



Red Bud Housing Corp.

Central City, U.S.A.

PROMPT™Plus

Capacity and Performance

Assessment Report

**Using The
NeighborWorks®
America
PROMPT™Plus
Assessment Model
To
Build & Sustain
Organizational
Capacity**

This sample report is based on an actual organizational assessment prepared by the Organizational Assessment Division of NeighborWorks®. Names and other identifiers have been changed.



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OVERVIEW

NeighborWorks[®] America is a public, not-for-profit entity created in 1978 that provides technical assistance, training, and financial support to a national network of more than 230 independent, community development and housing services organizations. NeighborWorks[®] America creates opportunities for people to live in affordable homes, improve their lives, and strengthen their communities. **PROMPT[™] Plus** is the system employed by NeighborWorks America to review, analyze, and report periodically on the capacity and overall health of its network member organizations and other nonprofit community developers.

In July of 2008, People First Foundation entered into a contract with NeighborWorks[®] America for the purpose of commissioning **PROMPT[™] Plus** assessments of three nonprofit organizations that they have supported, including Red Bud. This report summarizes the results of the assessment of Red Bud Housing Corp. People First Foundation's primary objective in commissioning the review was to enable Red Bud to enhance its capacity in fulfilling its affordable housing mission and to identify ways for the Foundation to target its resources in support of Red Bud.

Community leaders founded Red Bud Housing Corp. in 1983 to help area residents become more knowledgeable about the home buying process and to create affordable housing opportunities in targeted neighborhoods. Its service area now covers the entire city of Central City, though most services are targeted to low-to moderate-income communities. With a total population of approximately 500,000, Central City continues to grow and has a strong, increasingly diversified economic base. But the condition of homes in many neighborhoods remains poor, and disinvestment is visible in several areas.

Red Bud grew over the years, consistent with its mission, and expanded its lines of business, most notably to include rental housing. Experiencing faltering partnerships and funding in 2005, the Board hired a new executive director to right the organization. Leadership has established a business model and staff that has achieved good progress against indicators of sustainability. Red Bud has strengthened its image and competitive position across the area by leveraging affordable home ownership opportunities. Red Bud is reported to be the lowest cost builder of high quality, low maintenance, environmentally conscious affordable homes in the state. At the same time, recent housing market challenges have reduced production and revenue expectations and reinforced the need for Red Bud to strengthen its base of partners and build public awareness of its work.

NeighborWorks[®] reviewers held interviews with members of the organization's Board, senior management, staff members, consumer-clients, and partner representatives to explore past accomplishments and future goals and challenges. The review included an analysis of the organization's internal management and services delivery systems, as well as an examination of files, financial records and some of the organization's documents, policies, procedures, and

contracts. Also included were visits to target neighborhoods, development sites, and wholly-owned and partnership rental properties.

The proposed and expected purpose of the **PROMPT™** assessment's scope was to:

- (a) observe, identify and report the current capacity of Red Bud;
- (b) identify and recommend additional, specific operating systems and tools needed to enhance and/or improve the above areas; and
- (c) Identify and recommend opportunities for programmatic enhancements that would advance Red Bud's program services and its sustainability.

The following report describes observations memorialized during the Discovery (information gathering) phase, on-site staff and Board member interviews, and property tours. Most of these observations were shared with Red Bud during an exit conference with the executive director, key staff members, representatives from the board of directors, and a senior representative of People First Foundation. Within the context of the **PROMPT™** system, the report presents observations arranged to assess "existing capacity" related to Red Bud's program activities, followed by "recommendations to enhance capacity."

We thank Red Bud for their mutually collaborative efforts to address community development, housing service and self-sufficiency needs for residents in Central City, and appreciate the outstanding cooperation and assistance demonstrated during the course of this assessment process.

PLANNING

The **PLANNING** performance objectives encourage the organization to establish an annual planning process that involves its board members, staff and community stakeholders and results in the adoption of a clearly defined mission and measurable goals. The planning process should also identify the organization's primary services & activities, its service delivery strategies and timetables, clarification of staff, dollar and partnership resource needs, and the development of Board policies and priorities that direct the organization's efforts. The organization is further encouraged to periodically evaluate its success (at least quarterly) by establishing specific performance measures that are most often described in an annual business or operating plan as well as developing community or customer impact goals that may also be described in a longer term, multi-year strategic plan. A lack of cyclical planning and monitoring of progress against clear goals and outcomes can waste the organization's resources and delay or prevent achievement of its mission.

General Observations

Red Bud Housing Corp. has defined its mission as “to promote safe, decent, and affordable homeownership opportunities and revitalize neighborhoods.” It has established an annual operating/business plan outlined in its *Comprehensive Business/Operating Plan* for FY 2009 ending June 30, 2009. The plan provides an Executive Summary and description of the organization and three lines of business: Home Ownership Promotion, Home Ownership Preservation, Real Estate Development, and Property & Asset Management. Leadership has defined Red Bud’s *Mission, Vision, and Values* within its plan, provided a *Market Assessment*, and accounted for strategies, goals, and line of business or production goals for FY 2009.

Current Capacity and Strengths in Planning

- Red Bud’s planning process has resulted in identifying its major lines of business with related success measures that enable leadership to gauge the desired benefits, needed production levels; staffing and funding structures to operate for the current year. Leadership has defined measurable community level outcomes for its targeted Green Grove neighborhood as indicated by area market values, collateral investment and increased tax revenues.
- Red Bud’s business plan is supported by a multi-year Strategic Plan for the July 1, 2008 to June 30, 2011 period. The strategic plan was developed by the Board through a process that included community meetings and culminated in a facilitated, off-site retreat with expert resource people who offered input for key areas of need to the organization. The plan accounts for the organization’s five core activities: Housing Loans, Housing Counseling, Homebuyer Education, Affordable Housing Development, and Construction Management Assistance, in addition to those elements addressed by its business plan.
- Since the late 1990s, Red Bud has participated in development and operation of Low-Income Housing Tax Credit (LIHTC) properties in six communities, including three that are outside its home MSA. In preparation for this activity, the Board amended Red Bud’s by-laws to expand its geographic service area to include the entire state. However, its plans related to areas outside the Central City MSA do not reflect input from residents of those areas and are incomplete. While representatives of partner organizations participate in the planning process in Central City, the plans had very little participation from other parts of the state.
- Red Bud has implemented a process to evaluate the success of its plans, generally in the form of periodic reports by the executive director, the director of housing development, and staff to the Board.

