Hope Community Resources, Inc.: A Nonprofit Case Study

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Abstract

This research is a case study about Hope Community Resources, Inc., a large Alaska nonprofit. This research is focused on four valuable commercial properties Hope owns. The author describes current economic conditions and uses financial statement analysis methods to construct the organization. The overall findings suggest an optimal course of action for each of the four properties. The findings from the financial analysis suggest a need for future research on the implications of transitioning Alaska Senior and Disabilities Services from a competitive industry dependent on a single payor to a single-payee system.

Keywords: Hope Community Resources, Alaska, nonprofit, finance, commercial real estate

Introduction

Statement of the Problem

Hope Community Resources, Inc. (Hope) is a large nonprofit disabilities services provider based in Anchorage, Alaska. Founded in 1968, Hope provides services and support throughout Alaska to hundreds of people and families who experience intellectual and developmental disabilities, mental health challenges, and complex medical conditions. Hope's main campus is in Anchorage, Alaska on West International Airport Road between Arctic Boulevard and C Street with an adjacent property on West 53rd Avenue. This campus consists of four commercial properties with more than 60,000 square feet of light industrial space and a tax valuation of over $9 million. Of the four buildings, one of them hosts revenue generating programs and approximately 150 non-revenue positions work between the four buildings.

Between the four buildings there is a significant amount of unused space. Hope's revenue has decreased by 27% since its peak in 2014. During this time, Hope's leadership has taken significant steps to operate more efficiently. These efficiency measures have decreased Hope's immediate need for non-revenue personnel. Hope's leadership is likewise positioning the organization for the 21st century and adopting technology measures that aim to permanently reduce the need for non-revenue personnel and therefore the long-term need for large office spaces.

Background and Need

According to King (2018), the state of Alaska formally entered an economic recession in October 2015 following a year of declining oil prices. The Alaska Oil and Gas Association (2013) reported some 92% of the Alaska's unrestricted annual revenue comes from oil and gas. King's (2018) report concludes that the economic recession was primarily limited to the oil and gas industry and the state was able to mitigate the broader effects of the recession by drawing from the Permanent Fund.

The U.S. Department of Health and Social Services Fiscal Year 2015 report on the Alaska Medicaid Program indicates Alaska paid more than $1.3 billion in benefits. Of this $1.3 billion, Home and Community Based Services (HCBS) accounted for $261.9 million. (Department of Health and Social Services, 2016, p. 50, 53)

According to annual reports, Hope's revenue in 2013 peaked at $73 million with $67 million of revenue coming from Home and Community Based Waivers through the U.S. Centers for Medicare and Medicaid Services (CMS). Beginning in 2014, Hope's long-term leadership began transitioning with the retirement of its long-term chief executive officer. Hope's long-time chief operations officer stepped in as chief executive officer. Recognizing that long-term leadership change can destabilize an organization, the agency began a transition period the executive team carefully planned to navigate uncertain times (Galbraith, 2018). Hope's new chief executive officer was at Hope's helm in 1986 when Governor Sheffield cut the state's budget by over $1 billion when oil prices unexpectedly crashed to $9 per barrel (Dinneen, 2013). As oil prices showed early signs of destabilizing in 2014 Hope's new chief executive officer accurately prepared Hope for economic recession.

In November 2014, Bill Walker was elected governor of Alaska. As the state's largest industry eased into recession, the Walker Administration implemented Medicaid expansion in September 2015 which ultimately added Medicaid coverage to more Alaskans without the resources to increase the budget (Norris, 2018). In 2015, Hope's annual revenues had declined to $64 million with $58 million coming from Medicaid. As Hope's primary revenue source declined, Hope's leadership team focused on operating more efficiently.

Hope's approach to increasing efficiency began with restructuring the workforce. Despite an increasingly emergent need, Hope's leadership has practiced a philosophy of protecting people and the benefits they rely on. This has lead to a somewhat slower restructuring process though has arguably maintained employee morale as much as possible. To date, Hope has not had to implement employee layoffs or significantly change employee benefit packages; instead relying on natural attrition to cut personnel costs.

Hope has successfully restructured the workforce into smaller, more efficient teams in the wake of the economic recession. However, as the state of Alaska struggles to balance its budget, Hope is anticipating up to a 5% initial reimbursement rate reduction under Department of Health and Social Services' plan to reduce Medicaid spending in Alaska by $95 million (Burke, 2019). The fiscal impact to Hope of this potential rate reduction is a loss $2.5 million in the coming fiscal year.

Hope owns a substantial amount of commercial and residential real estate for its operations. Utilizing this real estate base to generate revenues outside of the scope of Hope's mission poses both property and income tax implications (26 U.S.C. § 501, 2018). The focus of organizational restructuring has primarily been on the workforce. As State government continues to navigate uncertain economic times, a detailed analysis of Hope's real estate is crucial to position Hope for a sustainable future.

Purpose of the Study

The purpose of this research is to explore the available options for the optimum use of Hope's primary commercial real estate.

The scope of this research is a quantitative analysis of the Anchorage light industrial commercial real estate market, Hope's fiscal philosophy, and Hope's four primary commercial properties. This study took place from February 4, 2019 to June 30, 2019 and utilizes applied quantitative research methods and secondary sources.

Statement of the Research Question

The question guiding this research is: “What is the optimal use for each of Hope’s main commercial properties?”

Literature Review

Introduction

Hope's commitment to a sustainable future requires the organization to assure effective, cost effective individualized planning processes which take into consideration economic and programmatic factors. Hope exemplifies strong stewardship of public funds by practicing thoughtful and ethical spending in the provision of quality supports. In alignment with Hope's Guiding Principles, this study explores new pathways to enhance and ensure the sustainability of Hope's mission.

In February 2019, Alaska Governor Mike Dunleavy unveiled a proposal to eliminate the state's budget deficit of $1.6 billion. The areas impacted most heavily by this proposal are education, Medicaid Services, and healthcare (Brehmer, 2019). While this was simply a Governor's budget proposal and has been debated and changed in the following legislative session, it does send a strong message to industries across Alaska: prepare for change.

The question guiding this research is: "What is the optimal use for each of Hope's main commercial properties?"

This research focuses on four valuable commercial properties and is structured into three primary areas that affect management decisions: 1) the Anchorage light industrial commercial real estate market; 2) Hope's fiscal philosophy; 3) and, Hope's four primary commercial properties. I conducted a limited literature review focused on current economic conditions, corporate and nonprofit finance, and commercial property management.

Market Overview

Introduction. Poe (2010) discusses how top Alaska economists describe Alaska's economy as a three-legged stool with the petroleum sector, the Federal government, and all other basic sectors each representing a leg. As the Alaska Oil and Gas Association (2013) pointed out, the oil and gas industry is responsible for most the state's unrestricted revenue. The price of Alaska crude oil peaked in July 2008 at $125.33 per barrel and within six months tumbled to just $33.34 per barrel in February 2009. Oil prices rebounded from 2009-2014 before destabilizing again in July 2014 (U.S. Energy Information Administration, 2019). According to the Railroad Commission of Texas (2018) from 2008-2018 the Permian Basin in the Southwest United States increased production from approximately 700,000 barrels per day to over 3.2 million barrels per day. The Resource Development Council for Alaska (2018) reports the North Slope oil production in 2018 averaged 529,000 barrels per day. In addition to the sheer difference in production volume, the majority of U.S. oil refineries are located along the Gulf Coast, the Permian is one of the oldest oilfields in the U.S. and has a huge amount of the needed infrastructure for the industry, and the oil itself is significantly easier to extract with hydraulic fracking technology (Blackmon, 2018). El Gamal (2018) reports significant pressure from the Trump Administration to Saudi Arabia and the Organization of Petroleum Exporting Countries (OPEC) to maintain high production to keep prices low as lower oil prices generally benefit American consumers. Alaska is vast and remote and now one of its three economic legs faces a domestic and globally saturated market. The silver lining is a saturated market means a stable market which is easier to build a budget around.

Alaska Economic Outlook. Alaska's top economists forecast the Alaska recession will end in 2019. The key indicator of the change from recession to growth is job creation outpacing job losses. This change is meager with an estimated 1,400 jobs being gained in 2019 (Brehmer, 2019). The University of Alaska Institute of Social and Economic Research (ISER, 2019) estimates that for every $100 million cut in state spending 1,000 jobs are lost. Governor Dunleavy's initial budget proposal called for $1.6 billion in cuts (Brehmer, 2019). Using ISER's estimate the full budget cut could result in a loss of 16,000 jobs. As the legislative session ended on May 15, 2019, Governor Dunleavy called for a special session to discuss the budget among other things making the extent of potential budget cuts uncertain at the time of this research (Horazdovsky & Maguire, 2019).

Anchorage Economic Outlook. The Anchorage Economic Development Corporation (AEDC, 2019) annual Anchorage economic outlook report reflected Brehmer's (2019) forecast anticipating the economic recession to come to a slow end. The AEDC's (2019) anticipated job growth for the state's largest city to be a net gain of just 300 jobs with the largest area of gain being the healthcare industry. According to Robinson (2019) Alaska has the largest migration swings in the United States with jobs cited as the primary reason for migration. While the economic forecast is beginning to look better for Anchorage and the rest of the state, Anchorage has become a less than favorable migration destination in the wake of the recession. Payscale.com (2019) cites living in Anchorage as 28% higher than the national average with housing being 47% higher than the national average. Rivera & Thain (2018) report Alaska as having some of the highest violent crime rates in the nation, specifically rape and aggravated assault. Not only has Anchorage had a lagging economy since 2015, it is also a prohibitively expensive and dangerous migration destination.

Anchorage voters have consistently elected candidates and approved ballot measures focused on economic stability and public safety since 2014 (Ballotpedia, 2019). Using the ballot box as a measure, these issues are at the forefront of the community's mind and the constituent base is acting to make their city more livable. Brehmer (2019) speculates Alaska's economic recovery will be slow and along with it, Anchorage's.

Commercial Real Estate Implications. Fuerst (2010) suggests office real estate markets are notoriously short-sighted and display both positive and negative price elasticity. This finding indicates office real estate markets are reactive to the overall economic conditions. Nanthakumaran, Watkins, and Orr (2000) discuss how construction lags are known to exacerbate real estate market fluctuations while the supply-side of the real estate market has received little academic attention. One commercial realtor argued that Anchorage's commercial real estate market has remained largely stable despite the economic recession. This stability is due to increased international investment in the Anchorage market and the legalization of cannabis. Of the sectors of the Anchorage commercial real estate market hit the hardest, the office market has been most directly affected by the slow oil industry (Spoerhase, 2018). The United Nations February 2019 global economic outlook report suggests the world's largest economies are still growing but gradually beginning to slow. This outlook is good for Anchorage and for Hope as local, national, and international economic conditions are favorable for renewed and continued investment in commercial real estate.

The Organization and Properties

Introduction. The focus of this research is on four commercial properties that represent substantial value to a large Alaska nonprofit organization. According to Vijayakumar (2012), asset utilization ratios are financial ratios that are used to indicate how effectively organizations are using their resources. Flood (2018) describes three primary financial statements under U.S. Generally Accepted Accounting Principle: the balance sheet, the income statement, and the statement of cash flows. The balance sheet describes the relationship between the organization's assets, liabilities, and equity. The income statement describes the relationship between an organization's revenue, expenses, and income over a determined period. The statement of cash flows describes how the organization used its cash from various sources over the course of a determined period (Subramanyam, 2014, p. 23-24).

Subramanyam (2014) describes the financial statement analysis process as a starting point, not an end point to better understanding an organization. In other words, financial statement analysis tells the organization's story – if the reviewer knows what to look for. Young (2007) discusses how the financial goals of nonprofits are very similar to those of for-profit organizations while including the ethical considerations common to public finance. According to Qu (2016) one of the key differentiations between nonprofit finance and for-profit finance is the differentiation of revenue streams. For-profits tend to have one primary revenue stream – sales of the good and/or services they provide – while nonprofits have access to a variety of revenue streams such as membership fees, grants, foundation giving, and fundraising efforts that are not related to their primary operations.

While Hope is a nonprofit entity, more than 98% of its revenue over the past decade has come from its fee-for-service program operations. Other revenue from donations, grants, and investments has accounted for an average of 1.45% of the organization's revenue structure from 2008-2018. Therefore, Hope's current financial structure is like a for-profit entity. Qu (2016) suggests there are three dominant portfolio theories relating to nonprofit finance: modern portfolio theory (MPT), behavioral portfolio theory (BPT), and the Herfindahl-Hirshman Index (HHI). Qu (2016) discusses how each of these theories have different approaches to portfolio risk with MPT and BPT taking opposing viewpoints on market and investor rationality and HHI suggesting more revenue streams is better regardless of risk. The lack of income diversity is an important factor to consider in the larger picture of Hope's long-term sustainability. However, it is largely outside of the scope of this research. Regarding the commercial properties this research focuses on, Hope effectively has four options: 1) keep the property and continue its current use; 2) keep the property and change its use; 3) lease the property; or, 4) sell the property.

Subramanyam (2014) outlines general financial analysis methods as comparative analysis, common-size analysis, ratio analysis, and cash flow analysis. These methods can be generalized and applied to this research setting. I used the statement of cash flows as the overall structure for the financial analysis. This separates the components of the financial analysis into cash flows, operating activities, investing activities, and financing activities.

