2018

Exploring Mergers/Asset Transfers in the Non-Profit Housing Sector

BC HOUSING

BCNPHA

BC Non-Profit Housing Association

This report has been adapted from its original version, which was researched and prepared by CitySpaces Consulting Ltd in 2015.

Introduction

The purpose of this study was to identify models of mergers in the non-profit housing sector, and share findings with organizations interested in exploring a merger.

Context

The non-profit housing sector in British Columbia and across Canada has experienced major changes in recent years. One of the challenges includes the expiry of operating agreements. Across Canada, a significant number of social housing projects will face expiry of their operating agreements as their mortgages mature. In BC, expiring operating agreements are expected to affect upwards of 29,000 units by 2030.

A widespread concern for expiring operating agreements is that some societies may not be financially viable to continue operating without a government subsidy. Preliminary studies have indicated that non-viable housing projects may result in a loss of affordable housing units and negatively affect the capacity of the non-profit sector to deliver affordable housing to vulnerable populations.

In response to this situation, BC Non-Profit Housing Association (BCNPHA) and BC Housing have led several research initiatives to identify potential tools to assist societies with transitioning through the end of their agreements. This study explores the option of mergers.

What is a Merger?

A Merger (also known as “asset transfer”) is a process where assets are legally transferred from one owner to another. This process typically involves one society acquiring the assets, debts, liabilities and contracts of another society. In the non-profit housing sector, this includes transferring portfolios, operating agreements and contracts.

Mergers commonly occur in the private sector and are, perhaps, less commonly observed in the non-profit sector. However, this is changing, as many non-profit societies perceive mergers as an opportunity to address operational and financial issues within their organization.

In BC, there are few examples of non-profit mergers, and even fewer examples of housing society mergers. As such, a primary objective of this study was to identify examples of non-profit housing society mergers and learn about the benefits, risks and key steps in pursuing such initiatives.

Purpose of this briefing paper

BCNPHA and BC Housing initiated this research on mergers in the non-profit housing sector. They retained CitySpaces Consulting to undertake the research, primarily consisting of interviews with non-profit organizations that have experienced or attempted a merger arrangement.

The interviews were designed to gain insights and lessons learned on the process, benefits and challenges of mergers and shared services, and to identify examples of mergers in the non-profit housing sector. This briefing paper highlights the findings from these interviews. A full list of study participants can be found in Appendix A. Note: Select components of this briefing paper are written generally, and do not specifically refer to named organizations to respect privacy requests.

Mergers

This report includes two parts. The first part provides case studies of three organizations that completed a merger. The second part identifies reasons for undertaking a merger, benefits, risks, and key steps to implement this approach.

Mergers - Case Study Profiles

Profile 1: Lookout Housing & Health Society Merges with Keys Housing and Health Solutions

Two non-profit housing societies, Lookout Housing & Health Society ("Lookout") and Keys Housing and Health Solutions ("Keys"), merged in 2014. The process of exploring and pursuing the merger is summarized below.

The Vision Started with Succession Planning

The Executive Director for Lookout, Karen O'Shannacery, planned for retirement, and the Board of Directors initiated an executive search to replace her leadership. The nation-wide search resulted in the recruitment of Shayne Williams, Executive Director of Keys. After his recruitment, a priority was identified to evaluate the potential of an eventual merger between Lookout and Keys through leadership change and collaboration – an opportunity that would benefit both organizations.

During the exploration process, Board members of both Lookout and Keys held independent discussions regarding the opportunity for Keys to transition to Lookout. These discussions included the potential for significant growth and capacity building that would better serve vulnerable populations throughout the region. Ultimately, a merger was seen as an opportunity that would have a positive regional impact within the social services sector.

As part of the recruitment process, Mr. Williams toured Lookout facilities with Ms. O'Shannacery, learning about Lookout's sites and programs. Then, as the incoming Executive Director of Lookout, he spent a short period of overlap and shadowed outgoing Executive Director, Ms. O'Shannacery. They found that both societies held similar visions and mandates; their clientele were alike and common service needs existed.

Preliminary Opportunity Review and Establishing a Process

Mr. Williams and Ms. O'Shannacery conducted a SWOT analysis on the potential merger and, together, presented the SWOT analysis to the Lookout Board. The Board's initial response was concern for the potential workload involved in the merger at the same time as rapid organizational changes and leadership transition. The anticipated benefits were presented to the Board. These included gaining talent, physical assets and social infrastructure, and the opportunity for Lookout to pursue accreditation through leveraging the accreditation standards and performance quality previously implemented by Keys. The Keys board undertook a parallel process, which also indicated positive outcomes.

Both Boards independently acknowledged the benefits and endorsed next steps. Subsequently, a plan was outlined for Lookout and Keys to jointly explore a potential merger. An agreement was made between Lookout and Keys to undertake the merger exploration process.