Improvement Opportunities and Recommendations in Planning

- ***Plans would be more effective and have greater impact with more regular monitoring and evaluation of progress against key standards and goals for the organization at-large and each major line of business.*** While management regularly reports production-in-process, ***it would be helpful to benchmark performance against planned standards***

and production goals on a regular basis (e.g. via a “dashboard” presentation) beginning in FY 2010.

- While leadership has done a commendable job of assembling third-party data to assess market need, Red Bud’s plans and product offerings could be strengthened with first-party data indicative of market demand. ***Red Bud could do more to determine what products or services, place of production, pricing, production methods, and promotion media are most likely to attract investment among both its partner-stakeholders and prospective client-customers.***
- Red Bud has an opportunity to strengthen its planning process to secure greater buy-in and support for its strategic directions and related products and services. ***Leadership is urged to reach beyond the Board to secure input, vetting its draft plans with its customers and partnership stakeholders to ensure an understanding of its image, potential, and/or limitations.***
- With the entire state as its overall service area and ownership of rental properties in very different markets as far as 150 miles from its office, ***Red Bud has not demonstrated a level of planning in these more remote areas to provide service as effective as its work in its home MSA.*** This could result in lack of support from constituents, potentially failing to understand the different market conditions and community needs in outlying areas, and becoming spread too thin. ***Designing a planning process that stimulates more direct involvement of community leaders and residents of these outlying areas would create sounder plans that generate wider support.***

RESOURCE MANAGEMENT & DEVELOPMENT

The **RESOURCE MANAGEMENT & DEVELOPMENT** performance objectives are to ensure that the organization has adequate operating and capital resources to support current and future organizational needs. The organization is encouraged to establish adequate reporting (budgets-to-actual and cash flow projection-to-actual comparison reports) to monitor its financial health and the success of its resource development efforts (annual and multi-year trends). The organization has an active financial oversight process in place to ensure that adjustments are made to the budget and resource development plans as needed. Unrealistic fundraising projections, poor strategies and a lack of effective monitoring can lead to funding deficits, cash flow problems and reductions in staff and services to achieve the mission.

General Observations

Red Bud Housing Corp. has secured a diverse array of revenue streams and uninterrupted cash flow to sustain current year organizational and programmatic needs. The organization managed operating surpluses prudently and has accumulated and managed its assets to sustain long term commitments and to support its multi-year strategic plans.

For fiscal years 2007 and 2008, Red Bud attracted government grants and contracts meeting 33% and 60% of expenses, respectively. Earned revenues in the form of counseling and developer fees, gains on investment, and rental income met 47% and 39% of costs for FY’s 2007 and 2008.

The small percentage remaining suggests that Red Bud has not need to access substantial private funding sources to support its operations. Red Bud has maintained sound liquidity, reporting \$3.10 in current assets for each dollar of current liabilities (Current Ratio = 3.1 as compared to a NeighborWorks® network median of 2.4) and 294 days cash at FYE June 30, 2007 (as compared to a network median of 147 days). More importantly, the organization reported an Unrestricted Current Ratio of 2.3 representing 223 days of unrestricted cash (as compared to network medians of 1.6 and 73 days and a benchmark of 90 days or greater).

The organization reported minimal debt at FYE June 30, 2007, at 12% of net assets.

Current Capacity and Strengths in Resource Management

Red Bud has budgeted and accumulated reserves and raised adequate resources to meet current year administrative and operating expenses including operating reserves and cash flow needs. From 2002 through 2007 the organization increased its net assets from \$3.9 to \$5.0 million averaging 5.2% annual growth. Red Bud reported current assets of \$1,181,773 including \$1,014,542 in unrestricted assets against current liabilities of \$375,749 in its most recent audited statements for FYE June 30, 2007 (See Table 1).

The agency realized positive cash flow from operations of \$343,765 for the year. At the close of FYE June 30, 2008, Red Bud reported unaudited assets in its General Operating Fund of \$670,419, including accumulated depreciation of \$112,863 against liabilities including a mortgage note of \$149,840, resulting in net assets of \$299,803.

Table 1: Red Bud Balance Sheet

	2005	2006	2007
Balance Sheet Items			
Cash & Cash Equiv.	\$503,796	\$260,854	\$604,619
Other Current Assets	\$438,000	\$771,724	\$577,154
Total Current	\$941,796	\$1,032,578	\$1,181,773
Loan Assets (Net)	\$163,393	\$140,392	\$136,838
Fixed & Other	\$4,032,730	\$4,551,239	\$4,297,905
Total Assets	\$5,137,919	\$5,724,209	\$5,616,516
Current Liabilities	\$272,500	\$533,984	\$375,749
Long-Term Liabilities	\$205,447	\$46,989	\$207,806
Total Liabilities	\$477,947	\$580,973	\$583,555
Non-Controlling Int.			
Net Assets	\$4,659,972	\$5,143,236	\$5,032,961
Unrestricted	\$157,062	\$1,044,839	\$1,014,542
Restricted	\$4,502,910	\$4,098,397	\$4,018,419

Historically, Red Bud has relied upon the fees and earnings from its lines of business to meet the costs of administration. For FYE June 30, 2008, the agency reported unaudited revenues of \$117,641 against projected operating support and revenues \$105,586 (111% of projected)

and administrative expenses of \$251,264 relative to projections of \$252,645 (99.5% of projected) resulting in deficit administrative funding of (\$133,623).

As Table 2 indicates, from 2006 through 2008 the agency has reported average operating surpluses of 10.9%, including net income of \$483,264 for FY 2006, a deficit of (\$110,275) for 2007 and a (unaudited) surplus of \$15,188 for FY 2008.