Cash Flows. Subramanyam (2014) discusses at length the importance of cash to an organization. Cash is the most liquid asset as it can be readily used to cover any expense. According to Subramanyam (2014) the statement of cash flows reports four primary forms of cash flow, which are cash from operations, cash from investing, cash from financing, and free cash flows. The relationship between the four can be tracked over the course of time and indicate the financial health of an organization over the course of its life. Subramanyam (2014) defines free cash flows as:

$$free\ cash\ flows = net\ operating\ income - \Delta\, net\ operating\ assets.$$

Operating Activities. Subramanyam's (2014) discussion on operating activities focuses on net income or profit. Internal Revenue Code Section 501 does not limit a tax-exempt organization from generating surplus revenues or profits. However, surpluses cannot benefit a private individual or a group outside of the scope of the organization's purpose or mission. (26 U.S.C. § 501, 2018). Hope's primary revenue source is Home and Community Based Waivers. Most Home and Community Based Waivers are planned and approved annually. Provider reimbursement rates are set by the Alaska Department of Health and Social Services annually (Department of Health and Social Services, 2018). Under 7 AAC 145.520 Medicaid pays the same rate as a provider would charge to the public if that rate is less than the established Medicaid reimbursement rate. Alaska DHSS waiver reimbursement rates ranged from about $25-43 per hour for hourly services and $324 for daily rate services (Alaska Department of Health and Social Services, 2018). According to the U.S. Census Bureau (2018), the 2013-2017 median household income in Alaska was $76,114 with a per capita income of $35,065. At rates of $25-43 per hour, even accessing limited supports privately is prohibitively expensive to most Alaskans.

Unlike traditional businesses, the prices for Hope's services are set by the government, not the open market. Working with a fixed reimbursement rate, Hope's operational goal is to balance revenue and expenses. Financial success benchmarks that Hope's chief executive officer looks for are: positive fund balances at year end; debt retirement; decreases in accounts receivable; limited use of emergency funds; positive ratios; revenue and census growth; the establishment of strategic cash reserves; and controlled contraction in line with state economy.

Return on invested capital (ROIC) is one of the most widely recognized measures of operating performance which is defined as $\frac{income}{invested\ capital}$. There are two primary ways of defining invested capital: 1) return on net operating assets and, 2) return on common shareholders' equity. Hope does not have common shareholders' equity in a literal sense and therefore the return on net operating assets is used in this study.

Subramanyam (2014) discusses how return on invested capital is a measure of managerial effectiveness, profitability, and used for planning and control. Subramanyam (2014) provides an outline for the disaggregation of the return on net operating assets. Asset disaggregation effectively provides the analyst the ability to manipulate different variables within the overall formula in “what if” scenarios. Hope’s return on invested capital is a source of primary data for this study. (Subramanyam, 2014, Chapter 8)

Financing Activities. Financing activities are how the company utilizes debt. The two primary comparison factors are short-term debt, e.g. debt anticipated to be paid in a year or less, and long-term debt, e.g. debt anticipated to be paid in more than a year. The analysis of an organization’s ability to pay its short-term debt is called liquidity. The analysis of an organization’s ability to pay its long-term debt is called solvency. (Subramanyam, 2014, Chapter 3)

Investing Activities. Investing activities are the makeup of the company’s assets. Assets are typically divided into four categories: current assets, non-current assets, financial assets, and operating assets. Current assets are assets readily converted into cash such as accounts receivable and inventory. Non-current assets are not as readily converted into cash such as plant, property, and equipment and are anticipated to provide long-term benefits to the organization. Financial assets are typically securities the company owns and debts the company has issued for repayment. Lastly, operating assets are the primary assets used to generate returns. (Subramanyam, 2014, Chapter 4)

Closing. This research is effectively an investing activity analysis as it is focused on select long-term assets. Balance sheet factors such as each property’s value, the amount Hope owes on each building, and how much equity it has in each building are included in the analysis. Operational expenses related to each property such as depreciation, utilities, interest, and repairs and maintenance are also included in the analysis.

Data and Collection Methods

Introduction

This study is a quantitative analysis of the utilization of Hope Community Resources, Inc.'s four main commercial properties to determine if there is a more sustainable way to use these properties.

Setting

The setting of this study is Hope Community Resources, Inc. in Anchorage, Alaska.

Participant

The study participant is Hope Community Resources, Inc. This participant is a purposive sample selected because it is my employer. This study focuses on Hope's four primary commercial properties located in Anchorage, Alaska.

Measurement Instruments

The first measurement instrument used the public real estate database, Alaska Multiple Listing Service, to compare similar commercial properties in the Anchorage market. This information is used to establish what sellers and leasers of similar properties are asking in the open market.

The second measurement instrument used Hope's audited financial statements to conduct a financial analysis and establish a baseline of Hope's financial health and management strategy over the previous decade. This instrument provides context for discussion and recommendations for future research.

The third measurement instrument uses the annual expenses for each building to establish how these properties fit into the overall organization and how much each of these buildings' costs Hope annually. This information is then used to conduct a break-even analysis to establish how much revenue Hope needs to generate from each of the buildings to cover the annual expenses each building incurs.

Procedures & Data Analysis

Commercial Real Estate Market Analysis Procedure & Analysis. I used the public real estate database Alaska Multiple Listing Service (AKMLS) and the Municipality of Anchorage's public tax records to conduct an analysis of the local commercial real estate market. This information was collected on May 11, 2019. All four of Hope's commercial properties are zoned I1 – light industrial. According to the Municipality of Anchorage, light industrial zoned properties are intended to be used for industrial purposes or complementary business purposes. I focused the analysis only on properties zoned I1.

To review properties for sale, I used the search criteria in the AKMLS database: commercial building, any price, in Anchorage NE, NW, SE, and SW quadrants. This search yielded 115 total commercial properties for sale with 16 of them zoned I1. I documented the listing ID, the address, the building square feet, the lot square feet, the asking price, and the primary building type. The properties this research focuses on are office, office/retail, and office/warehouse spaces. After compiling the dataset of I1 properties for sale, I removed properties that were not office, office/retail, or office/warehouse as they are not like the properties in the study. This reduced the dataset from 16 properties to eight. From there, I used the properties addresses to find their tax value and included this in the dataset. Lastly, I then calculated the average and median of the building square footage, lot square footage, asking price, and tax value.

To review properties for lease, I used the search criteria in the AKMLS database: commercial lease, any price monthly per square foot, in Anchorage NE, NW, SE, and SW quadrants. This search yielded 455 total commercial properties for lease with 87 of them zoned I1. I documented the listing ID, the address, the primary lease square feet, the asking lease price per square foot, and the primary use of the lease space. I removed properties that were not office, office/retail, and office/warehouse. This reduced the dataset to 59 properties for lease. I then calculated the average and the median of the primary lease square footage and the asking lease price per square foot.

Hope's leadership ultimately has four options regarding each of the four properties this study focuses on: 1) keep the building and continue the current use; 2) keep the building and change its use; 3) keep the building and lease some of all of it; or, 4) sell the building. This research establishes an understanding of the commercial real estate market, the organization, and the properties.

To gauge the lease market, I calculated the average and median square footage of the primary lease and the lease price. I then separated leases by category to understand the lease market mix. The leasing identifier begins with the year the listing was posted. Larger properties are commonly broken into smaller lease spaces. I sorted the data by address to quantify the scope of the lease market.

Financial Analysis. The audited financial statements were provided by Hope's chief finance officer in separate Portable Document Format (PDF) electronic files. The first step in the analysis was to compile these separate documents into a single Excel spreadsheet. Appendix A describes how to access these datasets. Historical financial reporting typically keeps the current year on the left-hand side of the document with previous years flowing to the right. However, mathematical equations read left to right. In order to build ratios based on this data, I built the spreadsheet beginning with the year 2008 on the left-hand side and ending with the year 2018. I recreated the formulas for totaling variables to ensure data integrity.

The master spreadsheet is separated into consolidated balance sheets, consolidated statements of operations, and consolidated statements of cash flows. Hope has two affiliate programs which have nominal impact on the consolidated financial statements. This study uses the consolidated financial statements to provide a holistic picture of Hope's activities.

The financial analysis has the following structure: cash flows, operating activities, investing activities, and financing activities.

Cash Flow Procedure & Analysis. Subramanyam (2014) discusses the fact that cash is essentially the lifeblood of an organization. Cash is the most liquid asset as it is a universal exchange token. The balance sheet does not account for expenses. This statement can be viewed as a picture of the organization's assets, liabilities, and equity at a single point in time. The statement of cash flows is the movie that explains what happened between each picture. The statement of cash flows reports cash flows from three primary organizational activities: operating, investing, and financing.

Using the consolidated statements of cash flows, I compared the relationship between cash flows from operating, cash flows from investing, and cash flows from financing, as well as free cash flows. The purpose of this analysis is to better understand how the organization's forms of cash flow have changed over the course of time as well as to understand where the organization is in its lifecycle so as to place the real estate investments into context within an overall sustainability framework.

In the initial analysis, I noticed the net cash from operations in 2016 was a negative number due to the cash received from individuals and third-party payors being less than cash paid to employees and suppliers. In 2016, the Centers for Medicare and Medicaid Services withheld payment for the month of June which caused Hope to close out its fiscal year with less incoming cash than it had coming in. I added the difference of total revenue and cash received from individuals and third-party payors into net cash provided by operating activities to track the actual anticipated net cash from operations for that year.

I calculated free cash flows using the formula:

$$free\ cash\ flows = net\ operating\ income - \Delta\ net\ operating\ assets$$

I calculated net operating assets using the formula:

$$net\ operating\ assets = total\ current\ assets + plant, property, and\ equipment, net.$$

The free cash flow ratio was included in the cash flow analysis graph to track its relationship to other cash flows during the period. Subramanyam (2014) discusses the importance of an organization to maintain free cash flows though acknowledges there is no agreed upon definition which makes the analysis very subjective. As an organization grows, the analyst can anticipate free cash flow to be a negative as the organization is channeling all its cash flows back into the organization to continue growing. As the organization begins to mature, the free cash flows would become a net positive as the organization begins seeing returns on investment.

Operating Activities Procedure & Analysis. The operational activity analysis focuses on the relationship between revenue and expenses. Hope's primary revenue source is Home and Community Based Services (HCBS). HCBS are primarily planned and approved annually. This allows budgets to be built around approved service units and makes the primary revenue predictable. Surplus revenues come from capturing as much of the allotted revenue as possible and minimizing wasteful processes to operate more efficiently. I calculated Hope's operating profit margin using the formula:

$$operating\ profit\ margin = \frac{operating\ income}{total\ revenue}$$

I used the operating profit margin ratio to provide insights into the outcomes of Hope's overall operational strategy.

In addition to the operating performance, I was interested in revenue and expense trends for the duration of the period and calculated the relationship of each revenue classification compared to total revenue. These percentages were averaged for the period. I then compared each expense category as a percentage of total revenue and averaged each one for the duration of the period. In addition to the averages, the standard deviations were calculated to identify the variance throughout the spread.

The purpose of the revenue and expense analysis is to identify trends, as well as to identify any outliers that would require further investigation.

Subramanyam (2014) describes return on invested capital as an organization's success in generating profits from its financing sources. The formula I used to calculate return on invested capital (ROIC) is:

$$return\ on\ invested\ capital = \frac{income}{invested\ capital}$$

I used return on net operating assets (RNOA) as a measure of invested capital using the formula:

$$return\ on\ net\ operating\ assets = \frac{net\ operating\ profits\ after\ tax}{average\ net\ operating\ assets}$$

Hope is tax exempt which makes the formula become:

$$tax\ exempt\ return\ on\ net\ operating\ assets = \frac{operating\ income}{average\ net\ operating\ assets}$$

I calculated RNOA and from there calculated Hope's ROIC as:

$$tax\ exempt\ return\ on\ invested\ capital = \frac{operating\ income}{return\ on\ net\ operating\ assets}$$

This measure is significant because it describes how effectively the organization is using its operating assets to generate revenue. Return on net operating assets can be disaggregated into its various components allowing the analyst to manipulate different variables to test different scenarios.

I then compared the return on invested capital to Hope's total revenue, Medicaid individual service revenue, and the agency service utilization rates for fiscal year end 2016, 2017, and 2018. I subtracted Medicaid individual service revenue from total revenue to account for all other revenue streams. I then calculated the projected Medicaid revenue by multiplying Medicaid individual service revenue by the target rate of 97% service utilization and dividing this number by the actual service utilization rate. I then added projected Medicaid revenue with actual all other revenue to give a more accurate representation of the organization's actual ability to generate revenue.

Financing Activities Procedure & Analysis. I used the current ratio formula:

$$current\ ratio = \frac{total\ current\ assets}{total\ current\ liabilities}$$

Total current assets and total current liabilities are found on the balance sheet. This ratio measures the organization's ability to meet its current financial obligations. A ratio greater than one is indicative that the organization can fully meet its current financial obligations. Different industries have different current ratio benchmarks. Without an established industry benchmark, my assumption is a ratio greater than one is an ideal target.

I also utilized the acid test or quick ratio using the formula:

$$quick\ ratio = \frac{total\ cash\ \&\ equivalents + marketable\ securities + accounts\ receivable}{total\ current\ liabilities}$$

This ratio includes marketable securities. Marketable securities are a liquid financial asset rather than a current asset.

The current ratio and quick ratio are measures of an organization's liquidity or the ability to cover its current liabilities. This is only a portion of the organization's total liabilities. The other portion of total liabilities is non-current liabilities. The primary non-current liability on Hope's balance sheet is long-term debt. The ability to pay for long-term debt is referred to as solvency. In the event an organization ceased operations, shareholders' equity would be used to pay for any outstanding long-term debts. Hope refers to its equity as total net assets.

To measure solvency, I used the long-term debt to equity ratio. The formula I used is:

$$long\ term\ debt\ to\ equity\ ratio = \frac{total\ long - term\ liabilities}{total\ net\ assets}$$

This ratio is also industry specific. However, a ratio of one indicates an organization can pay its long-term liabilities in full. A ratio of less than one indicates the organization can pay its long-term liabilities in full and have some equity remaining. In a for-profit business, remaining equity would be distributed to shareholders based on the percentage of the shares they own. In a nonprofit, the board of directors would likely be responsible for determining how to distribute this remaining balance in a mission driven way.

