MERGER CASE STUDY

Merger between Mahube Community Council (Mahube) and Otter Tail-Wadena Community Action Council (Otter Tail)

This case study is based on CAPLAW's interview with Dr. Leah Pigatti, executive director of Mahube-Otwa Community Action Partnership (Muhabe-Otwa) in Minnesota, as well as a review of Mahube-Otwa's website. This case study presents an example of the combination of a CAA experiencing financial difficulties with a larger and healthier CAA.

Mahube Community Council

Mahube Community Council (Mahube) was a 501(c)(3) Community Action Agency (CAA) that served three counties and that had an annual budget of approximately $12-15 million and about 92 employees.

Otter Tail-Wadena Community Action Council

Otter Tail-Wadena Community Action Council (Otter Tail) was a 501(c)(3) CAA that served two counties and that had an annual budget of approximately $5 million and about 65 employees. Both ran similar programs, including Head Start, energy assistance, and weatherization.

Reasons for the Merger

To Mahube, merging with Otter Tail made sense because the five counties that both CAAs served were adjacent to each other. Furthermore, Mahube's headquarters are in the middle of this five-county area. To Otter Tail, merging presented an opportunity to resolve the organization's financial difficulties while ensuring that its clients would continue to receive services. According to Mahube-Otwa's executive director, Otter Tail had a housing development program that struggled after building a number of homes that could not be sold. Otter Tail also owed significant amounts that it could not repay. Otter Tail operated in a manner that made its budget sensitive to reductions in government funding; as a result, it had reduced the number of staff and staff hours over time, which affected its ability to operate its programs. Unlike Mahube, Otter Tail did not have a human resources department or an information technology department. Although both Otter Tail and Mahube served approximately similarly sized communities, Otter Tail's programs served a smaller number of clients. For these reasons, merging with a larger, more financially stable CAA seemed like an attractive opportunity to Otter Tail.

How Merger Talks Were Initiated

Otter Tail's executive director, its board, and the Minnesota Office of Economic Opportunity (OEO), which provides Community Services Block Grant (CSBG) and other funding to Minnesota CAAs, discussed the CAA's viability and the possibility of finding a merger partner. Otter Tail and Mahube had also worked together on housing programs in which Otter Tail was a sub-grantee of Mahube. For these reasons and due to the CAAs' geographic proximity, it made sense for Otter Tail's executive director to approach Mahube's executive director, with whom he had a cordial relationship, to initiate a conversation on merging.

The Merger Process

After discussing the possibility of merger, Mahube's executive director presented the issue to her board of directors. After considering the proposal, the Mahube board voted to authorize an exploration of merging with Otter Tail.

Planning Committee As part of the merger process each CAA's board authorized a merger planning committee composed of four to five members from each CAA. The planning committee worked with the OEO to develop the process for the merger under Minnesota law, which specifies the process to be followed in a merger of two CAAs. The planning committee also conducted weekly meetings and developed a transition plan to integrate both CAAs, including their governance structures and service areas. Later in the process, program directors and staff were involved in implementing the transition plan.

Due Diligence Mahube conducted due diligence on Otter Tail's budget and financial statements.

Government Grants and Contracts Mahube notified its funders of the possibility of merger and submitted transition plans to show how the merger would impact the current programs. After the merger, Mahube was required to compete for the Head Start grant that had previously been Otter Tail's. Unfortunately, Mahube was not the successful applicant for this grant. Some of Otter Tail's other funders also required Mahube to compete for the funding Otter Tail had previously received. The only grant or contract of Otter Tails' that Mahube did not receive after the merger was the Head Start grant for the area Otter Tail had previously served.

Corporate Structure Due to Otter Tail's liabilities, the merger was structured as a transfer of Otter Tail's assets to Mahube. Mahube retained its corporate structure and renamed the organization Mahube-Otwa Community Action Partnership to reflect the merging of the two CAAs. "Otwa" is an acronym for Otter Tail-Wadena.

Working with Professionals The CAAs worked with consultants for two months on strategic planning to determine the mission for the merged organization and to develop a marketing plan for the merged entity. Both CAAs also shared an attorney who advised on the corporate structure and worked with them to draft and file the legal documents required to effectuate the merger.

Merger Costs Costs associated with the merger included legal fees, travel, new logos and stationary, as well as the time spent by staff working on due diligence and planning the merger.

Integration of the Two CAAs

After the merger process was complete, both CAAs' boards voted to execute the merger. Then started the process of integrating the two CAAs into Mahube-Otwa. The first step in the integration process actually started during the exploration phase and entailed the development of a transition plan for each program. Integration also required the new CAA to make important decisions on office locations and staff. Mahube-Otwa's executive director noted that perhaps the largest obstacle to integration was the difference in corporate culture between Mahube and Otter Tail.

Press Release After the boards voted to merge, they issued a press release and sent letters to funders to announce the merger.

Office Location Otter Tail owned very nice office space that it had renovated from a church. The space, however, was in a small isolated community. Rather than keep this space, Mahube-Otwa decided to lease office space in the community to build relationships with people and increase the level of services.

Staff During merger negotiations, concerns arose over how many employees from Otter Tail would transition to the newly merged organization, and what their level of seniority and compensation would be. Ultimately, it was determined that all Otter Tail employees would have to apply for jobs at the new organization and that they would have to start as new employees. Of Otter Tail's 65 employees, 14 were hired by Mahube-Otwa.

Internal Communication Updates on the integration process were shared with staff to keep employees engaged and to deter unfounded gossip. Transition dates and timeframes were shared with staff throughout the exploration and integration process.

Lessons Learned

- Contact funders early in the merger exploration process to determine what steps will be necessary to transfer grants of the organization that will not survive in the merger to the surviving organization, including whether the surviving organization will need to compete for any of those grants. If the non-surviving organization is a Head Start grantee, the surviving organization will most likely have to compete for its Head Start grant.

- Think carefully about the post-merger marketing and outreach strategy to the new community or communities that will be served by the merged organization. Consider placing offices for the new organization in the heart of the expanded service area to gain exposure to clients and to form relationships within the community. The transition to a new face for the delivery of community programs can be a unique opportunity to build positive, new relationships in the community.

- Don't underestimate the importance of organizational culture. Determine the expectations of employees early on in the planning for staff integration to gain a realistic sense of the differences in corporate cultures. Negotiating the transition of employees – including their job functions, compliance with new policies and procedures, seniority, and benefits – can be one of the trickiest parts of the merger negotiations.

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