Implementing a Due Diligence Review

Two due diligence committees were established: one committee included Lookout Board members, and the other included Keys Board members. Each committee prepared due diligence reports to examine whether the potential merger would be a feasible and positive change for the organizations as well as the communities they serve. Members of the due diligence committees were selected with those who were opposed and those in support of the merger. This approach ensured that an equal balance of concerns and opportunities were discussed and debated.

The respective due diligence committees assessed risks and benefits of the merger. This included evaluating risks of not pursuing the merger. Other aspects of the due diligence reports included a review of portfolios, contract requirements, covenants on title, building assessments, liabilities, expiring agreements, financial statements, bank account information and human resource grievances. Information related to suppliers, insurance, leases and mortgages was compiled. Insights into potential community impacts, as well as risks to communities served, were also included.

Communications with staff was integrated into the due diligence review through a series of online surveys. Over one-third of Lookout staff responded to the survey (+100 employees). A large number of the questions were open-ended, resulting in robust staff feedback. Concerns expressed in the surveys were reviewed by the due diligence committee.

In addition to the survey, Mr. Williams spent time on 30 front line shifts throughout the portfolio, including shelters, housing, drop in and outreach, in order to engage one-on-one with staff to build relationships (as part of succession planning) as well as to learn more about staff concerns regarding the current operations and what could be addressed through the merger.

Lookout also engaged their Client Advisory Committee to obtain feedback on the merger, which was informed about the merger at the same time as staff and before the merger was shared with the broader public.

Once the committees completed the due diligence reports, committee members and executives from Lookout and Keys met and exchanged due diligence reports to review. The exchange was followed by a period of questions and clarifications between committees and executives.

> ***"Each committee prepared due diligence reports to ensure the potential merger would be a feasible and positive change for the organizations, as well as the communities they serve"***

Findings from the due diligence review process revealed that both Keys and Lookout were in good financial standing, which further made the merger attractive to both. The due diligence reports highlighted how the respective organizations' service delivery could improve if merged. The reports also outlined the benefits of improved economies of scale.

The reports revealed challenges as well, such as low morale among Lookout staff. However, committee members and executives perceived the merger as an opportunity to improve human resources with a new approach to people management and employee engagement.

The two due diligence committees presented their opinions to their respective Boards, including the overall risks, benefits and opportunities of the merger. Several progress update meetings were held with respective Boards to address questions and concerns. There were also in-camera Board meetings to discuss the merger. Based on the due diligence reports and subsequent communications, the Lookout committee made a recommendation to its Board, and Keys committee made a recommendation to its Board, to endorse an official merger. Ultimately, the decision to merge was Board-driven, and motions to proceed were supported by both Boards.

Merging

Following the Board motions to proceed, a simple 10-point Memorandum of Understanding was prepared between the two organizations. The MoU outlined work required for the merger, including internal tasks as well as expertise needed from outside professionals (i.e. auditors, lawyers). The MoU was approved by both Boards with both Presidents and both Executive Directors signing the agreement.

A merger timeline was established by the due diligence committees with the plan to be unfolded in two phases: (i) preparation of a detailed plan for a smooth transition (specific action plan with task assignments, communications plan, etc.) leading up to the official merger (paperwork) that would occur on December 1st, 2014; and, (ii) the operational merger (staff transitions from Keys to Lookout, union negotiations, merging of financial and payroll systems, legal notifications to Keys funders/banks/contractors legal windup of Keys, and so on) in the months that followed. It was estimated that the organizational merger would take approximately one year to be fully completed.

The merger was resource intensive and involved all branches of Lookout's organization. The workload demand led to Lookout carrying an extra director position to assist with the transition, particularly through the accreditation component.

The merger changed the composition of Lookout. Adding to its 181 emergency shelter beds, 166 transitional housing units, 586 supportive housing units, 5 outreach teams and 1 drop in centre, Lookout gained significant social infrastructure and human capital from merging with Keys. This included acquiring a 40-bed emergency shelter, 6 independent units for persons with disabilities, 11 addiction recovery beds, low-cost dental care clinic, free medical clinic, high-protein food bank, community farm and a drop-in centre specifically for people living with HIV.

One of the key components of the MoU was to create an operational project plan, which involved harmonizing portfolios. This included financing and centralized purchasing.

As the due diligence committees moved through the MoU and work plan, inherent issues were identified. One issue involved privacy laws and identifiers of clients. Lookout used Homeless Individuals and Families Information Systems (HIFIS) and Keys used the Homelessness Services System database (HSS). Integrating the different databases continues to be a challenge that Lookout is working on.

The standardization of program services was identified as an important step, especially with the goal to meet the requirements of accreditation. However, harmonization was challenging, particularly with respect to potential impacts on staff, clients, and organizational culture.

Another major challenge was encountered in human resources where staff was represented by two different unions, each with a different collective agreement. Both unions had to meet and discuss a potential solution for their union members. The unions and Labour Relations Board presented a plan to Lookout on how to proceed, which included a pay increase of an average of 18% to employees merging from Keys into Lookout. The pay increase was an unforeseen cost and financial challenge, and one that initially major funders did not fully support.

