MERGER CASE STUDY

Merger between Peoples' Regional Opportunity Program, Inc. and Youth Alternatives Ingraham to form the Opportunity Alliance

This case study is based on CAPLAW's interview with Mike Tarpinian, Chief Executive Officer of the Opportunity Alliance in Portland, Maine, about the merger of a Community Action Agency, Peoples' Regional Opportunity Program, Inc., with Youth Alternatives Ingraham to form the Opportunity Alliance.

Peoples' Regional Opportunity Program, Inc.

People's Regional Opportunity Program, Inc. (PROP) was a 501(c)(3) Community Action Agency (CAA) with annual revenue of approximately $17 million and about 225 employees. PROP provided the following services to low-income people in Maine, particularly in the Portland area:

- Head Start, Early Head Start and child care services
- Nutrition services – Women, Infants and Children (WIC) and USDA Summer Food Service Program
- Low-Income Home Energy Assistance Program (LIHEAP)
- Weatherization Assistance Program
- Management and rental of low-income housing
- The Women's Project – statewide case management and information and referral services to women affected by substance abuse
- Community services programs including, for example, temporary housing assistance, food vouchers, transportation, security deposits
- Foster Grandparents and Senior Companions
- Youth programs

Youth Alternatives Ingraham

Youth Alternatives Ingraham (YI) was a 501(c)(3) organization with annual revenue of approximately $19 million and about 260 employees. YI, based in South Portland, Maine, served children, youth, adults, seniors, families, and communities throughout Maine.
YI provided the following:

- Crisis prevention and intervention services
- Counseling
- Psychiatric services
- Medication management
- Case management
- Advocacy
- Residential treatment programming
- Parent and family education
- Services via a 24-7 crisis phone line
- Information and referral services through 2-1-1 Maine

The two organizations merged in early 2012 to form the Opportunity Alliance, which is based in Portland, Maine, and focuses its work in Cumberland County, the most populated county in the state. The merged entity has annual revenue of approximately $37 million and about 625 employees.

Merger that Formed Youth Alternatives Ingraham

PROP's merger partner, Youth Alternatives Ingraham, was itself the product of a merger. In fact, the PROP board selected YI as a merger partner due, in part, to YI's successful experience merging. Mike Tarpinian, CEO of the Opportunity Alliance and formerly the CEO of YI, describes the merger that created YI:

> Youth Alternatives was established in 1972 and its focus was on youth and children. It was a classic child welfare agency that did a lot of out-of-home placement; [it] had a number of residential programs and emergency shelters for runaway youth. It began to evolve from that to much more of a family-focused and prevention agency with a series of new contracts and began to build a continuum of services focusing on child welfare and keeping families together. [It] built a family center in 2006 that allowed [it] to focus even [more] on its work with families, family mediation, parenting education and family reunification efforts. When [it] shifted from being just a child welfare agency [doing] out-of-home placement, and started focusing on families, the view of the world, at least from [the] staff, was that many … families were coming to [it] with mental illness and challenges around substance abuse.
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> In 2005, the executive director of Ingraham, which was an adult mental health agency located in Cumberland County, retired. [Ingraham] contacted Youth Alternatives and four other organizations and led [them] through what was literally an interview process to find a partner for the organization. At the end of that process, Youth Alternatives was selected to merge with [Ingraham]. [The two organizations merged to form Youth Alternatives Ingraham in 2007.]
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> Youth Alternatives … had [a budget of] about $12 million … and about 125 staff. Ingraham had a little bit larger budget and [an] equal number of staff. [The merged entity was] … about a $26 million operation [with] … about 250 employees. Because of the change in out-of-home placement that was going on in the child welfare system, and [YI's] belief that [its] focus ought to be more on keeping families together as opposed to taking children away from families, [it] ended up closing about five residential facilities for children and youth. That dropped … revenue to about $19 million, but we were in a place where we were doing our best work and focusing on keeping families together, on doing our work in some high needs neighborhoods.

YI's focus on poverty issues developed at the time of the merger between Youth Alternatives and Ingraham. Mike Tarpinian recalls:

> It was at a board meeting in 2006 that [a Youth Alternatives] board member said, "You know, the real issue with many of our families is poverty. If we could do something to help people get out of poverty … that [should] be a focus [of our organization]." [O]ur strategic plan began to reflect that." I would say that our mindset in 2006 was less about treatment, although we were treating people with mental illness, they were also people living in poverty. So we weren't the typical mental health agency, we were more of an inner-city mental health clinic where homeless folks came to us for outpatient services. As opposed to treating people in the middle or upper middle class, our folks were clearly people in poverty.

