



BY JACK JENSEN AND ARMAND MAGNELLI

In the interest of providing better service to our industry, and increasing the collaboration between our organizations, "On The Level" has added Armand Magnelli of The Enterprise Foundation as a partner. We will try co-authoring columns for a while and see how it goes.

On the Level:

Staffing a Citywide Rehab and House-Recycling Program

Q: "We are a nonprofit that has done mostly multifamily development. We are considering starting a citywide rehab and house recycling program. How do we staff this venture?"

—Name Withheld

A: **Jack replies:** Dear "Withheld," well, that's a pretty open-ended question. I know your city has about 40,000 people, and has experienced a lot of community disinvestment during the past decade, due to manufacturing declines and sprawl. And I know your organization has 10 staff and an active board, who are doing a very good job of developing and running small to mid-sized multifamily housing. Having toured your city a number of times, I can see why you have collectively decided that your city needs a rehab and house-recycling program. There are many different models you can choose, and each has pros and cons.

The question turns on scale, which will depend on your resources, the market, and your ambition. You can't revitalize a community overnight, so this is a long-term strategy, and your metrics should be determined by factoring in how much money you can leverage and how deeply you want to go in digging out your community.

The classic model sets up rehab as a program, with a program director as its minimum staff size. Any lending around the rehab is typically done by a separate department – the home-ownership or lending staff, or both, for example. However, you have neither, so you'll need to think that through as well. A single loan officer can typically do between 15 and 30 loans a year, and a typical rehab coordinator can do anywhere from 10 to 40 rehabs, depending on the scale. A mini-repair coordinator can do nearly 200 jobs a year, if they're restricted to eight hours a job, for example. So it's probably more accurate to judge based on dollar value. While doing 10 \$7,000 loans obviously takes more time than processing a single \$70,000 home-ownership transaction, it also takes a lot less time to do a \$4,000 rehab than a \$20,000 rehab. So your calculations need to include both the number and size of the jobs.

Doing some quick reverse engineering, using five local groups that have mixtures of home ownership and rehab as guides, the average is:

- 1 rehab coordinator for 26 jobs,
- 1 rehab coordinator for \$312,000 worth of work,
- 1 loan officer for 19 closings,

1 loan officer for \$670,000 total loans.

Armand adds: Jack's itemization of work is right on target. I'd mostly like to emphasize that you are considering two quite different operations or business lines. The most common mistake we see when organizations expand their scope into new housing products is that they assume the new product can be produced with the systems they already have in place, which has a big effect on staffing. Often, there are significant differences in financing, paper flow, risk management, skill sets of staff, and the pace or cadence of the workflow.

Be mindful of creating the best systems for each housing product, and you'll have a good understanding of your staffing needs.





Jack continues: Excellent point, Armand. A citywide rehab program will absolutely involve a strong program-marketing component, and a strong lending component. A “house recycling,” or acquisition, rehab and sale program, needs different marketing and probably a buyer-preparation program, also. These jobs also require different skills than the project coordinator has. A house recycling program requires more construction-management skills but less community-relations skills than a small, owner-occupied rehab program. A weatherization or a mini-repair program have similarly unique programmatic and skill requirements.

Many organizations are facing the inevitable “make or buy” decisions that accompany growth. Historically, small nonprofits sprang up in the '70s around community-housing issues, and the second person on the payroll after the executive director was usually the rehab coordinator. Often, they were one and the same. But look how we've grown – multiple business lines, including complex lending operations, multifamily development and management, economic development and job creation programs, social services, community organizing, community facilities . . . it just goes on and on. So now the rehab component may include weatherization, mini-repair, owner-

occupied rehabs, house recycling, and even single-family development. How do we structure this?

Once you begin facing these problems, someone, often a “risk-manager” type, is inevitably going to suggest that you use outside consultants – that you “sub out” your rehab-coordination function. Here are the “pros”:

1. You're on somebody else's liability policy.
2. You can more easily hire and fire a consultant when fluctuations in program funding dictate rapid downsizing or upsizing.
3. You don't have to pay benefits or provide an office.
4. You may be able to get more expertise by hiring a consultant. The construction-coordinator salary and benefits you can offer may not attract highly knowledgeable and highly experienced candidates for the job.
5. Did I mention that you're on somebody else's liability policy?

Here are the “cons;” well, really, refutations of the “pros.”

1. Unless you hire a really big outfit, your organizational liability policy is still going to be the one the lawyers want to go after if there's a problem. Naming you in the lawsuit against your consultant costs them nothing but means you're on the hook, not just for legal fees, but also for damages. They'll ask all about your oversight function, and before long, your corporate veil is pretty well pierced. I don't think this is much of a pro.

2. You don't get a mission-committed employee. Rehab coordinators are the front lines of community development. They are in the kitchens and crawlspaces and attics of low-income people, working on problematic building stock, and communicating fairly constantly with your clients. When our nonprofit organizations do their job well, the rehab coordinators become community heroes. Their customer-relations skills are very high, and they are problem-solvers, not problem-creators. When not done well, they can become community pariahs, with reputations for heavy-handedness and lack of cultural sensitivity, and then your program suffers. Having less control over your front line can thus be problematic. So what do you say to the “it's easier to fire a consultant” issue? First, plan well, and even out those bumps. Second,



there are no guarantees. Paying a little unemployment insurance isn't a high price to pay for having a committed staff.

3. You get what you pay for. The consultant is charging overhead, too; you're paying for insurance, phones and desks, any way you slice it. And if they don't have an office at your headquarters, you'll have to go to some pretty great lengths to integrate

an outside consultant into your corporate culture.

4. Since dollars are typically scarce, I typically prefer hiring smart, committed, young people and training them, rather than going for the old-but-perhaps-jaded pro. New dogs learn new tricks so much faster. Neighborhood Reinvestment offers so much high-quality training, and there is so much training material out there for construction people, that hiring for values rather than for short-term experience makes sense to me.



5. Control. Your first line of defense against litigation is competence, followed by highly refined policies and procedures, followed only then by good insurance and smart lawyers. This is America. Anybody can sue anybody, anytime, anywhere, for almost any reason, and you have to pay to defend yourself. Get used to it, pay your premiums, and get on with it.

Armand closes: We spend lots of time in the affordable-housing industry talking about selecting firms for outsourced services. Most often, construction contractors are the topic. In every outsourcing conversation, I think the same rule holds true: Don't hire someone that you can't prove within a reasonable level of doubt is competent, dependable and relatively easy to work with. Spend the time to research your potential subs.

So, the question might end up being: "Do you have the time, patience and inclination to do the level of due diligence that's needed to ensure you have the right firm for your rehab-coordination function?" I guess the same rule holds true for hiring employees, but, in practice, I think we make more assumptions about hiring a company to do this type of work.

Sounds like another written policy that Neighborhood Reinvestment or The Enterprise Foundation, or both, might suggest as necessary – namely a policy for securing

outsourced services, with separate sections for construction contractors, rehab coordinators, auditors, legal services, and on and on ... When do we start work on that, Jack?"

Jack: In your dreams, Armand!

Hope this was helpful, "Withheld."

JJ and AM ■

Jack Jensen (jjensen@nw.org) is the real estate development, construction and rural specialist for the New York/Puerto Rico District of Neighborhood Reinvestment. You can send questions by e-mail or phone, (607) 273-8374, ext. 13. Armand Magnelli (amagnelli@enterprisefoundation.org) is a senior program director with The Enterprise Foundation. A \$25 gift certificate from Sears will be sent to anyone whose question is used in the column.