Table 2: Red Bud Statement of Activities

Red Bud Revenues and Expenses	2005 Audited Statements	FY 2006 Audited Statements	FY 2007 Audited Statements	FY 2008 Annual Budget	FY 2008 Unaudited Statements	Variance to Date
Government Contracts and Grants	\$270,013	\$560,792	\$259,550	\$273,700	\$304,571	11%
Contributions/Donated Property	\$1,520	\$257,500	\$4,700	\$4,500	\$13,000	189%
Developer Fees/Gains on Investment	\$20,397	\$0	\$47,864	\$125,000	\$50,581	-60%
Fee Revenues	\$0	\$77,980	\$234,725	\$67,800	\$103,670	53%
Rental Income	\$66,175	\$85,131	\$79,271	\$44,500	\$43,395	-2%
Interest Income	\$53,306	\$6,413	\$37,451	\$36	\$52	44%
Miscellaneous Income	\$45,443	\$35,537	\$1,081	\$300	\$3,069	923%
Total Revenue	\$456,854	\$1,023,353	\$664,642	\$515,836	\$518,338	-.5%
Program Services	\$215,645	\$111,062	\$294,969	NA	NA	
Mgmt & General/FD	\$378,785	\$429,027	\$479,948	NA	NA	
Total Expenses (before depreciation)	\$594,430	\$540,089	\$774,917	\$512,457	\$503,150	-2%
Change in Net Assets	(\$137,576)	\$483,264	(\$110,275)	\$3,379	\$15,188	349%

Red Bud has planned (via its budget and project pro forma) and accumulated reserves and raised or attracted capital resources through partnerships sufficient funds to support its current year program services comprising its lines of business. Red Bud received a construction loan of \$300,000 (at 1% interest) from the Housing Trust Fund of the State Housing Finance Agency (HFA) in FY 2006 to construct homes currently in development in the Bellville area, on the outskirts of the MSA. At Fiscal year end 2007, Red Bud reported \$4,227,211 in temporarily and permanently restricted funds including just over \$3 million in notes receivable representing equity holdings in seven LIHTC properties. In FY 2008, Red Bud received nearly \$500,000 in HOME funds from the State HFA and \$240,000 in HOME construction and loan funds from the Central City to support affordable housing.

Red Bud has identified a funding structure to meet its FY 2009 operating and production goals and contractual obligations. The agency has prepared adequate financial planning and oversight reports (budget, budget-to-actual comparison, cash flow projections, operating and development

pro forma, and capital needs projections) and implemented an on-going process to effectively monitor its financial health. While Red Bud has been able to fund its operations without a need for a substantial amount of fund raising from the private sector, leadership has indicated an interest in seeking out more private funding to diversify its funding base.

Improvement Opportunities and Recommendations in Resource Management

- ***Leadership is urged to move forward with Red Bud's stated strategy of further diversifying its funding sources with a more detailed plan.*** This plan should include specific revenue streams and goals, as well timelines. Board and staff responsibilities should reflect Red Bud's goal of achieving a broad base of continuing support to provide for greater sustainability (grants, contracts, contributions, fees, earnings, etc.).

ORGANIZATIONAL MANAGEMENT & OVERSIGHT

The **ORGANIZATIONAL MANAGEMENT & OVERSIGHT** performance objectives are to ensure that the organization has established and documented a governance model and structure that has clearly defined roles, authority, membership, meeting and reporting guidelines for its board, committees, executive staffing and related partnerships. The organization has established and implemented policies, procedures and practices consistent with its governance model and periodically evaluates their effectiveness in ensuring timely and appropriate decisions to sustain the organization's health and performance. The organization is encouraged to provide an annual evaluation of its paid executive staff, and to conduct a periodic assessment of the board and committees' roles, performance, membership, training and capacity to direct, oversee and support the organization's mission & goals. The organization is also encouraged to implement a volunteer recruitment and leadership development program to maximize the involvement of community partners and customer based representatives. Insufficient organizational development, management and oversight can create unnecessary liabilities and failed achievement of goals.

General Observations

Red Bud Housing Corp. has assembled a Board of ten (10) volunteer-directors representing the interests of its key government, private, and resident partnership interests. The Board and its executive committee function to provide timely oversight and decisions. Although the organization has developed and nurtured key partnerships with the financial community, additional relationships would be beneficial. Leadership has made limited progress to revitalize the Board's membership and committee structure with an aim of extending its capacity, expertise, and network of knowledgeable advisors and contributors. The Board has passed a resolution but shown limited progress to fill and commission a Community Development Construction committee with experience and expertise to give input and oversight for the agency's real estate development.

Current Capacity & Strengths in Organizational Management

- A review of Board minutes, interviews with Executive Committee members and Board participation in the exit conference indicate the Board understands its role clearly. It does not micro-manage and employs decision making processes that are as participatory as is practical. The Board universally achieves quorums for its meetings.
- Red Bud's key partners and Central City community leaders report that the organization is well-known locally and enjoys a reputation of credibility within the larger community.
- A review of insurance coverage suggests the Board has indemnified the organization against significant risk. There is evidence of a mentality of "risk management", strengthened recently with the addition of an attorney to the Board.
- The Red Bud Board has established, documented, and implemented a process to evaluate the Board and its capacity to carry out its roles and responsibilities in the Central City MSA, its primary targeted area. The Board meets quarterly; the Executive Committee meets monthly to ensure requisite decisions are made in a timely fashion to sustain the organization's health, internal operations, and services.
- Red Bud's Board leadership acknowledges the need to establish and maintain a volunteer recruitment and leadership development program that provides knowledgeable and actively participating partnership representation on its Board. Leadership acknowledges that it should be supported by committees tasked with providing a depth of oversight and advice for internal functions and each line of business.
- The Board of Directors has established, documented, and maintains a process for the annual evaluation of its paid executive leadership in fulfilling predefined roles and responsibilities. The last such evaluation concluded in April 2008. It is not clear that the Board has undertaken a study to ensure executive compensation is competitive within the area's market.