During the merger, there was minimal disruption to tenants. Some new policies, as a result of the merger, were met with celebration. For example, pets were not permitted at Keys facilities but were permitted at Lookout facilities. Following the merger, pets are now permitted at all Lookout (including former Keys) facilities. Other best practices and policies from both societies were reviewed and adopted. This includes an improved referral system where staff can refer more clients to communities where they are from. All Keys Board members were invited to be a part of the Lookout Board post-merger. In total, four Board members transferred from Keys to Lookout, which has resulted in good regional representation.

> ***"During the merger, there was minimal disruption to tenants. Some new policies, as a result of the merger, were met with celebration"***

Continuing the Vision

Following the official merger, the first task of the merged organization ("Lookout") was to prepare a new Strategic Plan. The Strategic Plan was released on April 30, 2015, reaffirming the mandate and direction of Lookout. The Strategic Plan was communicated to the broader community, stakeholders, funders and municipalities.

It is anticipated that Lookout will operate at optimal service delivery by the summer of 2016.

Advice to Other Non-Profit Housing Societies Considering a Merger

Front end work is the most important.

- Identify how a merger will better serve communities, and what specifically organizations have to bring to the table that can, collectively, improve service delivery.
- If each organization has a different future vision, then you won't get where you want to be.
- Select a due diligence committee from the Board to do the work, and then report to the Board.
- The due diligence process is critical.

Words to the Sector

- Expect more mergers to happen in the future.
- Economies of scale is an important consideration for today given the limited funding availability for the non-profit sector.
- Mr. Williams is willing to assist other Executive or Board-to-Board conversations of potential mergers.

Profile 2: Nanaimo Affordable Housing Society Acquires General George R. Pearkes Seniors Housing Society

Nanaimo Affordable Housing Society (NAHS) acquired the General George R. Pearkes Seniors Housing Society (GGRP) in 2014. The process of exploring and pursuing the acquisition is summarized below.

Context

The Nanaimo Affordable Housing Society (NAHS) is a non-profit housing provider that serves a wide range of client groups within the City of Nanaimo. With a portfolio size of 160 units (nearing 200 units pending completion of a project currently in construction), the society was presented with an opportunity to grow and build capacity by acquiring an existing housing complex managed by the General George R. Pearkes Seniors Society (GGRP).

In 2014, the NAHS Executive Director, Jim Spinelli, was approached by leadership from the GGRP to discuss the future GGRP seniors housing complex. Specifically, leadership was inquiring about the opportunity for NAHS to acquire GGRP under their portfolio - essentially merging organizations, with NAHS assuming all contracts and operational responsibility.

The GGRP is a non-subsidized 82 unit/16 building seniors housing complex in Nanaimo, with onsite support services subsidized by BC Housing. The facility was originally built in 1969. Recently, BC Housing spent $1.7 million on renovations, and the buildings appear viable in the short-term.

Leadership from the GGRP participated in a series of conversations with Mr. Spinelli about the current state of the GGRP, including management and operational issues, as well as opportunities. A major challenge described by the GGRP was how their Board had not yet initiated planning for succession.

Organizational and governance challenges were the main factors for GGRP to initiate the conversation with NAHS for a potential merger - specifically, to improve the structure and service delivery of GGRP. The merger would also prove to be strategic and positive for the NAHS.

Process

Mr. Spinelli participated in a series of conversations with the GGRP Board to gain a full understanding of the situation and the potential opportunity to merge. The support from Mr. Spinelli was identified early, including helping to prepare motions and guide decision-making towards the potential merger. The ultimate decision for the GGRP society to dissolve was the GGRP Board, which resulted in a motion to proceed with the merger.

> ***The GGRP Board President was experiencing organizational challenges and happened to read an article featuring Mr. Spinelli who said that the City of Nanaimo needs more affordable seniors housing and NAHS was looking for property. This initiated the GGRP Board President to approach NAHS on an opportunity to potentially transfer assets***.

Following the decision to merge, a strategy to engage various groups on the transition was prepared. Special members meetings were held to discuss the transition. Meetings were also held with GGRP tenants to communicate change in management and operations. Through dialogue, Mr. Spinelli identified opportunities to improve service delivery and management of GGRP. This included changes to allow GGRP tenants to have free laundry. A tenant centred philosophy and one-on-one interaction with tenants helped reduce tenant concerns during the transition.

NAHS officially acquired GGRP on October 1st, 2014. Once the merger occurred, an observational transition followed. There were no changes implemented during the first six months following the transition. The purpose of the observation period was to build relationships with tenants and staff, and obtain a solid understanding of the seniors housing complex, associated community, policies, and operations.

Functional control and changes to GGRP operations and management took place in April 2015 - six months after the merger. Engaging with outside expertise was required to assist in the transition. This included engaging a lawyer to help with documentation. NAHS mandate and Bylaws were now applied to the GGRP. Overall, the policy work transition took one year to complete. Changes to the constitution are still in progress.

