

A Tale of Crisis and Opportunity

Patricia D. Wellenbach, President & CEO of Green Tree School and Services

23 August 2016

On June 30, 2015, Green Tree School & Services, (GTSS) closed on a business deal that resulted in the sale of its state of the art facility and entered into a lease agreement and management agreement with a multi-state mission aligned agency with \$85Mm in annual revenue. By October 2015, GTSS will become a subsidiary of the acquiring organization. The deal came together after 10 months of negotiations with several mission aligned organizations and a major restructuring of its business and debt obligations. The restructuring resulted in the closure of two core business lines, facilitating the transition of over 200 children to new service providers and layoffs of 50% of the workforce, which included clinical and educational staff as well as back office and administrative staff.

The facts of how GTSS arrived at this moment of transformative change are a telling story. What the future holds for GTSS is yet to be discovered, but as the organization begins FY'16 there are bright spots on the horizon that bode well for future success.

The Back Story

Founded in 1957, the mission of Green Tree School & Services is to discover, develop and deliver opportunities for children with unique challenges and abilities to achieve their full potential. GTSS provides comprehensive education and therapeutic and clinical interventions to special-needs children ages 3-21 with Autism Spectrum Disorder (AS) or a Severe Emotional Disability (SED). GTSS operates an Approved Private School, Diagnostic Services and Outpatient Clinic. GTSS' community based programs Green Tree Partnerships, provides consulting services to district and charter schools working with them to meet the needs of special needs students.

In 2011, in response to an increased demand for services and faced with facilities that were outdated in their ability to effectively provide the programs in a safe and appropriate environment, the GTSS Board of Trustees decided to build a new building and consolidate operations to one location.

GTSS did not have a history of philanthropic giving and so it needed to assure it could handle any construction debt on future revenues and projected cash flow. A decision to move ahead on the new building was based on projections through 2017 that indicated GTSS could manage the debt load without the need for a capital campaign. Ground was broken in the fall of 2012, with a completion date of fall of 2013. GTSS entered into an

agreement with a regional bank for a \$9.5MM construction loan. A portion of the organization's reserve fund was utilized for land acquisition. A capital campaign raised only \$650,000.

As the new building project unfolded, necessary changes in the construction plan and weaknesses in the projected overall costs resulted in a significant increase in the final costs. By June of 2013, the total costs of the construction and move had risen from \$10.5MM to \$16.3MM. GTSS used its reserve fund to make up part of the gap, and took on an additional term loan of \$1,000,000 to finance equipment and technology investments.

New Leadership and New Challenges

In February of 2013, mid-way through the building project, GTSS hired a new CEO and COO. The search for new leadership was a lengthy process. As often happens with a protracted transition of leadership, the organization was not as focused on operational excellence in programs as well as back office functions. Within 60 days of hire, the new executive team had conducted a comprehensive analysis of the business and uncovered major system wide problems.

With a commitment to integrity and excellence in the field, significant changes were implemented. A new foundation for GTSS was established through a major restructuring of the business that included the recruitment of new senior

management and mid-level managers, further investment in training, professional development and curriculum, and improvements in processes and protocols in business office operations. The board restructured itself and downsized to nine members and redefined its roles and responsibilities as a governing board. The move to the new facility was completed by January of 2014.

During FY'14, GTSS provided education and therapeutic services to over 400 children. Of that, 107 were enrolled in the APS and the balance attended more than 70 public and charter schools in the Philadelphia region where GTSS provided behavior support to 300 students. The hard work of the prior 18 months was beginning to pay off.

Referrals to programs and services was growing at a steady pace, school enrollment was ahead of projections, staff retention was improving, process improvements in billing and revenue cycle were starting to yield results.

Despite these successes, the improvements in operations had yet to impact the bottom line and the financial picture was tenuous as GTSS closed the year.

Budget projections for the first quarter of FY'15 were concerning. By early fall, the financial position began to improve and by the end of FY'15, if all projections for growth and revenue held, the organization would have stabilized itself and ended the year on solid financial footing.

The Other Shoe Drops

As the 2014-15 school year opened, there was a sense of optimism among the staff at GTSS. The transition issues of having all 240 employees working together for the first time had been navigated, the management team had been in place for over a year and were starting to gel. Business plans for each division had goals that were clearly defined and set a path for success. The organization was about to begin a strategic planning process when the unexpected happened. Community Behavioral Health (CBH), the primary funder of GTSS behavioral health services accounting for a significant amount of our total revenue, made a system wide decision to change the model for a core program which GTSS provided.

In total, 19 agencies were impacted by this decision. As GTSS began to understand and analyze this change, it was clear there would be a significant impact to revenue.

When the analysis was complete, the loss to GTSS's projected revenue stream would be close to \$2MM for the entire year. An organization with more diversity in programs and services, with a significant reserve fund or without any debt probably could have withstood the impact of the revenue loss. GTSS was 0 for 3 in all areas.

With no reserve funds and a significant debt load, it was clear that the organization was at risk. Management and the board needed to move thoughtfully but quickly to reach a solution. In November, the board approved for management to move forward with either a

merger/acquisition or an affiliation strategy. The mandate was to stay aligned to the mission and find a partner that would help stabilize the business and provide a platform for future growth. An M&A or affiliation partnership would create additional cost-savings in shared services and economies of scale. Done correctly, it could open markets to new referral streams and new collaborations.