Improvement Opportunities & Recommendations in Organizational Management

- ***Red Bud is strongly encouraged to authorize committees and/or maintain a process to recruit volunteer leaders with the requisite expertise to provide a depth of oversight to help safeguard the investment of the organization's limited resources. These actions should take effect in time to give input to FY 2010 plans commencing July 1, 2009.*** Currently, leadership for key internal and line-of-business functions such as resource development, finance, real estate development, and home ownership/lending largely has been the domain of the Executive Committee and the full Board and institutionalized in management. Absence of a Loan Committee to participate in the production and oversight of loans, per the agency's General Loan Policies, adopted in 2004, puts Red Bud at risk of having insufficient oversight.
- ***It is strongly recommended that the organization develop a plan both for leadership succession and business continuity during any transition in leadership, including interruption resulting from a natural disaster.***

- ***Red Bud should start to maintain formal records of Board proceedings in the form of minutes or certified meeting notes to account for Executive Committee deliberations.***
- ***Organizational leadership is urged to establish and maintain a recruitment and/or training program to ensure all Board and Committee members are prepared to fulfill their fiduciary duties, at such time leadership has assembled and commissioned its authorized committees.***
- ***The Board lacks a fund raising committee and has not clearly defined fund raising responsibilities, beyond those of the staff. Currently, certain Board members periodically make fund raising calls with little coordination. So that Red Bud can be in a position to diversify its resource base and attract more private funding, the Board should either establish a fund raising committee or define roles more clearly.***
- **Red Bud’s Board has shown limited progress against needs and goals identified in its most recent self-assessment dating back two years. *The organization is urged to document and implement a process to conduct an annual evaluation of the performance and capacity of the Board, its members, and designated committees to track progress and to fulfill their respective roles and responsibilities.***
- ***Red Bud should explore ways to give a meaningful voice to those from communities it serves outside the Central City MSA.*** As market conditions and community needs change, the organization will be at a greater reputational and financial risk with investments in areas where it lacks strong relationships and may not understand as well as its primary target area. Shortcomings related to its multi-family properties in areas beyond Central City indicate that Red Bud would be well served with greater representation from other communities that it serves.

FINANCIAL MANAGEMENT

The **FINANCIAL MANAGEMENT** performance objectives are to ensure that the organization maintains an accounting system, reporting practices and audit procedures that reflect the complexity of its operations and provides adequate financial information to meet organizational and funding requirements. The accounting structure, staffing, procedures and practices ensure accurate, timely, and reliable records while maintaining reasonable internal controls. The organization produces and reviews financial reports on a monthly basis to ensure that sufficient information is available to sustain operations, meet budget & funding commitments and/or identify any potential risks or deterioration of the organization’s financial health. Inadequate accounting and reporting practices can cause resources to be misused and jeopardize the organization’s CURRENT AND future funding.

General Observations

In recent years Red Bud has made great strides in moving financial management of the organization to a solid foundation. Elements of internal controls had been weak due partly to the limited staff size. Now Red Bud has an Accountant and Accounting Clerk who possess both the acumen and proficiency to achieve timely discharge of all accounting functions, as evidenced by reconciled statements generally produced by the third day of the month to meet the needs of the Executive Committee which convenes the first Thursday of the month. Oversight for Red Bud's financial management has improved significantly with the addition of the Board's new Treasurer, who has extensive experience in various financial services positions.

Current Capacity & Strengths in Financial Management

- Red Bud has established, documented, and maintained an accounting structure and financial recordkeeping procedures and practices with reasonable promise of safeguarding its resources and producing timely records for operating and program services. A review of accounting practices and supporting documents found the accounting structure is designed to meet audit and financial management standards required by many funders in the industry. Financial duties and authorities are clear, institutionalized by *Financial Policies and Procedures* last reviewed and approved in May 2008.
- Red Bud's management is commended for steps taken in the past two years to extend the management of financial dealings to individuals other than those performing the accounting functions (e.g. the ED, Director of Housing Development, Office Manager) in order to achieve sufficient segregation and/or review of financial transactions. The organization appears to have taken sound steps toward recommendations in its 2007 audited statements to manage and control expenses more accurately in relation to revenue streams, as evidenced by its monthly line-of-business and end-of-year statements.
- Finance staff employs Cougar Mountain Fund Suite[®] to produce a solid set of financial planning and oversight reports (budget, budget-to-actual comparison, cash flow projections, operating and development *pro forma*, and capital needs projections) that enhance the capacity of decision-makers to understand financial trends and successfully address their implications. Leadership is commended for expanding its reports to account for the financial performance of Red Bud's administration and lines of business via budget-to-actual comparisons since the beginning of FY 2009.
- Red Bud's State Housing Finance Agency (HFA) partner has called upon agency staff to provide technical assistance to other agencies in recognition of Red Bud's best practices resulting in grant, contract, and regulatory compliance.

Improvement Opportunities & Recommendations in Financial Management

- While Red Bud's FY 2009 budget projects administrative expenses of \$273,713, representing 14% of expenditures and 45% of payroll costs, its ***audited financial and related IRS 990 statements reflect all salaries and fringe costs as management and general expenses***. This misrepresents Red Bud's overhead to donor-investors at 62% of expenditures, and compares unfavorably to a benchmark of less than 20%. ***Red Bud can correct these shortcomings by implementing activity-based accounting or otherwise providing financial data to its auditor to accurately allocate general and administrative expenses versus program related investments by the time of its FY 2009 audit.***

CONTRACT MANAGEMENT

The CONTRACT MANAGEMENT performance objectives are to ensure that the organization has monitoring, documentation, reporting, and decision-making practices to comply with contractual agreements. It further encourages the establishment of a system to stay informed of applicable laws, regulations, and contract requirements to minimize future liabilities and to avoid making contractual commitments that are beyond the organization's capacity. Failure to meet contract requirements can lead to loss of resources and legal problems.

General Observations

Red Bud Housing Corp. has successfully managed all its existing contracts and has implemented a practice of evaluating and addressing the impact of contracts on the organization's mission, structure and resources prior to signing any agreement. The organization documents all its service agreements and assures that management responsibility and oversight is clearly defined and consistently practiced.

The organization has implemented and maintained a contract management and project management system to remain current and compliant on all its contracts/agreements resulting in contract renewals and the recognized capacity for effective management among funder or provider groups.

Current Capacity & Strengths in Contract Management

Red Bud documents all its service agreements and assures that management responsibility and oversight is clearly defined and consistently practiced.