NAHS originally included three employees and increased to ten new employees as a result of the merger. This significant growth in employees required major changes to the organization and structure for the NAHS as a whole. A Human Resources consultant was essential to facilitate this process. The Human Resources consultant helped with rewriting staff job descriptions and assisting with organizational and structural changes of the Board and staff. A significant amount of human resources policy work was required towards creating a respectful workplace, adjusting compensation levels, establishing several new employee accounts, aligning with provincial standards (i.e. WCB), and establishing processes to manage many more members of staff. The Human Resources Consultant continued to support NAHS and is now a member of the NAHS Board.

Responding to staff issues was a top priority of the merger. Staff of GGRP had compensation improvements, including increasing salaries and benefits. These directions were perceived as positive changes.

Through improved capacity and resources, NAHS was able to create a new property management position. Originally hired to manage one property, the property manager now manages all buildings in the NAHS portfolio. This change is an improvement to operational efficiencies.

Instances of friction occurred between the NAHS and GGRP, primarily due to not supporting new directions and proposed changes of management and operations. However, GGRP was relieved when the merger decision was approved as it meant that the seniors housing would be retained as affordable housing stock in Nanaimo.

A Door to Other Opportunities

One of the driving factors of NAHS's decision to acquire the GGRP was the potential benefits for the NAHS organization as a whole. In particular, underutilized services available at the senior's complex could be leveraged and utilized in other parts of the NAHS portfolio. For example, GGRP had staff consisting of administration, housekeepers, activities coordinator and cook/manager of food services. These personnel now contribute to other projects in NAHS portfolio, providing improved service delivery and operational efficiencies.

The NAHS also saw the merger as an investment - specifically, a potential opportunity for redevelopment. The GGRP is situated on an underutilized 8 acre site, and could achieve a higher density through redevelopment. Acquiring the GGRP provides an opportunity to redevelop in the future, potentially through partnerships with the private sector. NAHS has been transparent about the opportunity for redevelopment and densification of the GGRP.

The NAHS is looking forward to the future and building the capacity of NAHS. Their initial goal was to have 200 units, and at the time of publication they have surpassed 300. Now the goal is to have 1,000 units to address their applicant waiting list. Acquiring assets will allow the organization to grow. Since the merger with GGRP, the NAHS has been approached by a private developer about potential collaboration. The merger has created new opportunities. The NAHS has more people in place to make important connections, including managers, and has a new organizational structure.

Process Summary

Through the experience of NAHS, advice for a typical process to acquire an affordable housing site would be to:

- ***Have early/preliminary conversations.***
- ***Have the Executive Director attend board meetings.***
- ***Allow for a six-month transition period where no changes are implemented.***
- ***Implement the functional transition after six months.***
- ***Facilitate tenant meetings and meetings with staff.***
- ***Change Bylaws and mandates first, followed by other improvements such as programs.***
- ***Leverage the acquired capacity for other parts of the housing portfolio.***

Profile 3: WoodGreen Community Services

WoodGreen Community Services is a multi-service agency located in Toronto. The agency provides affordable housing to a wide range of populations, including seniors, families, and people experiencing homelessness. In total, WoodGreen has 750 units across nine housing projects, under various models including rent geared to income (RGI) and rent supplements.

Over the years, WoodGreen has pursued several mergers. One recent example was initiated by another non-profit housing society. The society was experiencing challenges recruiting board members and an Executive Director. The unsuccessful recruitment absorbed energy and capacity of the organization and ultimately led to pursuing an alternative approach. The society approached WoodGreen to acquire their assets in an attempt to retain affordable housing units in the community.

The two organizations found that their mandates were compatible. Seniors were the primary client group of the disbanding society, which aligned with WoodGreens' services. The service location was also compatible.

As a starting point, WoodGreen implemented a due diligence process to identify any liabilities, outstanding human resource issues and other unresolved organizational issues within the disbanding society. WoodGreen also conducted building condition assessments of the properties they intended to acquire.

A merger agreement was created, which included provisions that staff from the disbanding society would be retained by WoodGreen. The agreement further described that the disbanding society staff would take on new roles where duplications occurred. However, new roles were not found for everyone and duplications were present until staff turned over. This resulted in temporary organizational inefficiencies, but allowed for strategic hiring thereafter.

WoodGreen adjusted salaries of incoming staff in order to harmonize new staff with WoodGreen's compensation policy. This resulted in salary increases for all incoming staff.

WoodGreen's past experience prepared them for the challenges of this particular merger, and they initiated the following actions:

- Implemented a Communications Strategy, which included direct engagement with staff and clients and hosting several town hall meetings to engage the broader public and stakeholders.
- Hired a Change Management Consultant to assist WoodGreen with transitioning incoming staff and other challenges related to human resource and organizational culture.
- Engaged a Lawyer, to assist with the legal aspects of the transition.