I also used the times interest earned ratio as a measure of solvency. This ratio is calculated as:

$$times\ interest\ earned\ ratio = \frac{earnings\ before\ interest}{interest\ expense}$$

This ratio measures the organization's ability to meet its interest expense indefinitely. As with the liquidity ratios, this ratio should be greater than one as that indicates the organization is generating enough revenues before it pays its interest expense to pay its long-term liabilities on the agreed upon terms.

Investing Activities Procedure & Analysis. Subramanyam (2014) describes the starting point of analyzing an organization's investing activities as defining the organization's asset makeup. This is done by comparing current assets, non-current assets, financial assets, and net operating assets. I used the formula:

$$net\ operating\ assets = (total\ current\ assets + plant, property, and\ equipment, net)$$

I then compared the relationship between the four asset categories by calculating the percentage of total assets each category makes up. These percentages were then averaged to provide an overall picture of Hope's asset makeup.

Current asset analysis is typically focused on the makeup of cash and equivalents, accounts receivable, and inventory. Inventory is the least liquid current asset and can affect an organization's actual liquidity. Hope's primary current assets are cash and equivalents and Medicaid receivables, both of which are liquid. Hope has significant amounts of plant, property, and equipment which are subject to depreciation. Hope's audited financial statements contain the breakdown of the organization's plant, property, and equipment. I combined these statements for the period and calculated the percentage each subcategory makes up in relationship to total plant, property, and equipment. These percentages were averaged for the period and the standard deviation calculated based on the percentage points. I included the depreciation expenses from the statement of operations and compared the depreciation expense to the total plant, property, and equipment to establish the depreciation expense percentage each year. I also averaged and found the standard deviation for these measures.

Property Procedure & Analysis. The individual property profiles and floor plans are found in Appendix B. I combined the expense information on the four properties from Hope's chief finance officer into a separate spreadsheet to establish a breakdown of the annual expenses for each building. In addition to the expenses, Hope's chief finance officer provided me with the balance of the outstanding long-term debt for each building. I used the 2018 tax value for each building as a measure of market value and subtracted the remaining non-current liability to estimate each property's net asset value. I used the Municipal tax value because it is a documented independent measure of property value.

The expense information was organized into annual expenses, which were then divided by 12 to provide a monthly breakdown and 360 to provide a per diem breakdown. I included each building's total square feet and divided the annual expenses by the total square footage to calculate the annual expense cost per square foot for each building. The dataset from Hope's chief finance officer contained insurance expenses and depreciation expenses. I determined these values were aggregate and not separated out by building and chose to remove them as variables. Additionally, Hope's accounting team tracks 570 and 540's expenses using the same expense account. To provide a breakdown of each building, I took each building's total square feet and divided it into the sum of the two buildings square feet. 540 represents 68.12% of the total building area and 570 the other 31.88%. I used these percentages to separate out the expenses for the two buildings except for interest as Hope owns 570 outright.

I then compared each property's annual interest expense to Hope's total interest expense from the statement of operations. This metric indicates what portion each building represents relative to Hope as a whole. I combined these totals to calculate the aggregate interest expense of the four buildings.

The other current metric I used is a comparison of each of the properties and an aggregate against Hope's current portion of long-term debt. This is the total long-term debt that was due that year. This ratio was calculated as:

$$current\ portion\ of\ longterm\ debt \times \%\ each\ property\ of\ total\ noncurrent\ liabilities.$$

As a non-current measure, I compared each property against Hope's 2018 total non-current liabilities from the balance sheet. This metric represents how much of Hope's non-current debt each property represents. I also calculated the aggregate of the properties as a comparative measure for how much of Hope's total non-current liabilities the four properties represent.

Lastly, I compared the estimated net total assets for each property and the aggregate against Hope's total net assets. This is to provide a representation of how each building, and the combination of the four buildings, affects Hope's net total assets, or equity.

Each of these metrics reflect the relationship of each of these buildings to the organization, as well as how the combination of the four affects Hope. The purpose of the market analysis and financial analysis is to provide me with an understanding of the Anchorage light industrial real estate market and how these properties fit into the overall structure of Hope.

Results

Introduction

This research is a quantitative analysis of Hope Community Resources, Inc.'s four main commercial properties located in Anchorage, Alaska. Hope is an Alaska human services provider whose primary revenue source is the Centers for Medicare and Medicaid Services. At the time of this research, Alaska's oil industry has been in a recessionary period since 2015 and the State of Alaska has faced ongoing budgetary shortfalls in the years since. Medicaid and Medicare are expensive programs for both state governments and the Federal government and are subject to ongoing scrutiny, especially during periods of economic decline. I conducted an analysis of the Anchorage commercial real estate market, a financial analysis of Hope, and a property analysis to assess how Hope can more sustainably use its commercial real estate assets.

Commercial Real Estate Market Analysis

Introduction. I used publicly available information from Alaska Multiple Listing Services and Municipality of Anchorage public tax records to assess the light industrial segment of the current commercial real estate market. All four of the properties in this analysis fall into the light industrial zoning category and are primarily office spaces. Hope's four properties fall into the listing categories of office, office/warehouse, and office/retail. I eliminated properties listed as only warehouse, only retail, and specialty from the dataset as these properties are not like Hope's four properties. I likewise only focused on properties in Anchorage proper and excluded the communities of Eklutna, Chugiak/Eagle River, Indian, and Girdwood from this study.

Properties for Sale. When I conducted this analysis in May 2019, there were eight properties for sale in Anchorage listed as office, office/retail, and office/warehouse. Of these eight properties, one was listed in 2017, three were listed in 2018, and four were listed in 2019.

While the market is small, it is evident properties are not sitting on the market for extended periods of time. I then analyzed the average and median building square footage, the lot square footage, the asking price, and the tax value. Table 1 describes the findings.

[Table 1 Here]

Properties for Lease. The light industrial for-lease market is much more robust than the for-sale market. In May 2019, there were 59 leases available at 30 separate addresses. Of these leases, 43 were listed as office only and 16 were listed as office/retail. 58% of the properties for lease were listed in 2018 and 2019. The other 42% of the properties for lease have been on the market for 3-8 years. Table 2 describes the age makeup of the leasing market.

[Table 2 Here]

I then compared the average and median primary lease square footage and asking price per square foot. The median lease size is 2,092 square feet with a price of $1.70 per square foot. Table 3 describes the lease size and price of the market.

[Table 3 Here]

Financial Analysis

Financial Analysis. I used financial analysis to create a holistic picture of Hope and its management strategy over the last decade. I began the analysis by first combining the historical audited financial statements into a single spreadsheet. Simply combining the separate years of the financial statements into a single spreadsheet allowed me to begin identifying financial trends over the course of the period.

The Consolidated Balance Sheets. The balance sheet tracks the relationship between assets, liabilities, and equity. The balance sheet provides a picture of the organization at a specific point in time. Hope uses the figure net total assets to define equity. I use net total assets in all performance measures in place of shareholder equity. The combined consolidated balance sheets provide a holistic picture of Hope's assets, liabilities, and equity over the course of the previous decade. During this period, total asset grew from $22 million in 2008 to $47 million in 2014 with a staggered decline to $42 million in 2018. Hope financed much of this growth using long-term debt, which grew from $10 million in 2008 to $18.6 million in 2014. As the economic climate began to shift, Hope began to stabilize by decreasing its long-term debt to a total of $13.4 million in 2018. Hope short-term debt averse. This indicates Hope's revenue structure is based on the use of long-term assets and long-term debt. Hope has made marked efforts to gradually restructure its net assets and decrease its long-term debt. Total net assets balance has been the only figure to consistently increase over the course of the period.

The Consolidated Statements of Operations. Hope uses the consolidated statements of operations as the income statement. This financial document tracks the organization's revenues and expenses for a specific period. My initial analysis of the combined statements of operations revealed Hope is primarily dependent on revenue from the state and Centers for Medicare and Medicaid Services. Other revenue, contributions, and net assets released from restrictions account for a small portion of Hope's overall revenue mix. Qu (2016) highlights one of the significant differences between corporate and nonprofit finance is the ability of nonprofits to access a diverse range of revenue sources to fund their primary mission. The lack of revenue diversity may simply mean Hope has not adequately cultivated available revenue sources. Medicaid revenue as the primary source follows the asset trend depicted in the balance sheet though with a much more marked decline. The revenue stream in 2018 was similar in size to the revenue stream in 2011 whereas the total assets in 2018 was similar in size to the total assets in

2013. This could be reflective of underperforming revenue generation, meaning Hope's management planned for and anticipated higher revenues than were actualized.

In terms of expenses, by far the largest expense is salaries, wages, and fringe benefits. Fringe benefits as a subcategory of this expense represents 40% of the total. This expense follows the same pattern of Medicaid revenue consistently staying within about $7 million as this revenue stream has ebbed and flowed. This remaining $7 million is effectively Hope's operating budget. Hope's management has worked to keep its total expenses within $1.5 million of its total revenue. Interestingly, the two years that posted minor losses in net operating income are 2014 and 2015 which are the two largest years of revenue. 2018 posted the highest operating income at $1.4 million despite depressed revenue generation. The organization posted $1.4 million in contributions to revenue, a category which had not previously been posted. On further inquiry, the auditor's report does not mention where this contribution came from in any of the notes for the year.

Consolidated Statements of Cash Flows. The statement of cash flows tracks how the organization uses different methods of generating cash. These methods are operating activities, investing activities, and financing activities. The items I first looked at were the nets from each activity. Net cash from operations should consistently be a positive number as this indicates the organization's operations are generating more cash than the organization is spending. The only year where this figure ended on the negative is 2016. I was employed at Hope at this time and while the auditor's notes don't discuss why this variance, the state of Alaska withheld payment for the month of June until the following fiscal year because it effectively outspent its fiscal year 2016 budget early. Hope was not able to fully realize its cash flow from operations at the close of the fiscal year.

Cash flow from investing activities measures how Hope uses its cash in relationship to its asset base. Hope's statement of cash flows includes purchasing and selling property and plant, as well as investments. This number is typically negative as the organization goes through its lifecycle as the organization purchases more long-term assets utilizing long-term debt. This can also mean the organization is spending cash on the purchase of securities which is another indicator of financial health as securities generate long-term returns to the company. A positive number could indicate the organization is offboarding significant long-term assets to offset negative cash flows from operations. Hope's net cash flows from investments have so far been negative.

Cash flow from financing activities is a measure of how the organization used debt throughout the year. Hope uses minimal short-term debt as most of its operating assets are non-current assets. This number factors in contributions to acquire new property or equipment, the issuance of long-term debt, as well as charges associated with the repayment and depreciation of long-term assets. A key observation I made was during the period of intense growth, the cash received from financing peaked at $5 million in 2011 and during periods of decline such as in 2018 this figure was negative $500,000 as Hope focused its financing activities on the repayment of long-term debt.

Cash Flow Findings. Subramanyam (2014) discusses the importance of different cash flows and how the relationships between these sources of cash change over the course of an organization's lifecycle. The other key ratio in the analysis of cash flows is the organization's free cash flow ratio. Subramanyam (2014) discusses that while this ratio is extremely important to an organization's financial health, there is no universally agreed upon definition.

I defined free cash flows as:

$$free\ cash\ flows = net\ operating\ income - \Delta\ net\ operating\ assets.$$

I used the formula for net operating assets:

$$net\ operating\ assets = total\ current\ assets + plant, property, and\ equipment, net.$$

Hope's free cash flow ratio was negative from 2009-2014. In 2015 it shifted to a positive where it has remained. The shift from negative to positive reflects a period of growth followed by a period of stabilization as the investment of free cash back into the company began to show returns. Figure 1 shows Hope's free cash flows from 2009-2018.

[Figure 1 Here]

I compared the relationship of net cash used in operating activities, net cash used in investing activities, net cash provided by financing activities, and free cash flow over the course of the period. Figure 2 displays the relationship between the four forms of cash flow from 2009-2018.

[Figure 2 Here]

The relationship between the four forms of cash flow reflect where the organization is in the course of its lifecycle. Hope was in a significant growth period from 2008-2014 as is evidenced by the significant negative cash from investing activities and the significant positive in cash from financing activities. This indicates the organization is borrowing and spending significant amounts of cash to fuel its growth. The free cash flow ratio follows the same trend of being negative during periods of growth. Net cash provided by operating activities remained positive throughout the period after I adjusted 2016 to reflect Hope's actual cash from operating following Medicaid's withheld payment at the end of the fiscal year. A positive trending net cash from operating activities indicates the organizations operations are generating cash, rather than losing it.

Hope began to enter maturity as revenues from financing activities began to shift from positive to negative in 2017. This indicates Hope is now paying off more debt than it is borrowing. The net cash flows from investing has remained a negative indicating Hope is continuing its investment activities albeit less aggressively. The free cash flows shifting from a negative to a positive in 2015 reflects slowing growth and stabilization. With a relatively volatile revenue stream, it is crucial for Hope to focus on maximizing its resources each year to maintain its free cash flows indefinitely.

Operating Activities Findings. Young (2007) discusses how nonprofits have a similar obligation to for-profits to manage expenses in relationship to revenues, though the focus is sustainability as opposed to profitability. As a test measure, I calculated the organization's operating profit margin for the period. This ratio is calculated as:

$$operating\ profit\ margin = \frac{operating\ income}{total\ revenue}$$

Over the course of the period this number did not exceed 3%. This finding reflects Hope's management's ability to balance revenues and expenses but could be indicative of a break-even fiscal philosophy.

I then compared the different revenue streams by percentage and averaged these totals for the period. On average, 90.55% of Hope's total revenue comes from Medicaid individual services. This in alignment with the Hope's overall mission. However, it poses significant sustainability concerns as Medicaid funding is subject to change on an annual basis by state and federal legislation. Non-state or federal revenue sources accounted for less than 2% of Hope's total revenue on average. Even an increase in these revenues to 3-5% total revenues could create significant financial stability for Hope. The commercial properties this study focuses on are potential long-term sources of a more diverse and stable revenue stream.

