executive director presented the idea to the Three Rivers board of directors.

Merging and Integration

Programs Three Rivers ran similar programs to many of the programs that Olmstead ran. Three Rivers also possessed experience in running large and diverse programs. As a result, the programmatic transition to Three Rivers went smoothly. To aid in the transition, Three Rivers held meetings with the Olmstead staff who ran the programs that were transitioned. Three Rivers also hired a new staff person to support the additional programs. In addition, Three Rivers communicated with contiguous providers of the energy assistance program about the proposed merger and its benefits to the community; as a result no other organizations competed against Three Rivers to serve Olmstead's former energy assistance service area.

Community Service Block Grant (CSBG)

Funding When two CAAs merge there may be a concern that some CSBG funding could be lost due to state formulas for allocating funds. Although the level of CSBG funding is usually tied to the size of the low-income population served by the CAA, many states set a base level of funding that every CAA can expect to receive regardless of its service area size. Therefore, if two small, rural CAAs merge, it is possible that the level of funding that will be allocated to the resulting CAA will fall short of the level of funding that both CAAs had received as separate entities. The drop in funding can be a disincentive to merging. The merger between Three Rivers and Olmstead would have resulted in such a decrease in CSBG funding. To eliminate this disincentive, the Minnesota Office of Economic Opportunity (OEO), the state CSBG office, provided CSBG discretionary funding to the merged entity to make up the difference.[1]

Despite acknowledging that "I don't think that budget cuts are the best incentive for mergers," Mr. Thorsteinson stated that, even with a decrease in funding from a particular funding source, a merger may still be worth pursuing. He noted that "I love Community Action. I have a great history with it. But we can't just get stuck in one funding source." He explained that Three Rivers runs programs, such as housing development, that earn fees. Merging with Olmstead increased the capacity of Three Rivers to run revenue generating programs.

Corporate Structure The merger between Three Rivers and Olmstead took the form of a transfer of Olmstead's programs to Three Rivers; it therefore did not cause Three Rivers' corporate structure to change. Because Olmstead was an arm of the county, there was no need to dissolve a corporation or made any other modifications to Olmstead's legal structure. As Mr. Thorsteinson explained, "[i]t was the most expedited process you could imagine." These circumstances helped minimize legal fees for the merger and make the merger process and transition faster than in a typical merger.

The Board After the merger, three individuals from Three Rivers' new service area, Olmstead County, joined the Three Rivers board to ensure board representation from the new service area in accordance with CSBG tripartite board requirements.[2] Typically, a merger between two CAAs will necessitate the expansion of the board to ensure board representation from the new service area. However, in the case of the Three Rivers-Olmstead merger, the board size was not increased because the new Olmstead County board members simply replaced three existing board members who had been planning to resign.[3]

Staff None of Olmstead's staff transitioned to Three Rivers; most wished to remain employed by Olmstead County.

Lessons Learned

- The viability and sustainability of a CAA should be examined from the perspective of its target clients and its ability to deliver services. Maintaining staff or positions at a CAA for the sake of keeping existing jobs or salaries does not serve the CAA's mission. Merging can be an effective way to continue providing services in an environment of decreasing resources.

- Merging a nonprofit CAA with a public CAA can be easier and less expensive than a merger of two nonprofit CAAs. Because a public CAA is generally not corporation, there is usually no need to the public entity or change the corporate structure of the surviving CAA. Under such circumstances, high legal fees that are often associated with merging can be avoided.

- A decrease in funding from a funding source can inhibit mergers; however, it should not be the determinative factor in a CAAs decision on whether to merge. A board should examine whether the merger will increase its CAA's capacity to delivery services, win new grants, and generate revenues. An increase in capacity from merging may incentivize a merger even where a specific grant might be reduced or lost.

- If a merger of two CAAs is likely to result in a decrease in CSBG funding to the surviving entity below the combined about of CSBG funding received by each CAA before the merger, the merging CAAs should work with the state CSBG office to mitigate the decrease in funding. This could be done, for example by the state granting CSBG discretionary funding to the merged entity to make up the difference in foregone funding or by the state adopting a statute or regulation specifying that a merger of two CAAs will not trigger a decrease in CSBG funding.

Footnotes:

1. After the Three Rivers-Olmstead merger and due in large part to the efforts of OEO, the Minnesota legislature amended the state CSBG statute to specify that generally, when two Community Action Agencies (CAAs) merge, the merged entity will receive a base funding amount equal to the sum of the base funding amounts each of the merging CAAs had received before the merger. See Minnesota Statutes § 256E.30 This statute, as well as the Minnesota OEO regulations, which also address mergers, are included in the Resources section of "Working Better Together: CAPLAW's Online Guide to CAA Shared Services and Mergers."

2. Note that changes to the tripartite board's size and composition due to a merger will often require amendment of the merged entity's bylaws.

3. See 42 U.S.C. § 9909(a)(2).

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