Although the transition was challenging, there were many benefits to merging. WooodGreens' services and programs grew and improved, and operations became more efficient. WoodGreen found their organization was more attractive and better positioned to obtain funding and financing due to increased organizational capacity and stability.

WoodGreen has developed a Strategy Toolkit to assist other organizations interested in merging. The Strategy Toolkit provides key steps that WoodGreen follows in a merger process and suggestions for other groups in similar circumstances. The Strategy Toolkit can be downloaded here:
http://woodgreen.org/Portals/0/PDFs/An%20integration%20toolkit%20for%20community%20based%20health%20service%20providers.pdf

Mergers in the Non-Profit Housing Sector – Overview and Strategies for Success

A merger usually involves transferring the property, debt, liabilities and contracts from one owner to another. In the housing sector, mergers involve transferring assets such as portfolios and operating agreements.

Societies take on one of two roles during a merger:

- **Acquiring Society**: Means the society that is the receiver or benefit of the merger, receiving assets from a disbanding society. The acquiring society typically has the capacity and resources to acquire assets from another organization, including financial resources to pay for upfront costs of merging. Organizations that are well-run and in good financial standing make ideal candidates to acquire assets.

- **Disbanding Society**: Means the society that is relieved of its operations, and “let’s go” of its assets to an acquiring society. The disbanding society is typically faced with an organizational or financial crisis that is challenging to resolve or is insurmountable. A society that will not be viable post expiry of operating agreement and with limited options to improve its situation is an example of a society that may consider disbanding.

Most mergers in the non-profit sector fall into the roles described above, where assets are transferred from a disbanding society to an acquiring society. In rare cases, however, a new entity can be created where assets from both societies are transferred to the new entity.

The acquiring society usually experiences an increased capacity to deliver services as a result of adding units to its portfolio, as well as bringing in staff and other organizational resources from the disbanding society. The society “letting go” is disbanded, including dissolving its Board of Directors. In some cases, some or all Board Members from the disbanded society are invited to join the Board of the acquiring society. In cases where an entirely new entity is created, Board Members from all organizations may form a Board for the new entity.

Fundamentally, a merger is a deliberate strategy to address or improve a range of organizational and/or financial challenges experienced by one or all housing societies involved. Inherently, as much as mergers are a transaction of assets, they are equally a transaction of organizational culture, values and vision.

Why Merge

Mergers may be initiated for many reasons, often arising from unique organizational circumstances. From this study, a common reason involved one housing society experiencing financial hardships with limited options to remain viable. In some of these cases, operating agreements and rent structures limited the society’s ability to increase rents enough to cover operating costs. A merger was viewed as an option to alleviate monthly revenue loss without compromising affordable rental rates.

Another common reason for a merger was the condition of a society’s housing portfolio and the amount of funds saved in its replacement reserve. Societies that have not allocated sufficient funds to their replacement reserve prior to the expiry of their operating agreement may be challenged to maintain and upgrade their aging housing portfolio. Societies in this situation may no longer be viable post-expiry. Merging with another housing society that has the capacity, replacement reserves and access to capital or financing was identified as an option to address the financial challenges faced by societies with limited reserves and anticipated upgrades.

Non-financial organizational challenges may also provide reasons to merge. From this study, a common challenge was aging and retiring board members and difficulty recruiting new board members. This has led to institutional memory loss and decreased capacity for a society to make decisions and plan for the future. Some housing societies in this situation approached other housing societies to explore the opportunity to merge.

Similarly, housing societies encountering human resource changes may experience difficulty with recruiting new staff, especially at the executive level. Replacing longstanding Executive Directors are “big shoes to fill” and their exit can have a significant impact on the organizations’ leadership, institutional memory and record keeping. Succession planning for these transitions is rare in the non-profit sector, especially for small societies. Societies that have not planned a staff transition or experience difficulty with recruiting may initiate a merger with another housing society to alleviate their human resource issues.

Financial and organizational challenges can lead to non-profit housing societies no longer being viable. Non-viable housing societies are at risk of needing to convert to market housing in order to generate revenue. Conversion can be in conflict with organizational mandates to provide affordable housing. A merger may be an appropriate response to non-profit housing societies in this situation.

Merger Benefits

There are many benefits to non-profit housing societies merging. The disbanding society benefits from being relieved of ongoing operations, with a positive outcome of securing their affordable housing portfolio by another society. Mergers can help prevent the conversion of affordable housing units into market housing by transferring assets from a non-viable housing society to a viable housing society, thereby retaining units as affordable for low-income tenants and the community.