Comparing expenses to revenue, I noticed wages, salaries, and fringe benefits are within roughly $7 million or an average of 76.64% of Hope's revenue from Medicaid throughout the period. This finding is reflective of Hope's primary operations providing a service as opposed to a good.

Subramanyam (2014) discusses the importance of return on invested capital as a measure of how effectively an organization is utilizing its financing sources to generate profits. The return on invested capital ratio is calculated as:

$$return\ on\ invested\ capital = \frac{income}{invested\ capital}$$

I used Subramanyam's (2014) definition of invested capital as return on net operating assets (RNOA). Subramanyam (2014) goes into detail about how RNOA can be disaggregated into its separate components and the separate components manipulated individually to affect the overall formula. While return on invested capital is most pertinent to profitability, it is particularly relevant to operating asset heavy organizations such as Hope.

By calculating the return on invested capital, I established an optimal revenue level based on Hope's existing operating assets. In terms of right sizing this can be used to assist in decision making as test variables can be manipulated in the disaggregated formula. Figure 3 shows the initial analysis of return on invested capital.

[Figure 3 Here]

When I conducted the initial analysis of return on invested capital, I noticed the total was close to the organization's total revenue, so I included a row to compare the two numbers and found that Hope generated significantly more revenue than its capital structure was capable of sustaining. Figure 4 shows the calculated return on invested capital compared to the actual total revenue.

[Figure 4 Here]

Return on invested capital and total revenue were within $100,000 of each other in 2014 indicating at that point in time the organization was right sized for its operating asset base.

Management effectively decreased the operating asset base as the Hope's revenues stabilized, however, based on the return on invested capital remained significantly higher than the total revenue from 2015-2018. Since I began at Hope, there has been a major push from leadership to bring the organization to 97% service utilization. This means Hope is providing and billing 97% of the services it is authorized by Medicaid to provide. The service utilization rate metric began being tracked on Hope's report manager in 2016. Using this comparison measure, Hope's anticipated revenues were $80 million in 2016, $67 million in 2017, and $61 million in 2018. Figure 5 shows the projected total revenue based on a 97% service utilization rate.

[Figure 5 Here]

Financing Activities Findings. The financing activities analysis focused on two measures of debt management: liquidity and solvency.

Subramanyam (2014) describes liquidity as an organization's ability to meet its current debt or financing obligations. Current obligations are intended to be paid within a year. I used the current ratio and the quick ratio or acid test to analyze Hope's liquidity.

I chose the current ratio because it does not include the organization's endowment in the calculation. Historically, Hope maintained a small unrestricted endowment. However, in 2018, the full endowment became restricted by the board of directors. Utilizing this resource would require board of director approval.

The formula I used for the current ratio is:

$$current\ ratio = \frac{total\ current\ assets}{total\ current\ liabilities}$$

This ratio reflects the organization's ability to meet its current liabilities using only current assets. Hope's current ratio was balanced between .95 and 1.26 from 2008-2018. Table 4 breaks down the key statistics regarding Hope's current ratio.

[Table 4 Here]

Hope has maintained a consistent ability to pay its current liabilities in full over the period utilizing only its current assets while having a small amount remaining. This finding is indicative of careful financial management to ensure current liabilities are met each year.

I included the analysis on the quick ratio because it reflects the unlikely event the organization would need to liquidate its endowment to pay for its current liabilities. Such an instance would be subject to organizational by-laws and implemented by the board of directors.

I used the formula for the quick ratio:

$$quick\ ratio = \frac{total\ cash\ \&\ equivalents + marketable\ securities + accounts\ receivable}{total\ current\ liabilities}$$

The quick ratio was balanced between 1.08 and 1.46 from 2008-2018. Table 5 breaks down the key statistics regarding Hope's quick ratio.

[Table 5 Here]

While the difference between the current ratio and quick ratio is relatively small, it represents a figure of over $1,000,000.

Subramanyam (2014) describes solvency as the organization's ability to pay its non-current liabilities. The ratios I used for the solvency analysis are the long-term debt to equity ratio and times interest earned. Hope measures equity using the figure total net assets. Rather than generating returns to shareholders, total net assets is intended to generate returns to Hope's mission.

To calculate the long-term debt to equity ratio, I used the formula:

$$long\ term\ debt\ to\ equity = \frac{total\ long - term\ liabilities}{total\ net\ assets}$$

Long-term liabilities are typically financed using collateral in the form of a building or equipment with substantial value that the lender would repossess in the event of failed repayment. Having a long-term debt to equity ratio of less than 1 means the organization would be able to pay its long-term liabilities in full and have remaining equity. Hope's long-term debt to equity ratio peaked in 2011 at 1.66 and annually reduced to a low of .68 in 2018. The structured decline of Hope's long-term debt to equity ratio indicated Hope is paying off more debt than it is accruing. Figure 6 shows this ratio from 2008-2018.

[Figure 6 Here]

The second ratio I used is the times interest earned ratio. I calculated this ratio using the formula:

$$times\ interested\ earned = \frac{earnings\ before\ interest}{interest\ expense}$$

A higher ratio means the organization is earning its interest expense more times while a ratio of less than 1 means the organization is unable to meet its interest expense with its earnings. An organization should be able to meet its long-term financial obligations. Hope's times interest earned ratio fluctuated between 2008 and 2018 with a low of .96 and a high of 2.31. As Hope continues to pay off long-term debt, this ratio is expected to increase. Table 6 displays the key statistics for the times interest earned formula.

[Table 6 Here]

Investing Activities Findings. Subramanyam (2014) describes the analysis of an organization's investing activities as the comparison of total current assets, plant, property, and equipment, net, total financial assets, net operating assets (NOA), and total assets. Net operating assets is a separate figure not calculated on the balance sheet. I used the formula:

$$net\ operating\ assets = (total\ current\ assets + plant, property, and\ equipment, net)$$

NOA reflects the assets the organization uses for its operations. Hope's total assets increased from $22.3 million in 2008 to a high of $47.3 million in 2014. Hope gradually decreased total assets from 2015-2018, decreasing the overall value to $42.3 million in 2018. Figure 7 represents Hope's total assets from 2008-2018.

[Figure 7 Here]

The overall asset makeup does not have dramatic spikes or lows that would require further inquiry, I compared these assets by converting them to their percentage in relationship to total assets. This removes the dollar amount and allows the analysis of the asset makeup over the course of the period. On average, Hope's net operating assets accounted for 96.91% of total assets and financial assets accounted for 3.39%. Table 7 displays the relationship between the four asset categories.

[Table 7 Here]

Hope's current assets are cash and equivalents and accounts receivable through Medicaid. These subcategories are both liquid and do not need further analysis. I focused on Hope's plant, property, and equipment, net., which represents most of Hope's total assets and net operating assets. This information is provided in note six of the audited financial statements. Plant, property, and equipment are non-current assets and lose value or depreciate as they are used. I compared the net depreciation expense from the statements of operations to the net plant, property, and equipment.

The auditor's note provides the breakdown of plant, property, and equipment into buildings, moveable equipment, land and related improvements, fixed equipment, and leasehold improvements. I reviewed this information for inconsistencies and compared the relationship between each component by calculating the percentages and averaging the percentages over the period. I also analyzed the depreciation expense trend by dividing total plant, property, and equipment by the deprecation expense. The two largest portions of plant, property, and equipment are buildings representing an average of 64.43% of the total and moveable equipment representing 20.61% of the total. Table 8 displays the average makeup of each subcategory of plant, property, and equipment.

[Table 8 Here]

Hope's average depreciation for the period was 3.56%. U.S. Generally Accepted Accounting Principles outlines different depreciation methods for different asset categories (American Institute of Professional Bookkeepers, 2011). The 3.56% average reflects the rate at which Hope's long-term assets are deteriorating or losing value.

The breakdown of Hope's long-term assets is particularly relevant to this study as the focus of this study is on four large buildings which constitute a large portion of Hope's long-term assets. Changes to these buildings have significant ramifications to Hope's asset base.

Property Analysis Findings

Hope currently owns and maintains four commercial properties in Anchorage, Alaska on West International Airport Road and West 53rd Avenue. These properties have an aggregate tax value of over $9 million and have over 60,000 square feet of office and warehouse space. Hope began acquiring these properties in 1990 when it purchased 540 West International Airport Road. Hope acquired 570 West 53rd Avenue in 2002, 524 West International Airport Road in 2003, and

650 West International Airport Road in 2011. These buildings house Hope's administration, physical plant and maintenance, and three revenue generating programs. Hope grew exponentially from 2008-2014 prompting the need to expand its campus.

The three programs based on the main campus are a group recreational program, clinician services, and an art studio. Each of these programs are based in the 650 building. As the State entered recession, Hope's leadership team began restructuring and reducing the administrative workforce.

The question guiding this research is: "What is the optimal use for each of Hope's main commercial properties?"

I completed an analysis of the current Anchorage light industrial commercial real estate market and a financial analysis of Hope. The property analysis established an asset value, non-current liability, and equity value for each property. This information was then compared to total non-current liabilities and net total assets to determine how each property fit into Hope's overall balance sheet. In addition to the non-current liabilities and net total assets, I compared each property's interest expense and current portion of long-term debt to Hope's total expense for both items. Table 9 describes the comparison between each building and each financial factor.

[Table 9 Here]

I then calculated the annual expenses for each property, factoring out aggregate expenses such as insurance and depreciation from the data provided by Hope's chief finance officer. Table 10 describes the annual, monthly, daily, and annual variable expenses and monthly cost per square foot.

[Table 10 Here]

Discussion

Introduction

This study is an applied quantitative analysis of Hope Community Resources, Inc., a human services provider based in Anchorage, Alaska. Hope is a large nonprofit with approximately 800 employees statewide providing supports and services to people and families who experience disabilities. Hope's business model requires significant amounts of long-term assets, specifically buildings and a large specialized vehicle fleet, as well as a large workforce. This research is focused on how Hope can more sustainably utilize four valuable commercial properties located in Anchorage, Alaska. The main data sources for this project are applicable academic literature, public real estate information, audited financial statements for the period 2008-2018, and detailed expense reports from fiscal year end 2018.

The question guiding this research is: "What is the optimal use for each of Hope's main commercial properties?"

Commercial Real Estate Market

The light industrial real estate market in Anchorage appears to be stable. Major global economies, including the U.S., are beginning to slow, but confidence of continued growth is still high. Locally, the Alaska and Anchorage economies are beginning to grow once again. Similar properties for sale do not appear to stay on the market for extended periods. The for-lease market is still a bit more depressed, which reflects the overall reactiveness of this market. As the local economy begins to grow, the demand for office space will likewise grow and the for-lease market will begin to rebound as economic growth picks up.

Given the current economic context, if Hope were to put a property on the market for sale, now would be the time to do it. International and national investors are at a point where they are still willing to take more risks and local businesses are more apt to buy thinking they will get a better deal as the local recession slowly dies. This is the metaphorical point where opposing economic cycles' points of hope intersect – assuming the market is somewhat rational.

The for-lease market is significantly more competitive and more dependent on local economic factors. The decision to lease a property has a significantly larger window of opportunity given that it's not anticipated the local economy will rapidly rebound. This allows more time for Hope's management to implement organizational changes and to see how revenue changes pan out.

Financial Analysis

Introduction. From a broad context, the review of Hope's consolidated financial statements from 2009-2018 revealed Hope's finances are meticulously managed. This period is particularly interesting as it represents Hope during a period of exponential growth followed by a significant economic recession. The financial analysis provided me with both an understanding of Hope's financial composition and the management practices used during this time. Today, Hope is at a significant crossroads as the Alaska economy begins to grow once again while the legislature supports significant cuts to the primary revenue source. The financial analysis is structured using the components of the statement of cash flows.

Cash Flow Analysis. The key findings of the cash flow analysis are the establishment of a formula for free cash flow and the comparison of free cash flow, cash from operations, cash used in investing activities, and cash provided by/used in financing activities. Figure 8 shows the four forms of cash flow from 2009-2018.

[Figure 8 Here]

Free cash flow is effectively the amount of cash an organization must either distribute to its shareholders or invest back into the company without detracting from the company's operations. Negative free cash flow indicates the company is investing its free cash back into itself. This is typically to encourage growth. Ideally this investment would produce returns to the extent that as growth begins to slow, the returns outpace the investment free cash becomes a positive variable.

In Hope's case, the shift from negative to positive free cash flow corresponds with King's (2018) timeline for Alaska formally entering an economic recession. According to the Alaska Department of Health and Social Services (DHSS) (2016) the Alaska budget for senior and disabilities services (SDS) in fiscal year 2015 was $261.9 million. As a comparison, Hope's revenue associated with SDS in fiscal year 2015 was $62.2 million making Hope as a single entity approximately 23.75% of the Alaska SDS market. The senior and disabilities services industry in Alaska is effectively a single-payor system which makes providers more susceptible to economic turbulence as is evidenced by Hope's abrupt change in free cash flow.

The susceptibility of an entire competitive industry on a single-payor to economic fluctuations and legislative changes prompts the need for a discussion around a policy shift to a single-payee system. This finding is key recommendation for future research.

The single largest operational expense on Hope's statement of cash flows is cash paid to employees and supplies. This effectively makes net cash provided by operating activities a comparison of actual revenue to actual expenses. Virtually every entity that uses money has an operational goal of generating more cash than they spend. Hope's cash flow from operations trended positively from 2009-2018. Hope did, however, close 2016 with a cash from operations balance of -$1.3 million due to a payment freeze for the month of June. This payment freeze further reflects the overall industry vulnerability caused by a single-payor system.

As the economic recession panned out, Hope's financial management strategy shifted to a focus on paying off long-term debt and minimizing new borrowing. This is evidenced by cash from financing shifting from a positive number to a negative number in 2017 indicating Hope is paying off more debt than it is renewing. Cash from investing has remained relatively stable between -$2.5 and -$1.1 million since 2014. Much of this balance comes from renewing long-term debt by purchasing property and equipment.