- Staff reported ten (10) open grants and contracts valued at just over \$1.6 million, including grant awards of \$1,162,000 made in 2007 and \$456,360 in 2008, and two purchases of service agreements for loan servicing and down payment assistance/closing cost grant origination. The agency held program capital balances of \$962,731 in HOME Investment Partnership funds at the time of NeighborWorks® America's review.
- Leadership has implemented a practice of evaluating and addressing the impact of contracts on the organization's mission, structure, and resources prior to signing any agreement, as evidenced by Board minutes and interviews with Board members. The organization has effectively documented and managed its professional service agreements (*e.g.*, for

construction subcontractors, audit, legal, property management, computer support, *etc.*) all affiliated entity service agreements and capital resource transactions.

- Red Bud has established and maintains a system to periodically review its contract management records, reports, procedures, and related insurance needs to ensure that its performance has stayed current with applicable regulations, contract requirements, and good business practices.
- State HFA representatives report timely completion of grant terms, submission of reports, and requests for draws against expenditures. Its HOME compliance officers report timely resolution or no issues of non-compliance in monitoring its LIHTC/affordable rental properties. HUD's representative reported no findings or deficiencies in its July 2008 biennial review, unconditionally certifying the agency for two more years' operation as a HUD Housing Counseling Agency. The reviewer found all required documents to validate practices are in keeping with Red Bud's investment & grant agreements, OMB Circular A-110, and HUD 24 CFR Part 92 in a non-statistical sample of lending, development and construction files. Leadership has enacted Whistleblowers and Document Retention & Destruction policies in accord with the Sarbanes-Oxley Act.

Improvement Opportunities & Recommendations in Contract Management

- Red Bud's partners report significant improvement in its compliance with grant contracts and regulations since the current executive director joined the organization in 2005. ***Red Bud is urged to maintain its current commitment to contract management and compliance, which has helped it strengthen relationships with its funding partners.***

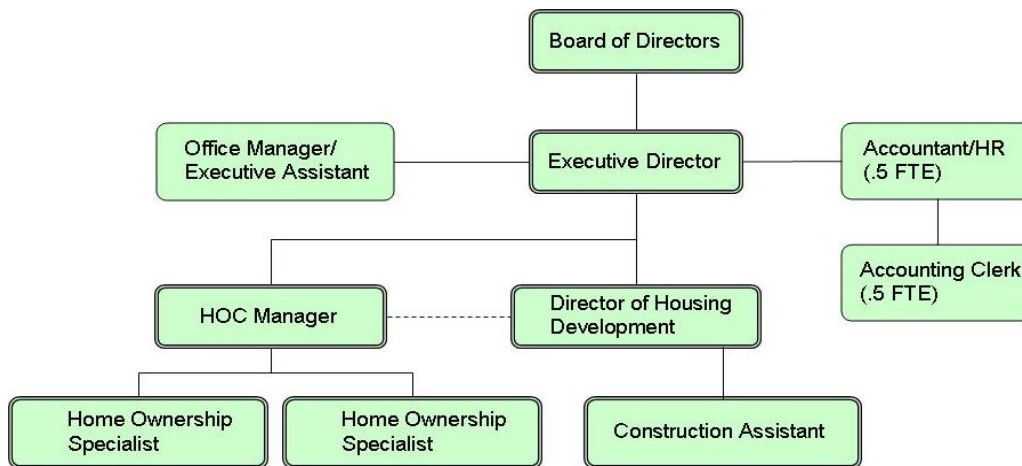
PERSONNEL MANAGEMENT

The **PERSONNEL MANAGEMENT** performance objectives are to ensure that the organization has a staffing structure and staff that are clearly defined and adequate to fulfill organizational, programmatic and financial responsibilities. Personnel and administrative policies and procedures are documented and practiced including annual staff evaluations. Staff and volunteer recruitment and training promote maximizing skills to support the strategic and business plan goals, while also encouraging coordination and collaboration. Staff management works in partnership with the Board of Director, and has commitment, a unified vision, and the ability to make decisions that affect the organization. Inadequate staffing and personnel practices can cause staff turnovers, ineffective performance and failure to meet goals.

General Observations

Red Bud has established and documented a staffing model with eight staff members (7.0 full time equivalents or FTEs) in a structure that clearly identifies its functional units, employee titles, and responsibilities and professional service agreements (e.g. for construction subcontractors) to fulfill the organization’s mission, program services, operating and partnership obligations. The organizational chart shown below meets Red Bud’s current needs. Management has teamed staff across units and used cross-training to achieve efficiencies and a seamless delivery of services. Staff members demonstrate an obvious mutual understanding of each other’s roles and commitment to collaboration. Red Bud’s current strategic plan does not indicate an interest in growing in a manner that would change the staffing structure by 2011.

Red Bud Organizational Chart



Current Capacity & Strengths in Personnel Management

- Staff members have an understanding, appreciation, and commitment to the organization’s mission and goals as evidenced in median staff tenure of 48 months and averaging 42 months.
- Red Bud has a sufficient number of skilled staff to support its current year operating and programmatic functions, pending hiring of a homeownership center manager.
- The organization has employed cross training to establish a staffing structure with the capacity and necessary skills and expertise to achieve sound performance and efficient service delivery against the organization’s mission and goals, as evidenced in 42 units of service (i.e. new home owners, new homes) per FTE.
- Red Bud’s staff development, meeting, information management systems, and practices promote cohesiveness and collaboration between departments and lend to team norms and integration across programs to achieve seamless delivery of services.
- Management has established and maintained performance management systems to effectively collaborate with staff to identify strengths and achieve performance improvements relative to organizational plans and goals.

- Management has established information-sharing processes including weekly full-staff and home ownership unit meetings that serve in tandem with project management software programs to facilitate timely task completion, coordinated activities, and decision making.

A comprehensive set of personnel policies reviewed and updated in January 2005 guide employment and management practices to provide clear direction for workplace practices including affirmative recruitment, employee ethics, performance management, promotions, compensation, benefits, disciplinary and grievance processes. A review of personnel files found performance management practices in accord with policies, including staff evaluations against 1) current job descriptions and preset goals for FY 2007 and 2) identification of performance and professional development goals as related to Red Bud's FY 2008 operating plan. Staff indicates that jobs are structured to include sufficient variety, autonomy, opportunities to make unique and meaningful contributions, and feedback and are inherently motivating as a result.