From this study, common merger benefits to housing societies acquiring assets include:

- **Increased Organizational Capacity**: Housing societies grow larger from mergers by inheriting a portfolio and property, staff (including specialized expertise), resources and equipment. This growth increases the society's organizational capacity, including capacity to be strategic and innovative. Increased capacity sets the stage for connecting to previously "out of reach" opportunities such as attracting and retaining talented employees, securing funding, forming partnerships and becoming involved in special projects. Larger societies can build their asset base to support borrowing, making them more attractive to lenders and financing deals. This is important for non-profit housing societies aspiring to develop new affordable housing projects in the future.
- **Improved Economies of Scale**: As housing societies grow, they are in a better position to achieve economies of scale because of improved operational efficiencies. Streamlined processes can also be achieved – as well as opportunities for portfolio planning and cross-subsidizing within a portfolio. In cases where market units are acquired from the merger, societies can generate additional revenue and improve cash flow. The consistent revenue improves the society's long-term viability.
- **Wide Reaching Social Impact**: Advantages of increased organizational capacity and improved economies of scale include the ability for a society to make a bigger, broader social impact. This can improve the non-profit sector's overall capacity to deliver services with a better return on social investment.

The benefits of mergers to non-profit housing societies range widely, but ultimately can create a sustainable business model for societies to better serve communities and vulnerable populations.

Merger Risks

There are risks associated with non-profit housing societies pursuing a merger with another society. These risks are most often experienced by the acquiring society, including:

- **Upfront Financial Costs**: Acquiring societies often undertake a comprehensive due diligence review prior to acquiring assets from another society. This tends to include paying for studies, such as building assessments, and hiring experts, such as lawyers. Other costs are incurred upon transfer, such as adjusting salaries for incoming staff, and upgrading acquired units or buildings where maintenance has been deferred. Throughout the merger process, acquiring societies dedicate a significant amount of staff time to the merger process which takes their attention away from other organizational duties.
- **Adjusting to Change:** Mergers often result in organizational growth for the acquiring society. Becoming larger can complicate the work environment and change the way services are delivered. It takes time to adjust to growth and respond to the changing needs of staff, tenants and the community. As part of this change, the acquiring society is often managing new staff from the disbanding society, as well as addressing staffing

duplication and turnover. Duplication at the executive level can lead to initial organizational inefficiencies and conflicting vision and leadership. Organizational restructuring is common post-merger, but is limited to the Employment Standards Act.

- **Public Perception and Relations**: Various groups, including staff, tenants and community stakeholders, may express concern over the implications that a potential merger will have on a beloved non-profit housing society and/or particular housing project. Misinformation can quickly spread if not addressed early in the merger process. Implementing a communications strategy and consultation plan can alleviate some of the concern and mitigate issues identified by the community. Consultation can involve significant time and resources to implement.

Key Steps

There are six key steps to mergers, each of which is described below.

(1) Preparing the Groundwork

As a starting point, non-profit housing societies interested in pursuing a merger can prepare documents that can later support a business case to merge. These will be essential to the due diligence review.

- **Prepare an Organizational Strategic Plan**: A strategic plan should identify the society's vision and long-term goals. This can include a checklist of values that can be referenced when evaluating potential merger partners. As part of the plan, map the organizational structure including staff positions, responsibilities and reporting structure. This information will help aid discussions on potential organizational restructuring, if required.
- **Prepare Financial Statements**: Document cash flow for the housing portfolio and identify unit vacancies or other gaps in revenue streams. Document long-term capital needs and status of replacement reserve funds. Identify any shortfalls in current or future funding.
- **Resolve Outstanding Organizational Issues**: Address organizational issues prior to pursuing a merger. This can include human resource issues, grievances and office conflicts.

(2) Identifying an Approach

There is more than one approach to merging, depending on the unique circumstances and aspirations of the non-profit housing societies involved.

- **Option 1 Temporary Management Towards Eventual Merger**: This approach involves a non-profit housing society intervening and temporarily managing a portfolio of another society, with an arrangement to eventually acquire the portfolio. This approach typically occurs when one non-profit housing society experiences organizational and financial challenges and is in need of immediate assistance with managing their portfolio. It is a fast-tracked approach to merging that carries additional risks, such as limited time for due diligence, but may be necessary in urgent situations.
- **Option 2 - Issue a Request for Proposal**: This approach involves issuing a request for proposal (RFP), inviting non-profit housing societies to bid on acquiring the assets of another society that is experiencing difficulty. The RFP can be initiated by the non-profit housing society in need, or initiated by the contract entity (i.e. BC Housing). This approach works well for societies that do not have established relationships with other societies and require assistance.
- **Option 3 Approach an Organization**: This approach may be initiated when a non-profit housing society already has an established relationship with another society and has a

good indication that a merger is possible. An informal discussion to potentially merge is often initiated first, followed by more detailed and formal meetings.

- **Option 4 - Referral**: A non-profit housing society experiencing difficulty remaining viable may be referred to another non-profit housing society that could potentially take over operations. Referrals are typically provided by the contract entity (i.e. BC Housing) or by the member association (i.e. BCNPHA).

(3) Aligning with Compatible Organizations

For each merger approach, the key objective is to align with a compatible non-profit housing society. Compatibility is largely measured by:

- **Similar Clients**: Specialized resources and staff, building design and programming, processes and protocols are largely shaped by client needs. Non-profit housing societies that have the same or similar clients are more compatible to merge.
- **Shared Values**: Each non-profit housing society has an organizational mandate and distinct approach to delivering services. It is important that values match in order to move forward together on a potential merger.