Reasons for the PROP-YI Merger

Both PROP and YI believed that the merger of their organizations would result in more integrated and effective service delivery and would enhance both organizations' sustainability and leadership capacity.

PROP, according to a press report,[1] viewed the merger as "an opportunity to gain strong organizational leadership while maximizing funding and programs, serving families and individuals more efficiently." The PROP board believed that "a combined agency with deep experience [could] operate more nimbly and proactively to deploy limited resources more sustainably in the community." The press report emphasized that "recent federal and state budget proposals have underlined the need for examining alternatives and efficiencies." PROP's interim CEO, Catherine Fellenz, explained PROP's rationale for merging in the same report: "We believe PROP's vision can potentially be carried out with greater efficiency, creativity and strong leadership through a merged operation with YI, an equally experienced agency with aligned goals."

YI's goal, according to the media report, was to form an "integrated agency [that] furthers a shared vision of strong communities that includes investments in infant and early childhood development and education, programming and support for families and youth, a county-wide mental health crisis response system, and an improved quality of life for all people in need, from infants to seniors." "A merger with PROP can offer families who come to us in need a broader continuum of services that are integrated and seamless so that there is no wrong door with which to enter our system, and a consumer of our services need only tell his or her story once," Mike Tarpinian explained in the same report.

"There was never an issue of 'We are doing this because we are in financial straits," according to Mr. Tarpinian. However, he notes that "There [have] been shrinking dollars on the state side as well as the threat of shrinking dollars on the federal side, and in some cases actual reductions." The YI board, as well as the PROP board, he recalls, "were clear on [wanting to] find ways to at least maintain the programs that we have and reduce duplication of infrastructure cost. One way of doing that is to merge and to reduce duplication of administrative staff, and take those dollars and put them back into programs so that you can … sustain and strengthen [them] during state or federal reductions."

"[YI] has had a history in the community of being a very disciplined back room … organization along with being very passionate about serving people that are less fortunate," Mr. Tarpinian explains. "That combination doesn't always exist, and so I think that people were willing to make those hard decisions, leave their organizational egos at the door, to do what's best for people in the community and the people that they serve."

How Merger Talks Were Initiated

The merger process began when PROP's CEO left to head the United Way of Greater Portland. The PROP board used her departure as an opportunity to consider a merger. It hired an interim CEO and began assessing possible merger partners with the help of a merger consultant. "Interestingly enough," Mike Tarpinian recalls, "the board of PROP went through a similar process that Ingraham had, where they brought about four or five organizations together, interviewed them, asked them to think about what the mission would be, what the values would be, of a new organization." "This was not two execs sitting in a room, putting a deal together, and presenting it to the boards," he observes.

PROP and YI had had a relationship prior to the merger discussions. "[W]e were working in some neighborhoods together," Mike Tarpinian explains, "The former [PROP] CEO and myself had a number of discussions around joint programming. So … to some extent, it made sense for us to come together. [YI] thought in many ways as a Community Action Agency, even though [it] certainly didn't have the designation. So the cultural piece, although different, was not dissimilar." One thing that particularly interested PROP about YI, according to Mr. Tarpinian, is that YI had already gone through a successful merger.

The Merger Process

Merger Committee Discussions The board of each organization established a merger committee consisting of the organization's CEO and three board members. For the six months or so after PROP had identified YI as a merger partner, the two committees met regularly to work out the details of the proposed merger, starting with the mission and vision of the merged organization. PROP had hired a consultant who helped to facilitate those meetings. "[S]he would say to you, retrospectively," says Mike Tarpinian, "that it was probably the easiest job she had – because both of the entities were very vigilant about their responsibilities and did their homework … and asked the tough questions."

At this phase of the merger talks, several issues were clear, according to Mr. Tarpinian. "We knew we wanted to be a Community Action Agency … so that would be number one. Number two, [the boards of the two organizations] wanted to make sure that (and I say this because it has been quoted before) … I was going to be the CEO and that I was bringing my management team with me." Number three, Mr. Tarpinian says, was "to make sure that the new board going forward would be representative of both organizations."

After the first six months of merger committee discussions, "when it became clear that this was a direction that we wanted to go," Mr. Tarpinian explains, "we brought the recommendations back to our respective boards to ratify our intent to merge. And what that did was allow us to, both organizations, to dig deeper into the due diligence process." At this stage, both organizations jointly hired the merger consultant to help facilitate the subsequent steps in the merger, including due diligence.