The sale of a long-term asset such as one of the four buildings would likely generate a significant cash return to Hope. In the event a 5% Medicaid rate reduction goes through, the impact to Hope in the coming fiscal year is $2.5 million. Not only would the sale of one of these properties amount to a significant increase in cash on hand, it also permanently eliminates the liability and expenses associated with the property.

Operations Analysis. Hope's general operations strategy over the previous decade has been a break-even approach. The statement of operations is functionally a comparison between revenue and expenses and the difference between the two is net income, or in Hope's case, operating income. Operating income is equity which ultimately gets added back into total net assets on the balance sheet. In terms of sustainability, a break-even financial management approach is the equivalent of living paycheck to paycheck.

Revenue. Hope's primary revenue source is Home and Community Based Waivers through the Centers for Medicare and Medicaid Services. Home and Community Based Waivers are typically planned and approved annually which makes these revenues relatively easy to anticipate. However, Medicaid funding is subject to annual changes at the state and federal levels and Home and Community Based Waiver Services are billed based on participant use.

The logical solution to the dependence on a single source of revenue is to diversify revenue streams. However, diversification comes with risk. Hope also has the added factor of scale. Even after a significant period of reduced revenue, Hope still generates $50 million annually. Investing in for-profit startup companies owned and generating net income for Hope is likely to pose more risk than return. According to Mansfeld (2019) the most profitable startup businesses, accounting firms and real estate lessors, have an approximately 18% net profit margin. Meaning for Hope to generate even a 1% increase of its total revenue a well performing subsidiary startup would need to generate some $2.75 million in total revenue.

Hope owns just over $41 million in buildings. Real estate platform, Zillow (2019), reports a median monthly home rental price in Anchorage of $1695 and property value of $315,000. Using these variables, to generate $2.75 million in revenue, Hope would need to rent 135 homes at market rate which is the equivalent of owning $42 million in residential real estate in Anchorage. Further inquiry is needed to assess this overall property base on an individual basis to determine the optimal use of Hope's real estate.

Nonprofits have access to various other means of revenue generation such as grants, fundraising, membership fees, and private foundation giving. Over the course of the period, these sources of revenue have averaged 1.45% or $769,486 of Hope's total revenue. A key area for improvement is targeted efforts to increase this revenue.

Expenses. The single largest expense category on the statement of operations is salaries, wages, and fringe benefits. This category accounted for an average of 76.64% of total revenue over the course of the period. Given the significance of this expense category, this is likely where the biggest efficiencies can be found. This expense category is also sacred grounds to Hope's management as it is effectively Hope's workforce. A targeted reduction in this expense category to a manageable 70% of total revenue would result in approximately $3.7 million in savings. The consolidated operations statement does not include a breakdown of the subcategories that make up this expense. Further research is needed to engage in an informed discussion on workforce efficiency.

The next largest single expense category is other support services. Hope has made targeted efforts to decrease the use of this expense from a high of 10.53% of total revenue in 2009 to 3.76% of total revenue in 2018. The remaining expenses are variable costs such as depreciation and utilities representing about 16.5% of Hope's 2018 total revenue. Changes to Hope's property base such as selling a significant property and ongoing long-term debt retirement will further decrease these variable expenses.

Return on Invested Capital. This research began as an organizational efficiency analysis focused on key properties. Subramanyam (2014) discusses how return on invested capital serves as a measure of operational efficiency. This metric compares Hope's operating income to the average return on net operating assets and provides insights as to the size of Hope's net operating assets relative to its annual revenues. I found Hope's net operating assets generated more revenue relative to its net operating assets until 2014, after which revenue generation consistently underperformed. Hope has a target goal of 97% service utilization, meaning it is capturing and billing for 97% of the services it is authorized by Medicaid to provide. I compared actual revenues from Medicaid to the fiscal year end service utilization rates for 2016, 2017, and 2018 to calculate the projected annual revenue. The projected revenue reflected Hope's net operating assets would have outperformed its projected return on invested capital in each of those years.

Hope effectively did not actualize $40 million in revenue over these three years. Table 11 shows the comparison between these metrics.

[Table 11 Here]

The key takeaway from the return on invested capital analysis: Hope does not have an asset problem; it has an operations problem. Further analysis is needed to identify operational areas of improvement to maximize the services Hope is authorized to provide.

Financing Activities. The financing activities analysis focused on Hope's ongoing ability to meet its short and long-term financial obligations. In short, Hope has maintained its ability to meet its financial obligations for over a decade. At a glance this is not very interesting. However, it speaks to Hope's commitment to sustainable business practices during periods of growth as well as decline. Maintaining Hope's liquidity and solvency into the future requires Hope's leadership to recognize the early warning signs of economic decline to anticipate revenue changes. This lesson was first learned in 1986 and repeated itself in 2015. Except in 2015, Hope was more adequately prepared and has successfully navigated another significant recession.

Investing Activities. This research is focused on the use of significant long-term assets and how they affect Hope's overall sustainability. Overwhelmingly, Hope uses its assets for its operations and historically has maintained a comparatively nominal financial assets in the form of a board restricted endowment. Hope's plant, property, and equipment, net, have accounted for an average of 73.28% of Hope's total assets over the course of the period. The 2018 value of this asset category before accumulated depreciation was $64 million. Table 12 provides the average composition of Hope's plant, property, and equipment.

[Table 12 Here]

Senior and disabilities services as an industry is at a crossroads. The baby boomer generation is aging into retirement at a time of unprecedented technology. Supports and services are accessible at the press of a button in your own home. This broadens the market for assistive technology as well as decreases the demand for traditional assisted living homes (Coughlin, 2018). According to the Alaska legislature (2018) record, senate bill 174 was adopted. This legislation calls for a flexible support system for people who experience physical and mental disabilities and makes the disability services system in Alaska a true social model. Senate bill 174 sets the legal precedence for people who experience disabilities in Alaska to require fewer expensive accommodations in the future such as long-term assisted living homes as true community inclusion is actualized. These factors draw into question the long-term need for the volume of long-term assets Hope maintains.

As the return on invested capital findings suggested, Hope has reduced its net operating assets to a sustainable level and needs to focus its efforts on increasing its operational efficiencies. Hope is anticipating a budget reduction of $2.5 million in the coming fiscal year due to legislative changes to Medicaid. However, Hope represents a major part of the senior and disabilities services industry in Alaska and is comfortably positioned financially to weather this budget cut. In the wake of the economic recession, it is unlikely other providers are positioned as well as Hope for the anticipated budget changes. In the event some of the smaller providers go out of business, the people they support will be eligible for services and looking for placement and Hope has the capacity to grow once again.

Property Analysis

Hope ultimately has four decisions it can make regarding each of the properties: keep the building and continue its current use, keep the building and change its use within the scope of

Hope's mission, keep the building and lease it to generate revenue, or sell the building. Appendix B provides a detailed property profile, pictures, and floor plans. Table 13 provides a summary of my recommendations for the use of each property.

[Table 13 Here]

524 West International Airport Road. 524 is a combined office and warehouse space. Hope currently leases the ground level office space and uses the second-floor office space for its information technology and maintenance departments. The warehouse space is used by Hope to store supplies and moveable equipment. The second-floor office space was on the market for lease for over two years and remained vacant for that time. Table 14 provides a breakdown of the tax value, non-current liability, and variable costs associated with 524.

[Table 14 Here]

Keeping this property and maintaining its current use represents significant value to Hope as this is the only one of the buildings in the vicinity that has a warehouse space. Buildings alone after accumulated depreciation represent more than $18 million of Hope's total assets. Maintaining access to a warehouse space at below the market leasing rate of $1.71 per square foot allows Hope to maintain and store building maintenance supplies as well as a portion of Hope's moveable equipment.

Warehouse space is also extremely versatile for programmatic purposes. In the event a program such as Hope's recreation program or art studio needed to be relocated, the warehouse space could easily be reconfigured to be used for either or both programs and still used for general maintenance and supply storage. A portion of the ground level office space could also be repurposed to feature a small art gallery should one of the current tenants choose not to renew their lease. The second-floor office space has room for an additional administrative team should the need arise. This would ideally be a team that requires a heightened degree of confidentiality such as internal audit and quality assurance.

In the event of further economic turbulence or funding changes, this building could be vacated and leased in its entirety. Spoerhase (2018) reports cannabis companies are inflating lease prices for retail/warehouse spaces such as 524 by up to 300% of the market value. This location may very well not be suited for the cannabis industry due to the licensing standards in place for this industry. The decision to lease to this industry would also need to be determined by Hope's board of directors. Regardless, the budding Alaska cannabis industry has created significant competition for similar properties and increased the overall leasing price, making this property less likely to sit on the market for very long.

Hope has a substantial amount of equity in this property compared to the tax value and can fully utilize this property in the foreseeable future. Selling 524 would result in the loss of substantial warehouse space as well as a small amount of office space that can be flexibly used by Hope. Leasing the ground level office space brings in revenue to further help offset the variable costs associated with this building.

540 West International Airport Road. 540 is likely the most recognizable of Hope's buildings. This brick and gold glass office space was purchased by Hope in 1990 to house a growing administration. 540 is also the largest and most valuable of the four properties. Table 15 provides a breakdown of the tax value, non-current liability, and variable costs associated with 540.

[Table 15 Here]

540 is currently used for senior management and non-program related administration. All the teams housed in 540 have decreased significantly in size since workforce restructuring began

heavily in 2014. Manyika & Sneader (2018) forecast up to 50% of most tasks currently done by workers and up to 15% of the global workforce will be replaced by automation by 2030. Automation of administrative duties creates significantly less demand for non-revenue positions and along with it the long-term demand for large office space. The ground-level of this building is divided into offices and conference rooms. In March 2019, fiscal support moved to the second level which opened a significant amount of open office space on the ground level. The second level is primarily open office space and five conference rooms. Approximately 32 employees occupy the entire second level. Continuing to use this space as is creates significant unnecessary space as the building in its entirety has capacity for additional administrative employees.

Hope currently employs 118 non-program employees in Anchorage. Of these 118, approximately 64 are housed in 540 with the remaining 54 primarily based at 650 West International Airport Road. There is significant enough vacant space on both floors to allow for all of Anchorage administration to be housed in 540 without requiring major remodels. Housing several smaller teams, such as information technology and maintenance, across the parking lot at 524 allows for a small amount of capacity for teams to grow in the future. Not only is this a more efficient use of this space, it could foster a more collaborative environment than having teams divided between properties.

540 is Hope's primary office space. In terms of leasing this space for revenue, it does not make sense to divide the space into smaller leases. The upstairs is a large open concept layout and the downstairs is corridors of smaller offices. Nor does it make sense to lease the building in its entirety. None of the other buildings have the capacity to house Hope's full administration even as Hope uses less administrative personnel. It also does not make sense to put this property on the market for sale for similar reasons. While leasing or selling this property do not make

sense now, this does not mean they may not in the future. As automation decreases the need for administrative personnel, the need for a centralized workforce in the future could also decrease.

650 West International Airport Road. 650 was purchased by Hope in 2011 at a period of unprecedented growth with the intent to house recreation and family community programs. This building is a part of Hope's former chief executive officer's legacy and bears his name. 650 is a two-story building with 4,500 square feet of space on both the ground level and second level. 650 also features a 3,000 square foot basement which is used to house a portion of Hope's records. Given the recent purchase, 650 represents the largest liability of the four properties. Table 16 provides a breakdown of the tax value, non-current liability, and variable costs associated with 650.

[Table 16 Here]

650 is currently the only property of the four with revenue generating programs. The building overhead is calculated into these program budgets. Hope's employee costs have averaged 76% of total revenue over the course of the period. Additionally, Hope's service utilization has been lower than expected for the previous three fiscal years leaving some $40 million agency-wide in anticipated revenue not actualized. Meaning the current monthly rate per square foot is further draining programs that are likely already under budget. According to Folger (2019), commercial real estate mortgages tend to have a shorter period than residential mortgages, usually no more than 20 years, and Hope is at this point seven years into the term on this property. While the $2 million price tag is high, the result is Hope owning and maintaining a significant long-term asset. This building also has room for expanding the programs that currently occupy it, which may be actualized faster than economic growth as proposed senior and disabilities services budget cuts begin to affect the provider base. Keeping the building and

maintaining its current use would allow Hope to partially utilize a significant asset while it pays through the financed term in the coming years.

In terms of keeping the 650 building and changing its use, moving Anchorage program management to 540 could foster collaboration between program management and general administration. This would free up space in 650 to expand Hope's mental health clinic on the second floor and expand the group recreation program and art studio on the first floor. There is also the potential for remodeling a part of this building to house other Hope functions such as an auditorium space or employee training space. However, changes to this building would incur additional maintenance and remodel costs on top of an already high overhead.

Hope has the capacity between the other three buildings to vacate the 650 building in its entirety to lease the space. Current leasing rates for light industrial property in Anchorage are about $1.71 per square foot. This is below Hope's current monthly expense on the building, but a long-term lease for the entire building or dividing the building into subleases would allow Hope to pay off this long-term asset and potentially generate revenue from the building after the term. Leasing this property at market rate would still require Hope to subsidize some of its current variable costs on the building. However, keeping this building also gives Hope's Anchorage programs significant room to grow should Hope see the exponential growth of the 2000s once again in the coming decade.

Of the four properties, 650 is the most significant liability, costing Hope more than the other three buildings combined. Given the current global, national, and state economies, now would be the best time to place a significant commercial property such as 650 on the market for sale. In the event 650 sold within the coming fiscal year, this would eliminate nearly $500,000 in variable expenses from the overall budget and likely generate a one-time positive cash flow from investment at a time when Hope needs a temporary cash injection. Hope has the capacity to relocate the programs and non-revenue workforce to the other three buildings without incurring significant remodel costs or limiting programmatic capacity. Relocating the discovery center, the art studio, and mental health services would also immediately dramatically decrease these programs overhead and make them viable sources of revenue for the agency.