GTSS's challenge was to stay open long enough to make a deal that would stabilize the business and move forward.

Getting to a Soft Landing

GTSS engaged legal, business and communications counsel to advise the board and management. By late January, 19 mission aligned agencies received an overview of the organization, the issues and the opportunity. Eight agencies expressed interest in learning more and eventually five agencies met with GTSS management and began the due diligence process. There was much work to do to get the business stable until we found our way to a positive solution. Of the many things that needed focus, here is a short list of those with high priority:

- write a case statement and detailed business plan
- begin the budget process for FY'16 and '17
- institute a hiring freeze and cut as much expense as possible
- work with the bank and secure some forbearance on the loan

- manage accounts payable, keep mission critical and revenue producing vendors paid, put non-essential vendors on a prolonged payment schedule while avoiding any litigation risk
- engage and inform the board (they met bi-weekly or weekly and collectively contributed over \$700,000 in less than 4 months)

By March, we made the difficult decision to close all Behavioral Health services at the end of the school year. Over 200 children would be affected by this decision. We worked closely with CBH, and by June, all students were placed with new agencies, assuring a seamless transition. The closure of the program resulted in a layoff of 50% of the workforce.

By early May, we were still operational but there was no solution in sight. Three agencies had made offers and the negotiations all failed as we could not come to agreement on terms the bank could accept and the potential partner could accommodate. We had begun to work on a Chapter 11 as well as Chapter 7 strategy. Time was clearly running out and we needed to be prepared if a deal was not struck.

Our luck turned on a day in mid-May when a local bank offered to speak to a client who ran a very large for-profit behavioral health agency. We had not explored a for-profit strategy. Not sure how it would work, we began to explore the possibility.

Sometimes the stars do align and in less than two weeks, we came to an agreement with our new business partner.

Given the looming crisis and the board's decision that the first week in June was the deadline for a bankruptcy decision, we structured a sale and lease back of the building and developed a management agreement strategy. If the bank would agree to the terms of the sale it would get GTSS out from under the debt load, begin to satisfy the liquidity crisis, preserve the core business and save 120 jobs. After a tense week of negotiations, late on Friday, May 29th, 48 hours before the board was to vote to file bankruptcy, the bank agreed to the terms of the deal, with one caveat: We had to close the deal by June 30th, giving us less than 22 business days to get a very complicated deal financed and closed.

New Beginnings

Now the real work began. Drafting agreements of sale, lease agreements, management agreements, securing appraisals and a host of other issues had to be addressed.

The daily "to do" list was exhaustive. We were also winding down the academic year, closing two programs and managing the HR issues of terminating 120 staff members. Since there was always the possibility that the deal would fall apart, we continued in our preparations for a full closure of the business.

On June 17th the financing was in place, the legal documents were starting to take shape and it seemed as

if we had found a solution. On June 23, 2015, the board of GTSS held its annual board meeting. Past annual meetings were celebratory, achievements of the past year were highlighted, the coming year budget was approved and new board members, as well as officers, were elected. Between November and June, the board had met 22 times and they were tired and probably a bit wary that things might still fall apart.

At this annual meeting, the board would vote to sell the building to a new owner who would eventually own the entire business. After almost 60 years as a non-profit organization educating and supporting special-needs children and the realization of their dream to have a building that would provide the best in programs and services for the kids it served, GTSS board would now vote on an acquisition that just 10 months ago had seemed inconceivable. It was a bittersweet moment but Green Tree School & Services would survive; the new partner was deeply committed to the mission and committed to continue GTSS long into the future. On June 30, 2015 the deal closed and we began to look forward with relief for the first time in months. Through it all the organization had an amazing year. All benchmarks and goals for program growth and achievements were met or exceeded; 5 students graduated, 2 went to community college, 1 to a trade school and 2 were offered jobs. New partnerships were started with other organizations and enrollment in the APS was at an all-time high.

As I write this, we are now a month into our new business model. Some things are new and different but much is still the same. We are a smaller organization, but we are also a smarter one. We are getting to know the organization we have become part of; their culture and people, among the most important aspects. We are learning from them and they are learning from us. The outcome could be seen as an ending but I prefer to think of it as an inflection point. We came through some of the darkest days for our organization and right now, things are looking pretty bright for the future.

About the Author: Patricia D. Wellenbach was appointed CEO of Green Tree School & Services (GTSS) in February of 2013. Prior to joining GTSS she was the President and CEO of Sandcastle Strategy Group, LLC. which she founded in 2007. The company provided management consulting services to clients primarily in the non-profit sector. Its areas of expertise included strategic planning and strategy implementation, organizational realignment, capacity building, succession planning and governance. Select client list included: Pew Charitable Trusts, the Philadelphia Orchestra, the National Academy of Science and the National Research Council. Wellenbach is a cum laude graduate of Boston College School of Nursing and holds a certificate from the UCLA Anderson School of Management Healthcare Executive Program. She is frequently invited to speak

on topics including leadership, organizational change and governance with a focus on the non-profit sector. She was the 2003 recipient of the St. Francis Medallion for excellence in service to the community. In 2000 she received the Benjamin Rush Award from the Philadelphia Medical Society, which recognizes laypersons from the Philadelphia region who have made outstanding contributions to the health and welfare of citizens of the United States.