Due Diligence In the next phase of the process, Mike Tarpinian explains, PROP and YI signed a confidentiality agreement and then "dove into … six months worth of … significant due diligence - reading audits, looking at contracts, identifying assets, identifying liabilities. And in essence, we began the slow process, of at least conceptually, bringing the organizations together."

Each organization hired its own attorney to assist it with due diligence. The attorneys, according to Mr. Tarpinian, helped the organizations "to delve into not only the contracts but all of the mortgages, financing, leases and … to help … put together what would be a structure that would, at least from a legal perspective, preserve Head Start and preserve the tripartite governance structure." It was at this time that the organizations and their attorneys contacted CAPLAW to help ensure that the merged entity would retain its status as a CAA and as a Head Start grantee and would maintain its tripartite board structure, as required by the federal Community Services Block Grant (CSBG) Act.

Mike Tarpinian explains that, as part of the financial due diligence process, the organizations hired YI's CPA firm to review "the last three years of audits on both organizations to make sure there were no hidden and outstanding debts or paybacks to the states that were not on the balance sheet … We looked at management letters to make sure that there wasn't anything outstanding." "We reviewed almost every contract that PROP … and [YI] had to make sure that they were maintained," Mr. Tarpinian recalls. "We looked at the finances from the mortgages – [YI] had … a New Markets Tax Credit office building in downtown Portland that had some covenants on it, some debt ratio requirements. We wanted to make sure that if we came together, those were still solid."

The organizations also focused explicitly on the role of culture in the merger process. "We did a cultural assessment – a rather extensive one, where every manager, every position from a program director on up, were interviewed," Mr. Tarpinian notes. "We began to understand how they did their work and what were the rituals that were really important for the staff."

At the end of the due diligence process, the merger committees recommended to their respective boards that they vote to proceed with the merger, which the boards then did.

Government Grants and Contracts The organizations were careful to ensure that the merger would not adversely affect either organization's government grants and contacts. Mike Tarpinian recalls "multiple, multiple meetings" with funding sources, including "a couple of on-site meetings with federal Head Start [officials] in Boston to make sure that we dotted our i's and crossed our t's." At the state level, he says, "we met with the commissioner of the Department of Health and Human Services, and her staff, to make sure that contracts could be transferred."

"The one issue that surfaced, interestingly enough," Mr. Tarpinian notes, "was that Youth Alternatives Ingraham had about $12 million in federal money through Medicaid. And the state could not handle a conversion of all of those at once, at the time of the merger. So we ended up carrying two tax ID numbers – one simply as a subsidiary to the Opportunity Alliance, to allow us to continue to bill on that old tax ID number."

"But other than that," he recalls, "all of the federal and state agencies could not have been better with helping us through that transition. And I think what helped is that they were contacted very early on and asked for their advice and counsel to help us move through this. So there were no issues—no contracts were lost and no revenues were lost."

Communication Mr. Tarpinian describes the proactive steps Youth Alternatives Ingraham took to communicate with internal and external stakeholders about the merger. "Youth Alternatives Ingraham and myself were very transparent," he says. "People knew we were looking for mergers, so it wasn't something that was hidden or silent. And obviously once you sign a confidentiality agreement, things get quiet. My staff knew that the quieter I got, the closer we were getting. Once we got to the place where we were going to merge, we hired [a communications consultant] … to help us with the packaging. We also wanted to get out in front of everything, so we … [made] phone calls. Everyone had a list, myself, the board, had phone calls that needed to be made. Communications were to … our donors as well as our state agencies and federal agencies. So we kept people in the loop."

Merger Costs The primary costs associated with the merger were the professional fees paid to the accountants, the lawyers, the merger consultant and the public relations consultant. Mike Tarpinian estimates that these costs totaled about $150,000. The largest expense was the legal fees. Once both boards had voted to merge, the two organizations jointly hired one attorney. "We were fortunate enough that a local foundation gave us some money and the United Way gave us some money," Mr. Tarpinian notes, "And we had enough savings for some positions that we had left vacant. Both organizations helped in paying for those costs."

Integration of the Two Organizations

Blending the Cultures The process of integrating the two organizations began before the merger became official. "I was named the CEO of both organizations beginning [about six months before the merger was finalized]," Mike Tarpinian explains, "because we felt it was time for [PROP's interim CEO, who had been in that position for a year and a half] to move on, and she was ready to move on … And it was time for me to begin the work of bringing both organizations together."