Hope's primary revenue source is susceptible to economic and legislative turbulence. And while it looks like Alaska is beginning to come out of recession, the legislature by no means has a sustainable fiscal solution yet. Hope's management also has a human-centered expense approach, meaning everything that can get cut before wages and benefits, gets cut. Given these factors, should Hope experience significant growth in the coming years, expansion may be best suited to commercial leasing as opposed to property ownership.

570 West 53rd Avenue. 570 is the only building of the four that Hope owns outright. This building is currently vacant of any permanent positions. The ground-level is a café and large multi-purpose space primarily used for workforce development and company gatherings. The second level is also primarily used for workforce development and hosts a series of office suites. Table 17 provides a breakdown of the tax value, non-current liability, and variable costs associated with 570.

[Table 17 Here]

Keeping and maintaining 570's current use poses more liability than value to Hope. While the overhead is minimal, Hope's current use of the space is minimal. Without a permanent presence, this also leaves the building susceptible to vandalism and break-ins. The building was vacated of permanent positions in February 2019 as the first step in restructuring Hope's use of these buildings. This coincided with Hope's chief executive officer's approval of this research.

Given the low overhead and the versatility of this space, Hope could continue to use the ground-level space for workforce development and regular company events. Workforce development currently occupies a significant space on the second level as well as the on the ground-level. Hope's mental health services have been looking to expand their clinic space and youth services and keep overhead costs low as mental health services are more variable than other billable services. The upstairs space is already a series of office suites and with minimal remodeling could direct the flow of traffic to a front-desk and waiting area. Workforce development can easily occupy the ground-level while still allowing the current functionality of the space itself. Additionally, the space adjacent to the café which has a separate entrance and is currently used primarily for storage could cost-effectively be updated to house Hope's recreation program.

Should Hope's mental health services choose to not use the upstairs of 570, the space is vacant, has low overhead, and is accessible. Hope could lease the upstairs of this space at or below market rate which would subsidize maintaining use of the downstairs. Internal revenue code section 501 allows organizations to maintain tax exemption on revenue if revenue is associated with the organization's mission (26 U.S.C. § 501, 2018). Should a provider budget cut go through, it may be opportune to lease the upstairs to an adjacent community support organization such as Disability Law Center or Stone Soup Group. Hope uses the ground-level of this space extensively for company gatherings and community events. Apart from remodeling the warehouse space of 524, none of the other buildings have the functionality of the ground-level of 570. Consequently, leasing the entire space is unlikely to benefit Hope as a whole.

While 570 is not the most valuable of the three properties, Hope owns it outright and has customized this space extensively. In a period of revenue instability, it makes more sense to eliminate liability and repurpose space that requires minimal or no renovation. The decision to sell 570 would not eliminate liability and could incur significant renovation costs elsewhere as none of the other buildings currently have a large multi-purpose space for agency and community gatherings. A point of consideration is the long-term need for such a large agency meeting space. Selling 570 would generate a significant positive cash flow provided the building sells in a timely manner.

Limitations

I am a Hope employee and in the course of my employment has updated Hope's onboarding curriculum. This has required a significant amount of internal research and dialogue outside of the scope of this project regarding current and historical agency information. Completing this research independently would require access to Hope's internal archives in addition to a confidential financial dataset. I have sought to minimize making biased assumptions and inferences by referencing company archives. However, as a current employee some degree of bias cannot be avoided.

One of the key limitations of applied research is changing data. This research was completed on June 30, 2019. In the weeks following, the Alaska executive branch and legislature conflicted over the budget. As of July 28, 2019, the date prior to defense, no formal compromise has been made. In addition to the daily changing news from the legislature, the market research and economic data are a snapshot from publicly available sources. These data change regularly but are reflective of management practice. You make informed decisions in real time that have real world consequences using the information you have available at the time. Among the challenges posed by the Dunleavy Administration's budget cuts are available staff during the resulting economic downturn; an increase of need in the face of a likely substitute; changing need with distantly similar organizations; and, other provider organizations closing.

Recommendations for Future Research

The discussion on Hope's dependence on a single-payor system prompts the need for future research on a policy shift to a single-payee senior and disabilities services system. This would be akin to treating senior and disabilities services as a utility which people who are eligible for supports can access. A single-payee system could serve to mitigate many of the challenges senior and disabilities services companies face such as high employee turnover, inconsistent quality and oversight, and incidences of abuse, neglect, and mistreatment.

Regarding Hope as a single entity, future research can be done to assess Hope's entire property base to position Hope for long-term sustainability. In addition to assessing Hope's property base, Hope is not adequately accessing the various revenue streams commonly associated with nonprofits such as grants, membership fees, fundraising, etc. The failure to explore and actualize these diverse revenue sources could be detrimental to Hope as a nonprofit in the long run. Lastly, Hope's workforce expenses account for a disproportionate amount of Hope's annual budget. While this is intentional, it does prompt the need for further inquiry as to whether there are areas where waste can be eliminated from this expense category.

The return on net operating assets figure revealed Hope did not actualize more than $40 million in revenue over the previous three fiscal years due to poor service utilization. The factors that drive service utilization are complex and diverse – ranging from support recipient choice and preference to a lack of available staffing. Further research could be done to identify ways to optimize this variable and allow Hope to truly optimize its primary revenue source.

Conclusions

Hope celebrated 50 years of excellence in service in 2018. Since its founding, Hope has been a vital part of Alaska communities for most of Alaska's state history. Today, Alaska is on the precipice of a different and more astere future and Hope along with it. In June 2019, Hope's chief executive officer celebrated 42 years of service to Hope and the people of Alaska. Given the longevity of executive tenure, Hope is preparing for further leadership change in the coming years. Hope also finds itself in an era of rapid technological and ideological change.

From a financial perspective, Hope needs to shift its long-standing break-even fiscal philosophy by offboarding significant liabilities and exploring new means of eliminating wasteful processes. Shifting the fiscal philosophy from a break-even approach and cultivating a more diverse range of income for Hope through fundraising and grants further enhances Hope's mission and positions Hope for the future.

The property analysis revealed the need to downsize Hope's commercial property base. 650 West International Airport Road is Hope's largest long-term liability while also being the least adaptable of the four spaces for current and future use. My recommendation is to put this property on the market for sale while the national and international economic conditions are still favorable enough to attract potential local, national, and international buyers. The other three properties require minimal remodels to accommodate current and future need and have minimal liability, further positioning Hope for long-term sustainability as these resources are optimized.

Lastly, Hope has a long-standing commitment to innovative business practices. The continued investment in internal process review and research is crucial to maintaining a nimble organization capable of navigating a turbulent business climate.

Appendices

Appendix A

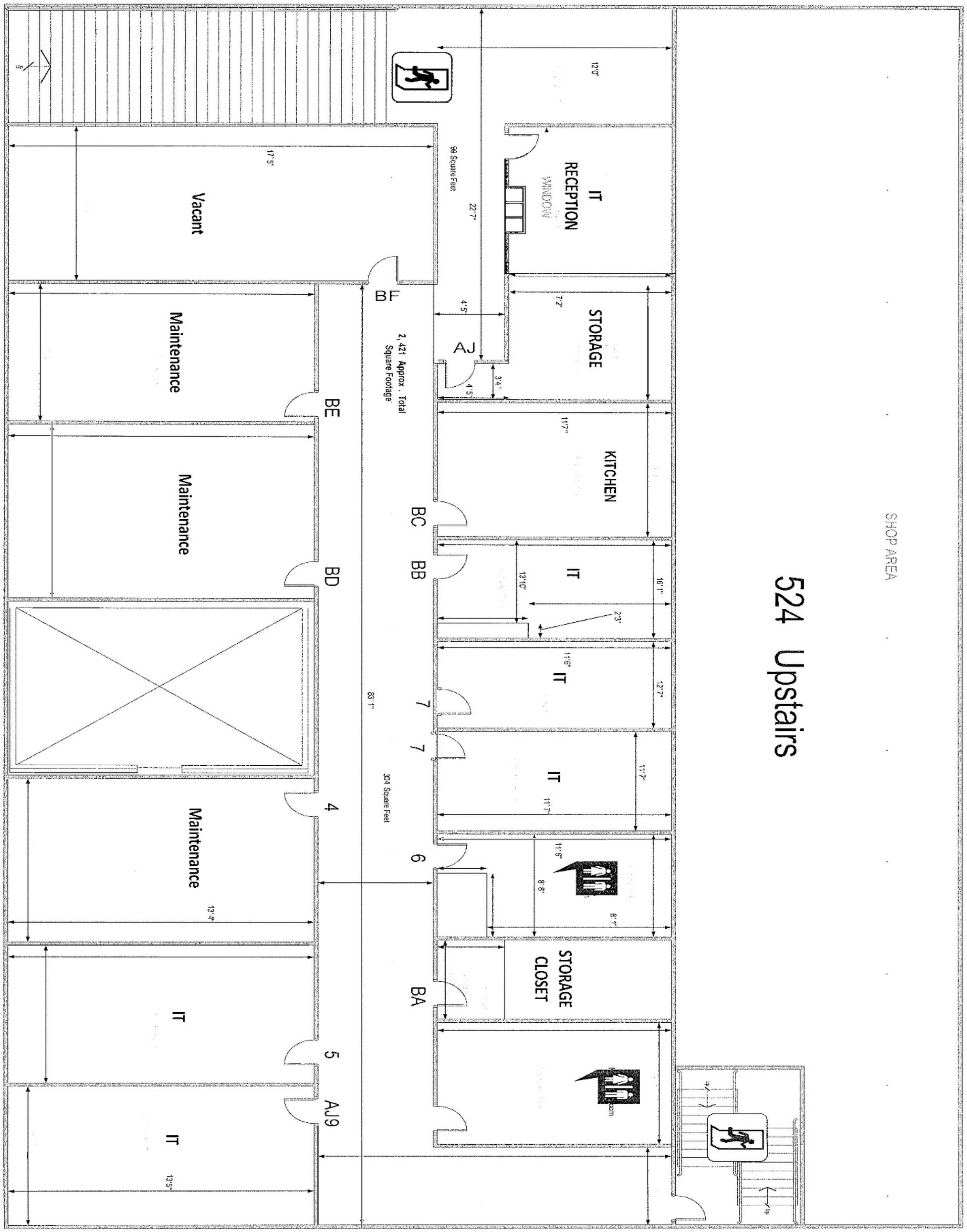
Access to financial records. I was granted access to the audited financials from the fiscal years 2009-2018 by Hope's chief executive officer. Additionally, I requested a breakdown of the financial information for each of the four main commercial properties this study focuses on with a date of June 30, 2018. Access to financial information was granted and allowed to be published in this study at Alaska Pacific University and archived at the University of Alaska Anchorage and Alaska Pacific University Consortium Library. Access to these data and further use or publication of this study or the information contained herein requires the express permission of Hope's chief executive officer. Contact the chief executive officer at Hope's Main Office at 907-561-5335 or by mail at 540 W International Airport Road Anchorage, Alaska 99518.

Appendix B

Property Profiles.

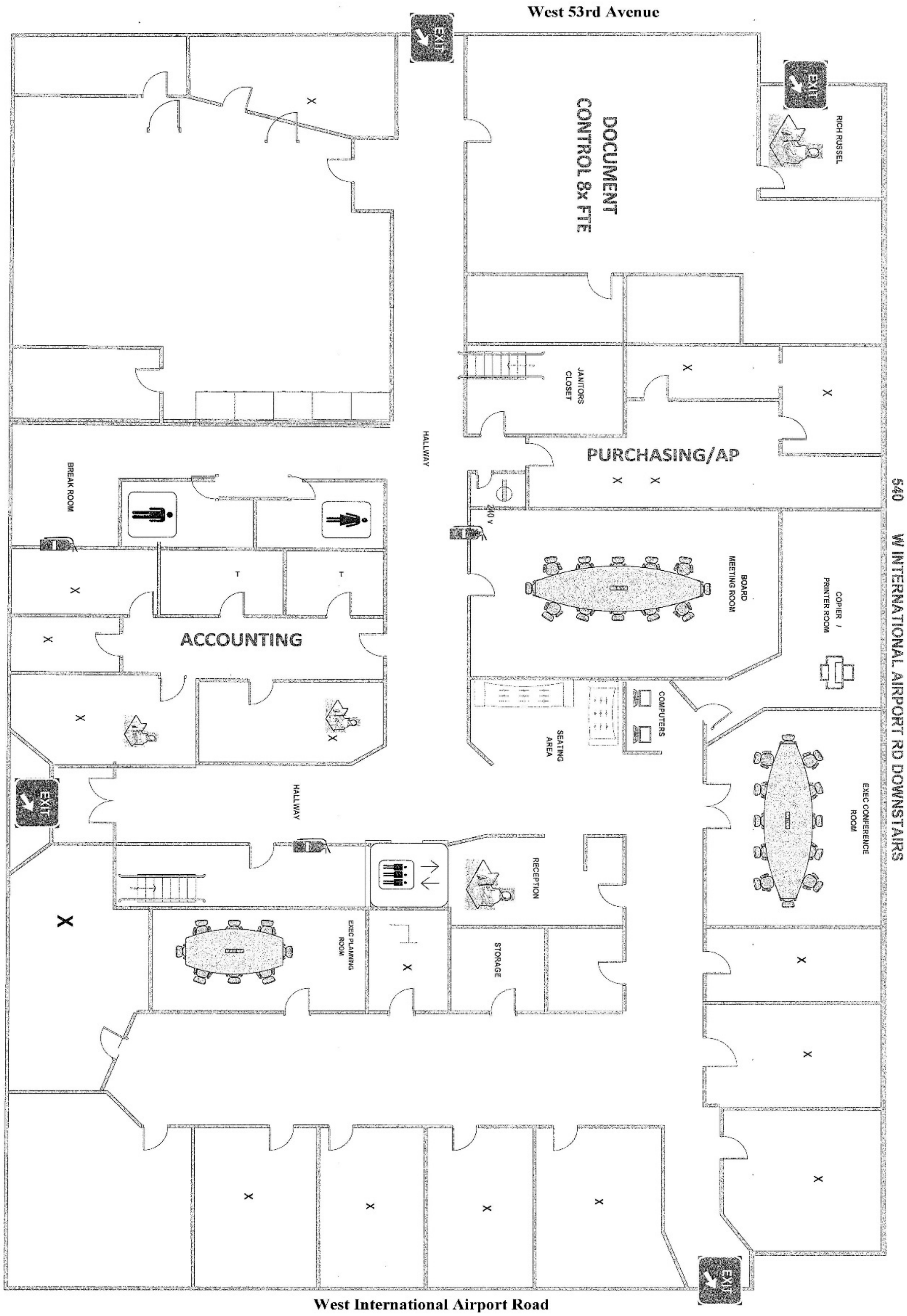
524 West International Airport Road (524). 524 is zoned as light industrial and was purchased by Hope in 2003. As of June 30, 2018, Hope owed $492,129 on this property. The Municipality of Anchorage assessed the tax value of this property at $1,643,400 in 2018. The building on this lot has two floors. The first floor has 5,772 square feet of warehouse space which is utilized by Hope's physical plant and maintenance department and 3,128 square feet of office space which is leased to outside entities at market rate. The upstairs is used by Hope's physical plant and maintenance department and information technology department. While the warehouse space is not directly used for revenue generating activities, it does house a significant amount of small equipment.