Improvement Opportunities & Recommendations in Personnel Management

- While Red Bud has been successful in retaining staff, several members mentioned that the organization offers little in the way of tangible benefits, aside from employee-contributed health insurance. *Red Bud should explore whether it is feasible to offer staff members additional benefits.*
- *Red Bud is encouraged to conduct a market study of compensation and benefits among comparable organizations. Its business and resource development plans should be revised on the basis of findings, with an aim of retaining valued staff and competing effectively in Central City's labor market.*

PRODUCTION/PROGRAM SERVICES

The **PRODUCTION/PROGRAM SERVICES** performance objectives are to ensure that the organization has selected and implemented services that meet all funding source requirements for type, eligibility, quantity, and quality. It also encourages the establishment and implementation of production goals and performance measures that are consistent with the organization's mission and capacity, and can demonstrate a value added to the organization and its service area. It further encourages an on-going process for measuring programmatic success, service delivery efficiency and the impact of its services. Activities and services that do not meet funding expectations or are beyond the organization's capacity can lead to wasted resources and lost support.

General Observations

Red Bud Housing Corp. has identified and implemented programs and services (lines of business) that are generally consistent with its mission and plans (community needs, partnership interests, funding source expectations, and established capacity). These include real estate development (construction) for rental and ownership opportunities, counseling to promote both new home ownership and ownership retention, and lending to assist prospective and existing home owners. The organization's programs and services represented nearly \$53 million invested for new homeownership in the Red Bud service area during FY's 2006 through 2008, a substantial figure for an organization of its size. Its counseling helped resolve loan delinquencies for many homeowners. And its development of new homes and management of rental properties offer affordable housing to a wide service area.

Current Capacity & Strengths in Production/Program Services

Red Bud Housing Corp. has developed core line-of-business competencies that produced sustained and stable services consistent with its operating and strategic plans. Through its services Red Bud achieves partnership expectations, delivering them efficiently. They maximize their resources to produce affordable housing and achieve community revitalization and customer satisfaction. Red Bud's reported investment of \$27.8 million for FY 2007 was 3.2 times the median for community development groups in the NeighborWorks[®] network; its investment of nearly \$36 for each dollar the agency spent in FY 2007 represents efficiencies seven times the network median.

Home Ownership Promotion – Red Bud offers an eight-hour homebuyers education program twice monthly in English and once in Spanish, supplemented with one-on-one counseling. Historically, the organization has relied on guest instructors to present and provide handouts, consistent with the Realizing the American Dream[®] curriculum. Now it proposes to move to staff-based instruction to assure consistent quality and minimize steering by presenters who may have a conflict of interest.

- Red Bud reported that they assisted 565 households in achieving home ownership, leading to \$53 million invested in the Central City MSA during the 2006 through 2008 fiscal years. Of 868 who graduated from Red Bud's home buyer education classes in FY 2006, the organization assisted 240 in achieving home ownership (27.7%). In the following year, graduates increased to 1016, with 289 becoming home owners (28.4%). Through three quarters of FY 2008, 475 graduated with 36 achieving home ownership in an increasingly difficult economic environment.
- Red Bud administered \$182,558 in forgivable or deferred down payment and closing cost (DPA/CC) assistance grants ranging from \$3,500 to \$10,000 to families with incomes at 80% MFI and less, in partnership with Central City. The organization reported an additional \$96,120 in DPA/CC grants made in outlying counties of the Central City MSA, in partnership with the State HFA. The agency reported additional capital of \$491,539 for assistance in Central City and \$303,240 in the outlying counties.
- At the time of NeighborWorks[®] America's review, Red Bud reported 17 amortized loans for rehab and down payment and closing cost (DPA/CC) assistance valued at \$181,835, of which

5 (29%) valued at \$50,928.81 (28% of principle balances) are declared inactive or delinquent greater than 90 days. Staff presented evidence of monthly contacts seeking collections, understanding that Red Bud is in a poor lien position to recover losses in the event of foreclosure. The organization holds no capital at this time for making amortized loans.

- Red Bud partners with a variety of mortgage lenders including national and regional lenders. They have been wise in working with several lenders to avoid becoming too dependent on one or two.

Home Ownership Preservation – Although mortgage foreclosure problems have not impacted the Central City area to the degree they have many other urban areas, concern has grown locally. Staff counseled 49 clients to resolve or prevent mortgage delinquencies of which 17 (35%) achieved a positive form of resolution per Red Bud's FY 2008 HUD 9902 report.

- Red Bud reported a pipeline of 40 National Foreclosure Mitigation Counseling (NFMC) clients from March through October 2008. Staff identified 24 households receiving level 1 counseling services (intake, budget counseling, and an action plan); nine receiving level 2 counseling (budget verification, intervention to achieve a workout, loan modification or other resolution, assistance with rescue funds or disposition of property), and seven (7) level 3 counseling for which level 1 and 2 services were completed in succession, against stated goals of 24 households all achieving level 3 through December 2008.
- It is not clear whether Red Bud's combined lending and counseling lines of business achieved sustainable cost recovery in 2007, relative to projected losses of (\$40,475). For FY 2008, Budget-to-actual statements for its lines of business indicate the combined programs exceeded budgeted revenues of \$204,000 by \$62,991 (+31% variance) while reporting \$134,826 against budgeted expenses of \$145,525 (-9% variance) to achieve net earnings of \$132,165.
- Red Bud recently was awarded \$322,500, including \$260,000 in capital funds, to assist 10 homeowners with owner occupied rehabilitation of their homes in the outlying counties of the Central City metro area.

Real Estate Development – Red Bud maintains a project pipeline that meets its targeted communities' housing needs by producing real estate projects characterized by good quality underwriting and project management.

- Red Bud completed seven and sold two single-family, new construction houses and sold two of three homes acquired and rehabbed for sale during its 2008 fiscal year. The organization has formed a partnership with Home Depot, resulting in material cost savings of 10% to 13% invested in eco-friendly materials, with savings passed on to its customers. Management reports that 45% of construction materials are selected for their low-maintenance and environmentally friendly properties.
- The new home product averaged 1,200 square feet and is priced at \$89,000 (\$74/sq. ft.) with added \$6,000 DPA; \$4000 FHLB fund assistance for families at 80% or less of median family income represents solid value to its low- to moderate-income customers.