In his role as CEO of both organizations, Mr. Tarpinian steeped himself in PROP's culture. "I moved my office into PROP's headquarters and I worked with the PROP staff," he explains. "I figured that [YI's] staff knew me well enough. I wanted to feel and experience the culture of

PROP so that I could better lead both organizations with a day-to-day understanding of how it worked. So, for a year, that's where my office was." "It was long days," he says, "but it was an opportunity for me to learn every program that they offered, and for me to experience the day-to-day operations. It was important for them to know that I understood their work and that I understood that there is a Head Start Policy Council, and I met with them. We have a Senior Companion Advisory Committee – I met with them. And I gave them the attention that I think they needed, and it also gave me an opportunity to learn every aspect about PROP."

Mr. Tarpinian provides two examples of other initiatives intended to facilitate integration of the two organizations' cultures. "We established a culture committee made up of staff … from both organizations," he explains "to [serve for] a 2 or 3-year term, to get us through the various integration pieces as well as to survey staff periodically over the next 3-5 years and get feedback." In addition, he says, "we decided to bring [together] … what we called an 'HR workgroup' – staff from both organizations – to go through every benefit and evaluate which of the two is better. And they will then literally create an entirely new benefits package. That shows people that this is not an acquisition, and that's very important. **If you say it's a merger, you best make sure it's a merger. And I think culturally, if people begin to think that his is an acquisition, you are dead in the water. So, that takes time and it takes energy**."

"The cultural integration is about three to five years in length," Mr. Tarpinian observes. At this point (a year and a quarter after the integration began and nine months after the formal merger), he says, "We've reached a place where people are referring to themselves as working for the Opportunity Alliance as opposed to 'I used to work at legacy PROP,' or 'I used to work at legacy Youth Alternatives Ingraham.' So I think we are right on schedule there."

Blending the Boards From early on in the merger talks, it was agreed that the board of the merged entity would be made up of an approximately equal number of board members from PROP's board and from YI's board. "The board began with 24 members – 13 from Youth Alternatives Ingraham, and 11 from PROP," Mike Tarpinian explains. "Youth Alternatives Ingraham had a history, of having consumers on the board – consumers of mental health. So the fact of having a consumer or a representative from Head Start, or people living in poverty on the board was something we were accustomed to. It was really something that we embraced as opposed to negotiated." "The only difficult part, he says, "was making sure that we could maintain the tripartite [structure]."

One challenge was orienting the new Opportunity Alliance board to the organization's work. With half the board from PROP and half from YI, Mike Tarpinian explains:

> When I was talking about a particular program, half the board didn't know what I was talking about. That's an interesting place to be. So we sat down and said, "Here is what we are going to do – we are going to set up six learning opportunities over the course of six weeks. We are going to require … each board member to attend three." … It was almost like a total immersion into the programs that the new Opportunity Alliance was going to offer, so that I wouldn't get those blank stares. And people took it seriously … I mean, they were exhausted. We had many board members attend 100% of them. And we did it at various sites so that they could not only hear about, but also see the various programs and talk with the staff providing those programs. It was a great opportunity for them and a great refresher course for some of the board members from either side who came from that legacy organization.

Merger Benefits

Mike Tarpinian describes the increased community impact the merged entity is starting to make as a result of the merger:

> We have come to the place where the vast majority of our work will be in the neighborhoods. What we have decided is that we are going to be creating three or four what we call "hubs." ... We are looking at three hubs in the greater Portland area, and one hub in ... the Lakes Region, a more rural part of Cumberland County. Typically what happens is that programs cluster together, so all case managers are in one place - parenting education might be all in one location, etc. [Instead,] we're putting a representative sample of all of our programs in all of the hubs.
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> What we are doing is **we are bringing the community together to help us identify what their needs are, and what the solutions are**. So we hold, for example, in one of our neighborhoods, monthly supper clubs. We have a corporation that sponsors the suppers. We started out with 20 people, the last one we had was 125 people. They are from the community, coming together and finding their voice, and talking about the needs of their families and their children – being part of the solution. We are not restricting our focus just on the programs that we offer ... it is all of what families may need. So in one area, we are looking at about 30 organizations who are involved in trying to make an impact on the individuals living in the community. We are going to replicate that in two or three other places. We wouldn't be able to do that, with the menu of services, without this merger.
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> The mental health clinic that we have in downtown Portland that serves homeless folks, we are beginning a partnership with the local hospital to be able to bring physical healthcare to the clinic in what is called a "person-centered medical home." It will allow people who are more likely to come for their med management, to be able, while we have them, to give them physical healthcare ... because they won't go to their appointments with their local PCP. That is something that without the merger would never have happened. Our goal is to bring that medical care also to the neighborhoods - to be able to have folks access healthcare in some form or fashion. That wouldn't have happened without the merger.
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> We are beginning to think about long-term investment in the neighborhoods where we are asking ourselves the question—of the x number of families that are here, and x number of school-age kids, what can we do...what resources can we bring, to have as a goal that every child graduate from high school? So we get to look at long-term impact. That would not have happened without the merger.