  Once a compatible non-profit housing society has been identified, and all organizations agree to explore the opportunity of a merger, the next step is to prepare a process agreement.

- **Process Agreement**: This agreement outlines the process and conditions for all involved non-profit housing societies to follow while exploring the option to merge. The process agreement should include privacy protection clauses, with an option not to pursue a merger should it not be favourable for one or all organizations involved.

(4) Undertaking a Due Diligence Review

Exploring the opportunity to merge with a compatible organization involves research, reviewing documents, analyzing risks and participating in meetings. Assigning team members to undertake this work is a key starting point.

- **Establish a Due Diligence Committee**: A due diligence committee should include internal staff members to evaluate the benefits and risks associated with the merger. Each non-profit housing society can have its own committee; however, some disbanding societies looking to be acquired may not have the capacity to dedicate staff time for this review. In these cases, the acquiring society undertakes the majority of the due diligence review.
- **Assess Building Conditions**: The acquiring society's due diligence committee should review the condition of buildings under the disbanding society's portfolio. The acquiring society may undertake building condition assessments if none currently exist. The committee should document properties with deferred maintenance and the potential cost to upgrade.
- **Assess Social Conditions**: The acquiring society's due diligence committee should review the social conditions of the disbanding society's portfolio. This includes evaluating units to see if they meet the needs of tenants, and identify any social issues that should be resolved as part of the merger.
- **Assess Financial Conditions**: The acquiring society's due diligence committee should review the financial status of the disbanding society. This includes cash flow, current financial obligations and debt, capital plan and replacement reserve funds. In cases where this information is not readily available, the acquiring society would need to investigate further, possibly hiring a financial consultant to evaluate the financial risks.

Other financial analysis should include documenting costs of merging such as legal fees and harmonizing salaries of incoming staff.

- **Assess Organizational Conditions**: The acquiring society's due diligence committee should review the organizational structure of the disbanding society. This includes the roles and responsibilities of staff members and status of board members. Identify potential duplication of staff, executives and board members. In cases where societies have different unions, engaging unions and possibly the Labour Relations Board will be required.
- **Obtain Legal Counsel**: There are several legal implications to mergers, outlined in this study's Companion Report: Legal Issues Relative to Potential Options of Expiring Operating Agreements. The due diligence committee should consider any legal challenges identified by their Counsel.
- **Prepare a Business Case**: The business case should provide a summary of the due diligence review and recommendations on pursuing or withdrawing from the merger process. The business case should clearly outline the benefits, risks and anticipated outcomes of the potential merger. Ideally, the business case should include forecasts on how the acquiring society could perform post-merger, and how the merger would benefit clients/tenants and the broader community.
  The business case should be shared with all non-profit housing societies involved in the merger. The due diligence committee should share the business case with its Board and receive direction on next steps. This may involve a series of discussions between the due diligence committee, executives and the Board, including follow-up risk and cost-benefit analysis. The non-profit housing societies involved may benefit from bringing in a professional facilitator to help guide discussions towards making a decision to merge.

(5) Creating and Implementing a Merger Plan

Should the opportunity to merge prove favourable and all non-profit housing societies involved agree to merge, the next step is to create a merger plan and assign a team to implement tasks required to officially merge.

- **Prepare a Merger Agreement**: An official agreement to merge should be prepared by a lawyer. The merger agreement should outline key steps required to officially merge, and can also describe merger objectives, timeline and governance.
- **Establish a Merger Transition Team**: A merger transition team should include internal staff members to undertake tasks required to merge. Often, members of the due diligence committee form the transition team. Each non-profit housing society involved in the merger can have its own transition team; however, some disbanding societies looking to be acquired may not have the capacity to dedicate staff to undertake transition tasks. In these cases, the acquiring society undertakes the majority of transition tasks.
- **Prepare a Communications Strategy**: A communications strategy should outline the approach to providing information between the transition team, executives, staff, Board, clients/tenants, stakeholders and the broader community. This includes communications with contract entities (i.e. BC Housing) and the municipality(ies) affected by the merger. Communicating regularly will provide opportunities to share information, generate awareness, reduce misinformation and ease potential concerns.
- **Prepare a Jobs Plan**: The due diligence review and business case should have identified potential organizational issues related to the merger, such as duplication of personnel. A jobs plan is an opportunity to prepare for transitioning staff. The jobs plan should outline the organizational structure before and after merging, and identify potential duplication or gaps at the executive and staff level. Detailed descriptions of roles and responsibilities should be included. Identify incoming staff salaries which may

need to be increased to align with equivalencies. Staffing inefficiencies will likely occur until eventual turnover. Legal counsel should be obtained to ensure the jobs plan aligns with the Employment Standards Act.