- For FY ending June 30, 2008, Red Bud's director of housing development accounted for two (2) new single family homes constructed and sold in Central City with another five in completed in nearby Bellville, none sold to date (against unstated production goals). The director also accounted for completion and sale of two of three acquisition-rehab homes offered for sale. The agency is currently in negotiations to obtain site control of 15 lots to develop affordable single-family homes in its targeted Green Grove neighborhood in partnership with the City.
- Staff gives considerable focus to design and build homes with reduced maintenance costs, seeking energy efficiency and remaining sensitive to the surrounding environment. Features include insulation sheathing for the foundation slab to achieve energy efficiency, a method of pier and grade beam requiring less concrete; porous concrete for exterior concrete, sidewalks, and porches; smart framing to reduce lumber requirements and allow more space for insulation; use of Net & Blown insulation made of recycled material with superior insulating values; prefabricated (engineered lumber) cabinets and low VOC paint; low emission carpeting for floor covering; ceramic tiles and Hardi-Plank fiber-cement siding; fluorescent lighting and ENERGY STAR appliances (hot water tank, furnace, condensing unit, stove/oven, and exhaust vents).
- As the general contractor for some 12 new and rehab-for-sale project sites viewed during the review, Red Bud appears to succeed in securing good quality workmanship and materials while containing costs to provide a good return for the organization, its customers and the surrounding neighborhoods. While management maintains internal accounting for its project costs, its production reports do not account for such factors as the time required from site control or acquisition to sale, project earnings against estimated and total costs, and completion date against scheduled completion. This makes it difficult to determine whether projects are consistently delivered within budgeted costs and in a timely fashion. The period from acquisition to sale ranges from presales to as many as 34 months from property acquisition to achieving occupancy through a lease-buy contract.
- For FY 2008, the agency's budget-to-actual statements reported a shortfall of \$133,706 against projected operating revenues of \$206,250 (\$74,419 or -36%) for its construction line of business. The agency accounted for \$117,060 against budgeted expenses of \$114,287 (+2% variance) to achieve revenues over expenses of \$16,646.

Asset & Property Management – Red Bud is the co-general partner in two limited partnerships with ownership interests in seven (7) low income housing tax credit (LIHTC) properties. The multi-family properties comprise 417 units placed in service between 1998 and 2002, as distant as 150 miles from Central City (See Table 3). Six were developed in partnership with Higher Ground Properties (HGP) of Indianola, Texas, a developer and asset manager active in 12 states. HGP has subcontracted property management for five of the six properties to Peak Management, operator of a \$20 billion nation-wide portfolio of commercial properties. HGP recently contracted with Durant & Company of Central City in hopes of improving management of the 105-unit Ridgeview property in Travis.

Table 3: Red Bud Multi-family Property Performance

	Units	Cash Flow Per Unit		Vacancy/Collection Losses		Debt Service Coverage	
		2006	2008*	2006	2008*	2006	2008*
Sunrise Apartments, Central City	16	NAV	NAV	NAV	NAV	NA	NA
Lakeview, Rogers	30	NAV	NAV	NAV	NAV	NAV	0.94
Creekside Park, Creek	30	\$609	(\$231)	12.4%	23.3%	0.88	1.06
Jackson Square, Lincoln	30	\$570	(\$462)	58.1%	67.1%	0.00	-2.58
Twin Peaks, Powell	44	\$165	(\$29)	9.3%	15.5%	0.66	0.53
Ridgeview, Harrison	12	\$679	\$799	3.6%	11.2%	1.16	1.57
Steeple Hill, Garvin	155	\$101	(\$85)	7.0%	7.8%	1.14	1.78
Royal Court, Travis	105	\$44	\$26	11.3%	13.5%	1.11	1.39

* Projected for 12 months ended December 31, 2008 based on year-to-date financials. NAV = Not available; NA = Not applicable

Though Red Bud is exempt by contract from financial liabilities aside from its equity holdings, it holds a right-of-first-refusal to acquire the properties upon completion of their compliance periods. Red Bud is responsible for family support and self-sufficiency services, provided with exception of the Harrison property, in collaboration with the area’s Community Action Agencies. The agency reportedly has been accountable to the State HFA for its compliance obligations related to HUD affordability and HOME guidelines.

Red Bud also owns and operates a fee-simple, 16-unit historic Sunrise Court Apartments property consisting of minimally sized one, two and three bedroom units. The property is mortgage free near the end of a five-year affordable term and valued at \$597,605. The property reported unaudited losses of (\$10,414) at FY Ending June 30, 2008 after paying \$18,395 due Red Bud’s general operating fund. The agency reports \$25,000 held in reserve to meet pending capital improvements.

Red Bud’s position as co-general partner in two limited partnerships with ownership interests including a right of first refusal for seven LIHTC properties represents \$19.5 million in assets. Its partner status, along with ownership of a historic property in Central City, could become increasingly valuable to Red Bud, especially if it becomes more difficult to build new, affordable multi-family developments. External viewing of properties in Rogers, Creek, and Lincoln, and HUD/OHFA compliance reports indicate these properties have been kept in good order by its ERC Properties co-general partner and contracted property managers.

Improvement Opportunities & Recommendations in Production/Program Services

Asset & Property Management:

- The Jackson Square operation in the town of Lincoln is severely distressed. It is on track to suffer annualized vacancy and collection losses of nearly \$82,000 (77% of gross potential rent), a casualty of the community's failure to rebound from a catastrophic tornado in 2000. The property manager reports 10 (33%) units vacant; 10 of 20 occupied units leased in the past 12 months. Financial statements indicate vacancy losses are from two to four times industry standards at three additional properties, posing annualized shortfalls of another \$70,000. Properties in Rogers, Creek, and Powell have not achieved annual earnings sufficient to meet debt service and fund replacement reserves. ***While Red Bud's financial exposure is limited due to the provisions of the partnership agreement, it is in the organization's interest to fully utilize its management agreement responsibilities through its representatives on the general partnership board. Shorter term strategies would include focusing on limiting rent collection losses and assessing competitiveness of the property.***
- While Red Bud has limited long term financial exposure on many of its multi family properties, they have made HOME-funded commitments to the partnerships. ***By using their management capabilities through their representation on the general partnership board, Red Bud may be able to improve the financial performance of the properties.*** This should increase the value of the properties at year 15, resulting in greater likelihood of return of some HOME funds.
- Red Bud's executive director can be credited with taking a more active role to collaborate with its co-general partner to monitor its current and potential ownership responsibilities and interests. Yet, leadership does not account for its Multi-Family Asset & Property Management Line of Business within its Strategic and Business Plans, with the exception of the proposed sale of the Sunrise Court historic property, its proceeds are to be reinvested in single-family rental homes development. ***To ensure that it meets its asset and property ownership objectives and those of its funder/partners, Red Bud is urged to demonstrate ongoing investment and performance against an Asset & Property Management Plan incorporated in its FY 2010 Operating Plan.***