524 West International Airport Road Floor Plan.

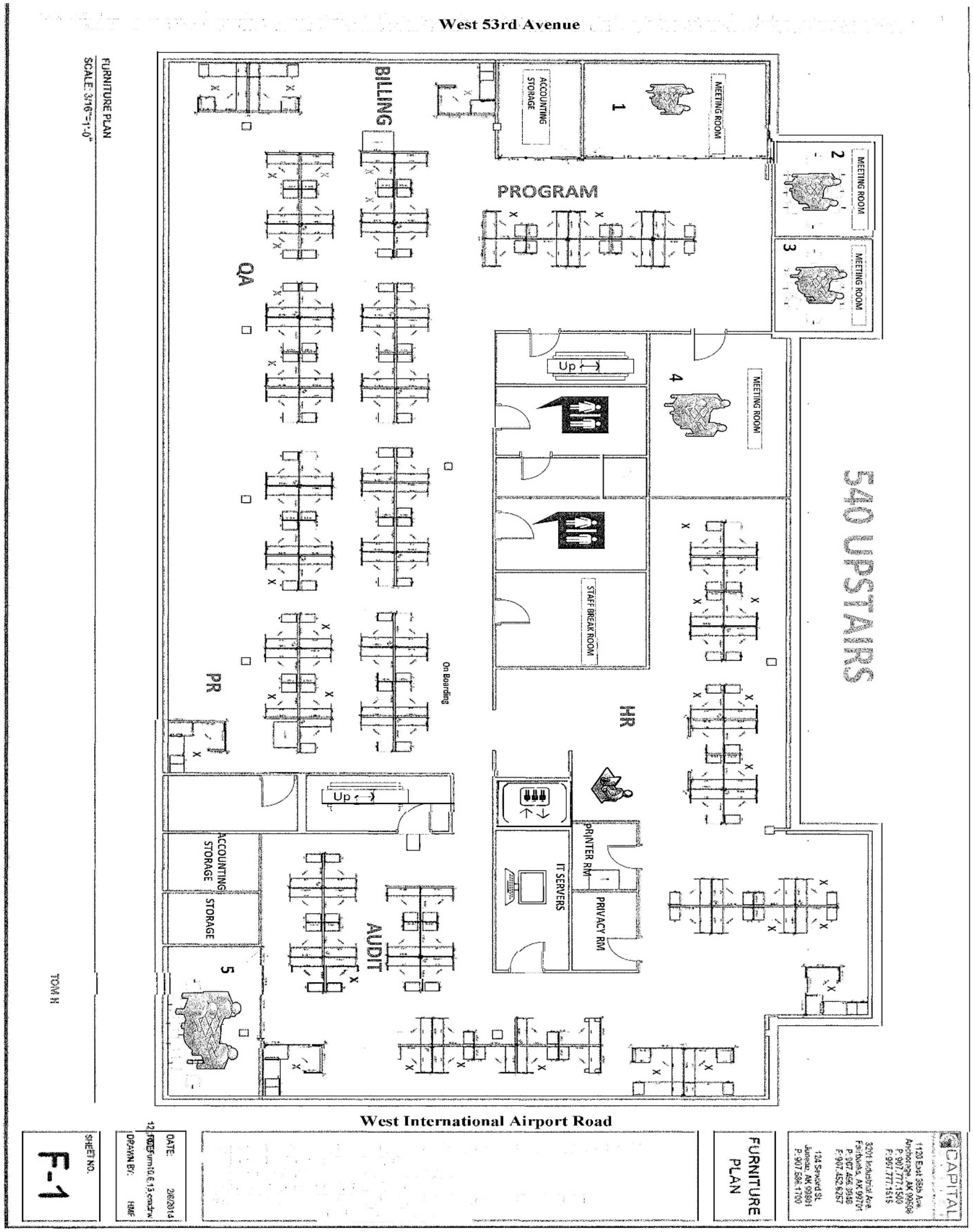


540 West International Airport Road (540). 540 is zoned as light industrial and was purchased by Hope in 1990. As of June 30, 2018, Hope owed $430,370 on this property. The Municipality of Anchorage assessed the tax value of this property at $3,251,000 in 2018. The building on this lot has two floors. The first floor is 11,294 square feet and the second floor is 11,941 square feet. 540 currently hosts most of Hope's administration and has capacity to provide workspace for all of Hope's Anchorage administration.

540 West International Airport Road Ground Level Floor Plan.

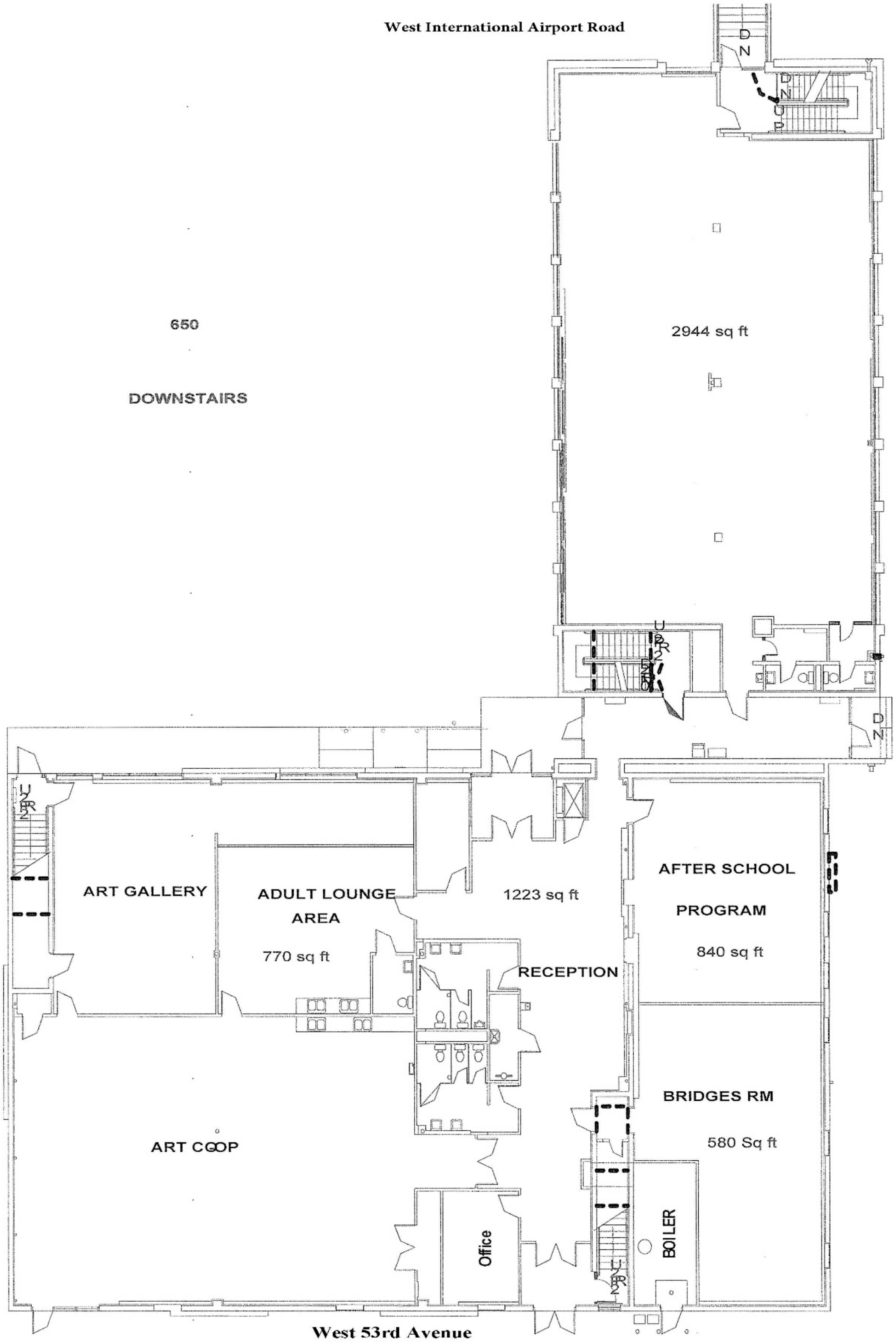


540 West International Airport Road Second-Level Floor Plan.

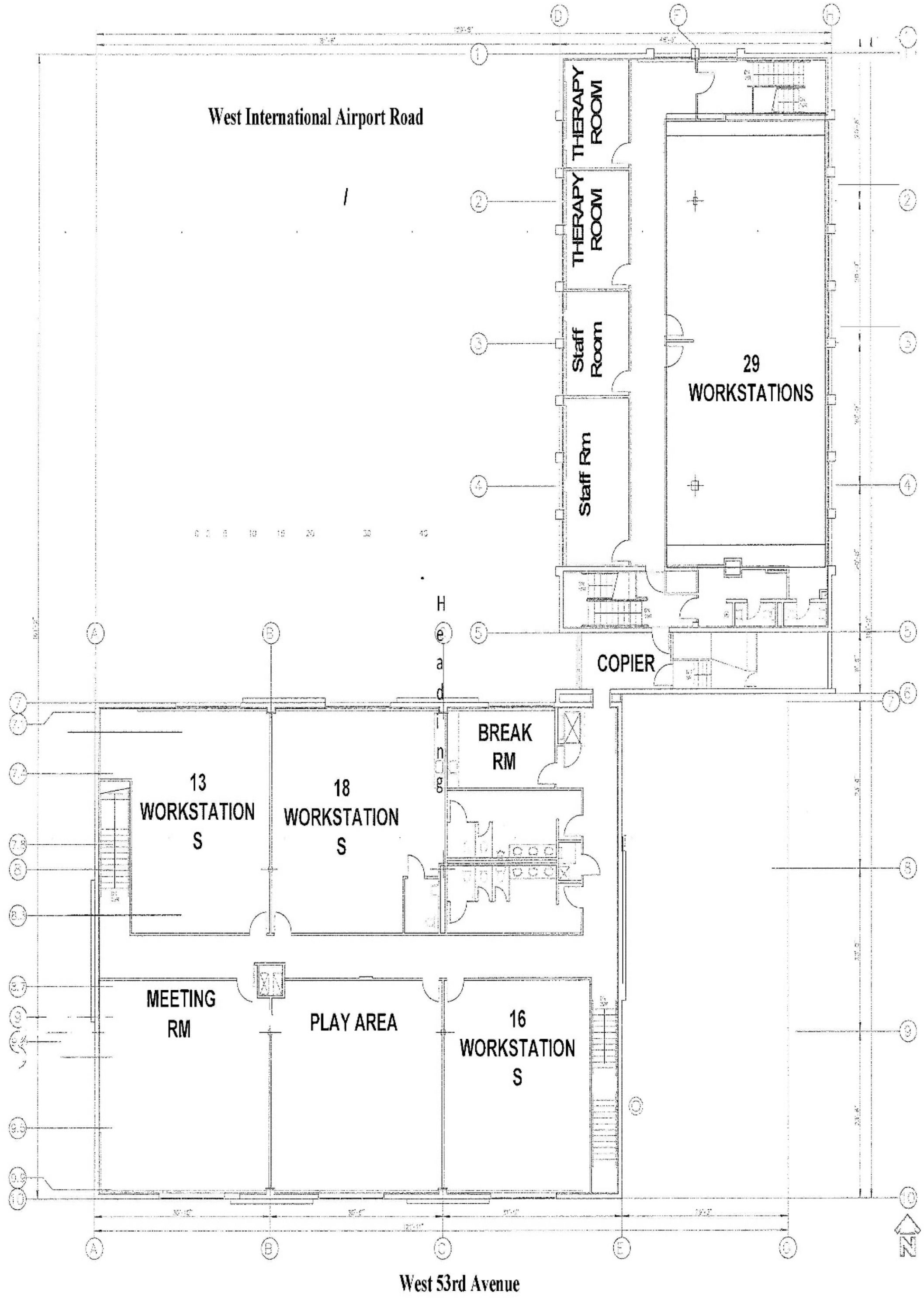


650 West International Airport Road (650). 650 is zoned as light industrial and was purchased by Hope in 2010. As of June 30, 2018, Hope owed $2,243,883 on this property. The Municipality of Anchorage assessed the tax value of this property at $2,988,700 in 2018. 650 represents the largest interest burden and largest liability of the four properties. The building on this lot has two floors and a basement. The first floor is 4,256 square feet, the second floor is 4,256 square feet, and the basement is 3,936 square feet. The first floor is currently used by two programs, an art studio and group recreational program. The second floor is used by Hope's Anchorage program management teams and Hope's mental health services team. Hope's mental health services team provides clinician services and case management services from this location. The full second floor is currently used by 32 full-time employees, many of whom spend significant portions of their time at other locations. The basement space is currently used as storage for health and personnel records.