- **Update Policies and Procedures**: Mergers may involve acquiring housing and services that are unfamiliar or not part of the acquiring society's portfolio. As such, the transition team should review and update policies and procedures, where required, to ensure they reflect the needs of clients/tenants transitioning over to their portfolio. Societies may also have different policies related to staffing, reporting structure and engaging with the broader community. Bylaws from the acquiring society usually take precedence, but the transition team should consider incorporating components of the disbanding society's Bylaw where appropriate. Obtaining legal advice on updating policies and procedures is recommended.
- **Integrate Data and Information**: The transition team should work to integrate data and information from the disbanding society. This will require obtaining tenancy agreements, building maintenance log and legal paperwork.

  This process may be challenging, as not all societies maintain digital records and, in some cases, rental agreements may have been made verbally or never recorded. Databases, where they exist, may not always be compatible or may be incomplete. Transitioning data and information can be time consuming.

  The amount of time required to merge data, update policies, harmonize salaries and consult with various stakeholders can range widely. From this study, participants suggested that an intense one to two-year process is required to officially merge.

(6) Managing Organizational Changes

A merger needs to be continually managed as there tends to be unresolved issues or new challenges that need to be addressed:

- **On-board Incoming Staff**: Staff who have transitioned from the disbanding non-profit housing society to the acquiring society may encounter challenges adjusting to the new work environment. Policies and procedures may be different. There is much to learn, all the while continuing to deliver services to clients/tenants. It is important that the transition team prepare an on-boarding strategy to integrate incoming staff.
- **Consider Change Management**: While on-boarding incoming staff is essential to the merger process, there can be significant changes to workplace culture as well as potential conflict in response to change. Staff inherently stick to what they know, and organizational culture may not be clearly communicated to employees. There is potential for friction at this stage, and it is important that cultural adaptation and integration receive attention and resources. Study participants who engaged a Change Management consultant were able to manage this transition in a constructive and positive way.
- **Upgrade Units/Buildings Where Appropriate**: The due diligence review may have identified units or buildings that require minor upgrades to remain livable and meet the social needs of tenants, such as fixing appliances. These repairs should be prioritized by the transition team upon official transfer of assets.
- **Consider Rebranding**: Mergers can change the identity of a non-profit housing society, such as the types of housing and services delivered. From this study, some participants considered and implemented a rebranding strategy to demonstrate a unified culture and evolved organization. Rebranding may not work for all mergers, but is worth considering if the organization has significantly changed.

- **Monitor Organizational Performance**: Adapting to the merger takes time and requires adjustment. Consider creating key performance indicators to monitor changes in the organizations' operations, financial conditions, building conditions and social conditions. This will serve to inform when and how to adapt operations post-merger.

Change Management is a systematic approach to assist individuals, teams and organizations transition from their current situation to a desired situation. Deliberate Change Management can help board members and staff adapt to new processes, systems, technologies and culture. It can also help manage perception of change and fear, especially for employees concerned about "scaling up" and implications of mergers to their job security.

Considerations for a Communications Strategy:

Create a Safe Communication Channel for Staff: Employees may be concerned about merger implications on their work future, job security and ability to provide quality services to tenants/clients. It may be intimidating for employees to ask difficult questions to the transition team and executives. Consider offering regular staff meetings and facilitate discussions around potential concerns. Provide a way for staff to submit questions anonymously.

- ***Communicate Regularly with the Board: The transition team and executives should provide regular updates to the Board on the merger process and progress. The communication allows the transition team to address any concerns the Board may have in advance of next steps.***
- ***Meet with Voting Members: Meet with the society's voting members to inform them of the merger process and provide a venue to answer questions and address concerns.***
- ***Meet with the Municipality: The transition team and executives should consider meeting with the municipality, either staff or Council, to inform them of the merger and upcoming changes to the society. When regularly informed, municipalities can become supporters and potentially collaborative partners in the future.***
- ***Engage the Public and External Stakeholders: Consider hosting town hall meetings or public open houses to engage the broader community on the merger. This provides an opportunity for the transition team to share information and address community concerns.***

TIP - Merge at Fiscal Year End: Study participants suggested officially merging at fiscal year end for ease of bookkeeping.

"It is challenging for a non-profit housing society to acquire a portfolio that serves an unfamiliar population, and could result in inadequately serving clients or a failed attempt to merge."

"Consultation and communications with the broader community can help alleviate concerns about a potential merger and identify solutions to mitigate issues identified by staff, tenants and stakeholders."

APPENDIX A: List of Participants + Acknowledgements

Key informant interviews for the shared services and asset transfer reports were done at the same time. As such, many of the interviewees spoke to both shared services and asset transfer issues, though some organizations spoke to only one. Preparation of this report was made possible by the participation of the following list of key informants:

- The Bloom Group
- CHIMO Community Services
- LEDUC Foundation
- M'Akola Group of Societies
- Pacifica Housing
- posAbilities
- Society of Hope
- Toronto Community Housing Corporation
- VanCity - Community Investment
- Victoria Park Community Homes
- Windsor Essex Community Housing
- Woodgreen Community Services Society