TECHNICAL OPERATING SYSTEMS

The **TECHNICAL OPERATING SYSTEMS** performance objectives are to ensure that the organization has implemented standard operating procedures and practices, and has maintained complete and orderly records that are consistent with corporate policies, legal and funding source requirements. It further encourages the development of service delivery and customer tracking systems and records that promote effective and efficient services. Periodic review of the procedures and records is encouraged to assess their consistent implementation and compliance with requirements. A lack of written program policies and procedures for major service areas can lead to inconsistent and unapproved service delivery and incomplete record keeping and reporting.

General Observations

Red Bud has established automated (computer-based) customer tracking, documentation, and reporting systems to support each line of business, meet funding source and partner expectations, and support management oversight. The agency has deployed customized Microsoft Outlook[®] programs with contact and project management functionality superior to NStep[®]. Consequently, the organization completes dual entries to report production to NeighborWorks[®] America. Staff has joint access to automated records, enabling it to maximize efficiency and coordination and conduct quality assurance to ensure completion of procedures and supporting documents required by policy, procedure, or regulation.

Current Capacity & Strengths in Technical Operating Systems

- Real Estate Development staff use Professional Home Design[®] and AutoCAD[®] programs for design, drafting, modeling, and architectural drawing. Housing Counseling and accounting staff use Calyx Point[®] software to manage loan origination; and Loan Base[®] software to manage loan collections. Staff is able to account for the current status of loans and produce real-time aging reports for its loan portfolios using the software. The agency taken noteworthy steps since the executive director's arrival in 2005, ensuring its lending, development, and construction files are guided by automated processing check lists and contain requisite regulatory documents.
- Red Bud has not institutionalized its Real Estate Development practices in the form of policies to guide such things as project and sight selection, deal making, construction, and marketing. The organization's loan management and servicing policies date back to 2003 and do not reflect its current products and services.
- Red Bud's use of Microsoft Office[®] Calendar software for project and contact management may constitute a best practice resulting in coordination and efficiencies among staff and reporting practices that maximize project management and oversight.

Improvement Opportunities & Recommendations in Technical Operating Systems

- ***Red Bud should establish a process for evaluating its service delivery policies, procedures, and practices periodically.*** This can assure they are in accord with mission, organizational changes, applicable regulations, and good business practices.
- ***Leadership and management will need to collaborate to review and update Red Bud's homeownership and lending policies and procedures by FYE June 30, 2009.*** Red Bud's loan management and servicing policies and procedures date back to 2003. They do not reflect current loan products (e.g. down payment assistance, disaster repair loans) and services.
- Real Estate Development (single-family home construction) projects currently are governed by HUD HOME regulatory policies and procedures versus board established policies and project selection criteria. ***Red Bud's leadership is urged to be active in evaluating and monitoring existing and prospective Real Estate Development and Asset & Property Management lines of business against written policies to inform its FY 2010 plans for these lines of business.***

CONCLUSION

The reviewer and OAD's internal team examined Red Bud against eight PROMPT™ performance objectives that included Planning, Resource Management, Organizational Oversight, Management (Financial/Contract/Personnel), Production/Program Services, and Technical Systems. These are the benchmarks that NeighborWorks® America typically uses as a tool to evaluate the performance of nonprofit organizations engaged in community development. Red Bud compares quite favorable with similar organizations in the categories of Resource Management, Contract Management, Personnel Management, and Production/Program Services. We congratulate your achievements.

The review noted several areas wherein Red Bud has opportunities to achieve higher levels of performance. Most notably among these, Red Bud needs to:

- 1) Establish and commission committees to provide input into the agency's FY 2010 plans; active leadership and oversight for critical internal operations and line-of-business functions [e.g. Finance, Resource/Fund Development, Real Estate Development/Construction Management (a.k.a. Community Development Construction), and Home Ownership/Lending Committees;
- 2) Establish a concrete succession plan with options to recruit and sustain leadership at the Executive, Board and staff levels;
- 3) Adopt activity-based accounting methods or otherwise properly allocate staff time and expense to programs and services versus general and administrative costs;
- 4) Assume a more active role to regularly monitor the performance of Red Bud's LIHTC partnership properties;
- 5) Ensure that Red Bud's programs and practices are evaluated and monitored against current, Board approved policies and procedures for its Real Estate Development, Asset & Property Management, Housing Counseling and Lending lines of business; and
- 6) Fully utilize management agreement responsibilities through the general partnership board so Red Bud can have greater influence on asset and property management, especially regarding distressed properties.

All these issues are within the capacity of the Red Bud to resolve effectively, most in the near term. Nevertheless several of Red Bud's community partners expressed interest in acting as resources regarding each of these issues.

APPENDICES

Assessment reports typically have different types of appendices. Likely appendices are:

Interviews Conducted (For the Red Bud review, those interviews would have included): Board members, including the president and treasurer; Red Bud staff leadership and other staff members; state and federal housing officials; lenders; representatives of local consumer counseling agencies; real estate agents and property managers; residents of Red Bud properties; and homeownership clients.

Documents Reviewed (from the organization)

Site Reviews Conducted

Other Documents potentially requested by clients for capacity building purposes: examples include management or policy manuals, sample contracts, best practice descriptions, and technical assistance provider information.

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The sample report is posted on the nw.org/oas webpage along with other documents describing NeighborWorks® Organizational Assessment Services. For much more information about NeighborWorks® America, including the NeighborWorks® Training Institute and Success Measures Data System, please see our website, nw.org.

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