Merger Challenges

"We had no challenges prior to the merger," say Mike Tarpinian. Instead, the challenges he describes relate to the post-merger integration process.

One challenge is increased demand on senior staff time. "We have senior staff who have three jobs – and that's exhausting," Mr. Tarpinian explains. "One is their day job, which is managing departments on a day-to-day basis. The second is to bring new systems together and integrate two large organizations – payroll conversion, for example. And the third is, also looking for opportunities. The opportunities don't go away, new programming options don't go away ... [J]uggling those three ... that is a challenge."

Another challenge, Mr. Tarpinian says, is "people learning to play together. Decision making, how it gets done, who has authority, and just getting used to a very large blended family – this has its challenges … and has its rewards. It's also very time consuming."

A third challenge he identifies is the effort involved in establishing and maintaining effective lines of communication within the merged organization. "[T]he last piece, which is probably the most important piece," he says, is "the challenge of communication – both from a presence as well as a weekly email, to an internal newsletter. All of those pieces together … you cannot take a week off from doing those." Mr. Tarpinian describes his efforts to ensure effective communication with and feedback from his staff: "I hold bagels and coffee, meet with the staff, get feedback and make decisions on that feedback, indicating that I'm making decisions based on their feedback. I do a Friday afternoon update, which is about a page long on the highlights of the week. We have an … internal newsletter that comes out every two weeks. And I'm on the road and in their offices, at their Head Start [sites] – going wherever I need to go, weekends, evenings – so that they get an opportunity to see me and talk to me."

Lessons Learned

Reflecting on the merger, Mike Tarpinian says, "I think that [YI's] experience of … having gone through a merger before helped … we got a lot of experience going through … the school of hard knocks."

Mr. Tarpinian also highlights the importance of culture in the merger process. He says, "we came to the conclusion … It's all about people. Culture will eat strategy for breakfast. So if you don't get the culture right – if people don't understand the dynamics of change – then life is going to be very difficult. And so, we focus on that. We don't focus on that totally – we were vigilant on our finances, vigilant on bringing these various systems together." "[A]t the end of the day," he observes, "it's the people who are going to make it. And our mission is clear, what we want to do is very clear. People feel part of an organization; they feel like they are being heard. They may not like every decision you make – so where we can involve them in making policy, we do. And we also recognize that the community is watching, and so we need to get it right."

Additional Take Aways

The merger partners' reasons for merging should be mission-driven, in addition to financial, in order for the merger to succeed.

Take the time and effort to identify a compatible merger partner – by reaching out to organizations that your CAA trusts, with whom it has a prior relationship, and that have missions and programs that complement those of your CAA.

Thorough due diligence is essential. Hire experienced professionals to assist with due diligence to make sure your CAA covers all of its bases and identifies any problems as early in the merger process as possible.

Communicate with funding sources early and often about the proposed merger about the steps necessary to ensure continued funding after the merger.

Keep culture front and center from day one. Assess the cultures of both organizations and identify areas where culture could get in the way of effective integration. Take proactive steps to address those issues and to develop a new organizational culture in the merged organization.

This case study was created by Community Action Program Legal Services, Inc. (CAPLAW). Visit us at www.caplaw.org.

This case study is provided for informational purposes only and does not constitute legal advice. Please consult an attorney for advice regarding your organization's individual situation.

Footnote:

1. "Peoples Regional Opportunity Program and Youth Alternatives Ingraham Announce Merger Discussions," Mar. 7, 2011, on WCSH6 Portland's website http://portland.wcsh6.com/news/business/people-s-regional-opportunity-program-and-youth-alternatives-ingraham-announce-merger-discussions/58044.