650 West International Airport Road Ground Level Floor Plan.

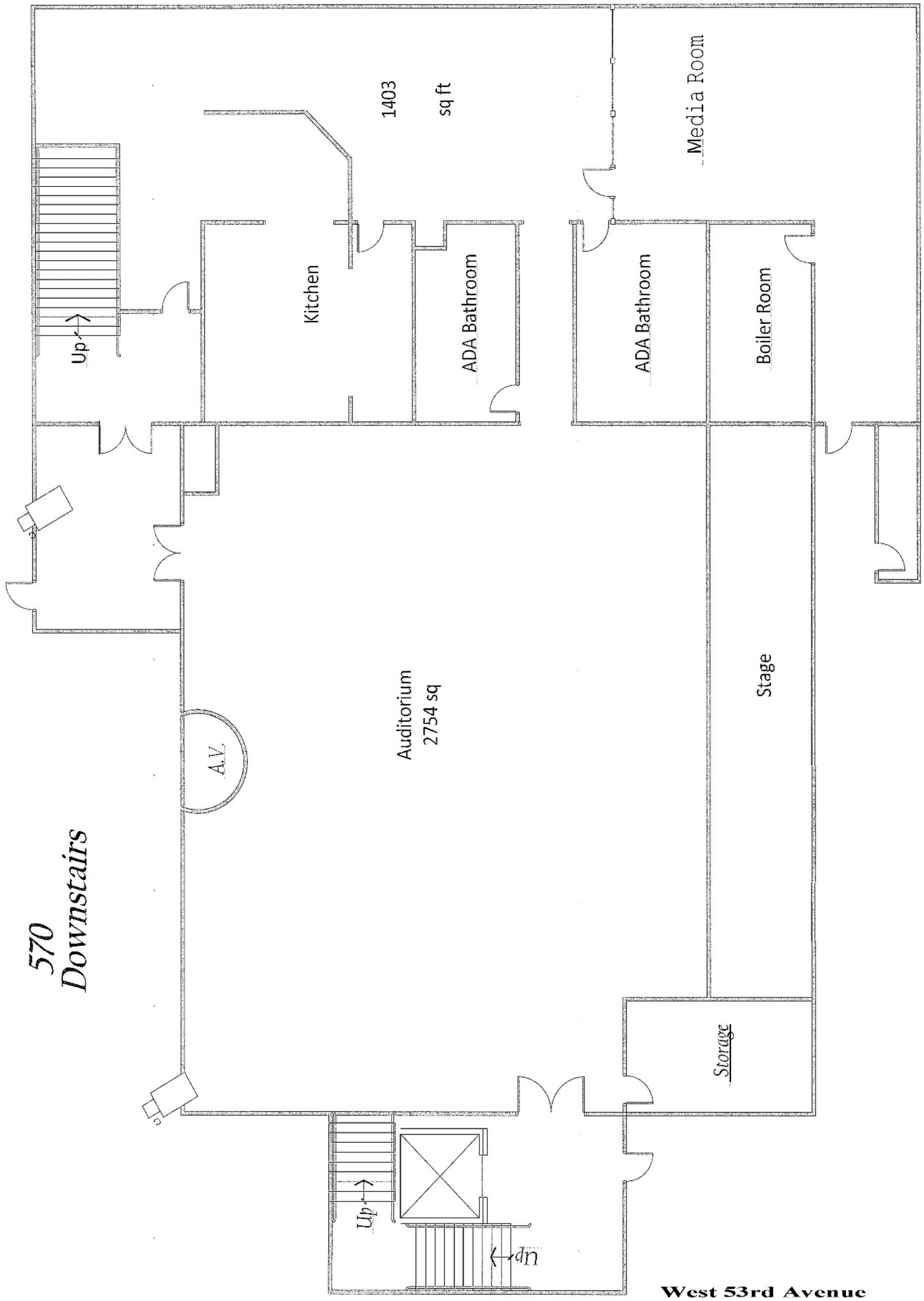


650 West International Airport Road Second-Level Floor Plan.

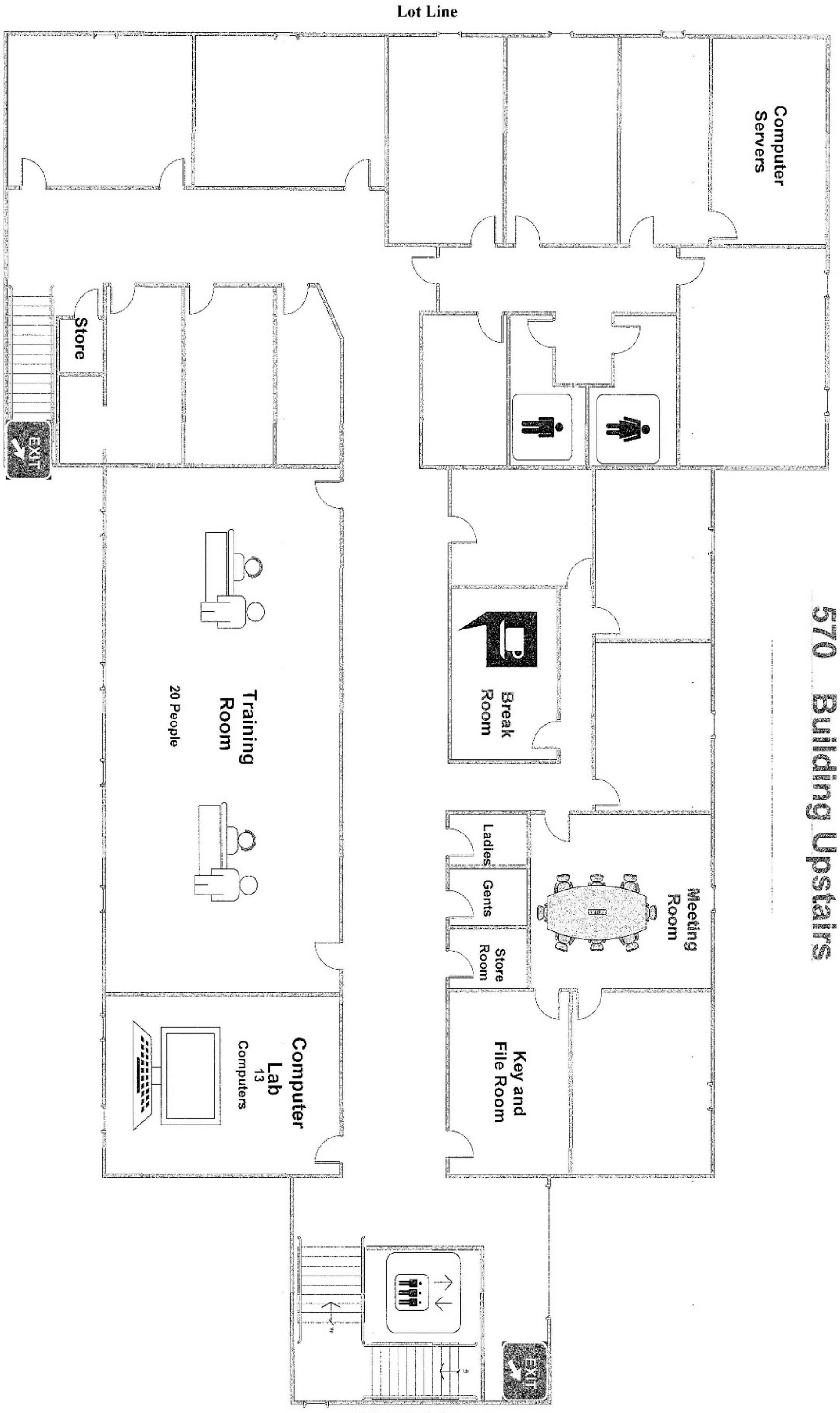


570 West 53rd Avenue (570). The final property in this study is the 570 building. 570 is zoned as light industrial and was purchased by Hope in 2002. As of June 30, 2018, Hope fully owned this property. The Municipality of Anchorage assessed the tax value of this property at $1,136,000 in 2018. The building on this lot has two floors. The first floor is 5,804 square feet and the second floor is 5,692 square feet. The first floor is comprised of a large auditorium space and a commercial kitchen. The auditorium space is outfitted with audio/visual equipment capable of video teleconferencing with Hope's non-Anchorage offices. This space is primarily utilized for workforce development and organizational gatherings. The commercial kitchen is used by the group recreational program to teach cooking classes and for regular company luncheons. The second floor currently hosts a large classroom space used by the training and professional development team and a computer lab. The second floor of the 570 building is currently vacant of any permanent positions.

570 West 53rd Avenue Ground Level Floor Plan.



570 West 53rd Avenue Second-Level Floor Plan.



Appendix C

Tables.

Table 1. Anchorage Light Industrial Properties for Sale Key Findings

	Building Square Footage	Lot Square Footage	Asking Price	Tax Value
Average	24,751	82,182	$3,664,875	$2,654,738
Median	28,117	59,068	$3,625,000	$2,234,350

Table 2. Anchorage Light Industrial Properties for Lease Market Longevity

	2011-2014	2015-2016	2017	2018	2019
Total	4	7	14	11	23
Percentage of Market	6.8%	11.9%	23.7%	18.6%	39.0%

Table 3. Anchorage Light Industrial Properties for Lease Market Measures

	Primary Lease Square Footage	Lease Price per Square Foot
Average	3,291	$1.81
Median	2,092	$1.70

Table 4. Hope's Current Ratio Analysis

Low	High	Range	Mean	Standard Deviation
.95	1.26	.31	1.15	.09

Table 5. Hope's Quick Ratio Analysis

Low	High	Range	Mean	Standard Deviation
1.08	1.46	.38	1.29	.11

Table 6. Hope's Times Interest Earned Ratio

Low	High	Range	Mean	Standard Deviation
.96	2.31	1.35	1.36	.47

Table 7. Hope's Average Asset Composition 2008-2018

	% Total current assets	% Plant, property, equipment, net	% Financial assets	% Net operating assets
Period Average	23.33%	73.28%	3.39%	96.91%

Table 8. Hope's Average Plant, Property, and Equipment Composition 2009-2018

	% Buildings	% Moveable equipment	% Land and related improvements	% Fixed equipment	% Leasehold improvements
Period Average	64.43%	20.61%	11.70%	3.04%	.22%

Table 9. Individual Property Financial Comparison

	524	540	650	570	Aggregate
Interest Expense	0.87%	1.78%	16.06%	0.00%	18.72%
Current Portion of Long-Term Debt	$35,237.20	$30,815.16	$160,665.54	$0.00	$226,717.90
Non-Current Liability	3.67%	3.21%	16.73%	0.00%	23.61%
Net Total Asset Estimate	5.79%	14.19%	3.75%	5.79%	29.45%

Table 10. Individual Property Expense Comparison

	524	540	650	570
Total FY 18 Expenses	$97,038.20	$189,031.14	$455,967.66	$79,514.59
Monthly Expenses	$8,086.52	$15,752.60	$37,997.31	$6,626.22
Per Diem Expenses	$269.55	$525.09	$1,266.58	$220.87
Annual Expense Per Square Foot	$8.03	$7.70	$36.63	$6.92
Monthly Expense Per Square Foot	$0.70	$0.64	$3.05	$0.58

Table 11. Return on Invested Capital Compared to Total Revenue and Projected Revenue

	2016	2017	2018
Return on Invested Capital	$63,682,001	$60,439,331	$60,410,154
Total Revenue Actual	$60,466,767	$54,278,826	$52,145,734
Total Medicaid Revenue Actual	$55,205,552	$49,846,326	$46,798,867
Projected Medicaid Revenue @ 97% Service Utilization	$75,442, 921	$63,344,604	$56,602,121
Projected Total Revenue	$80,704,136	$67,777,104	$61,948,988
Difference	$ (20,237,369)	$ (13,498,278)	$ (9,803,254)

Table 12. Plant, Property, and Equipment Average Composition 2008-2018

	% Buildings	% Moveable equipment	% Land and related improvements	% Fixed equipment	% Leasehold improvements
Period Average	64.43%	20.61%	11.70%	3.04%	.22%

Table 13. Summary of Individual Property Analysis

	524	540	650	570
No change	Yes	No	No	No
Repurpose	Maybe	Yes	No	Yes
Lease	No	No	Maybe	Maybe
Sell	No	No	Yes	Maybe

Table 14. 524 West International Airport Road Fiscal Year 2018 Overview

Total square feet	Tax value	Non-current liability	Annual expenses	Monthly expenses	Monthly expense per square foot
12,082	$1,643,400	$492,129	$97,038.20	$8,086.52	$0.70

Table 15. 540 West International Airport Road Fiscal Year 2018 Overview

Total square feet	Tax value	Non-current liability	Annual expenses	Monthly expenses	Monthly expense per square foot
24,560	$2,820,630	$430,070	$189,031.14	$15,752.60	$0.64

Table 16. 650 West International Airport Road Fiscal Year 2018 Overview

Total square feet	Tax value	Non-current liability	Annual expenses	Monthly expenses	Monthly expense per square foot
12,448	$2,988,700	$2,243,883.12	$455,967.66	$37,997.31	$3.05

Table 17. 570 West 53rd Avenue Fiscal Year 2018 Overview

Total square feet	Tax value	Non-current liability	Annual expenses	Monthly expenses	Monthly expense per square foot
11,496	$1,136,000	$0.00	$79,514.59	$6,626.22	$0.58

Figures.

Figure 1. Hope's Free Cash Flow Ratio 2009-2018

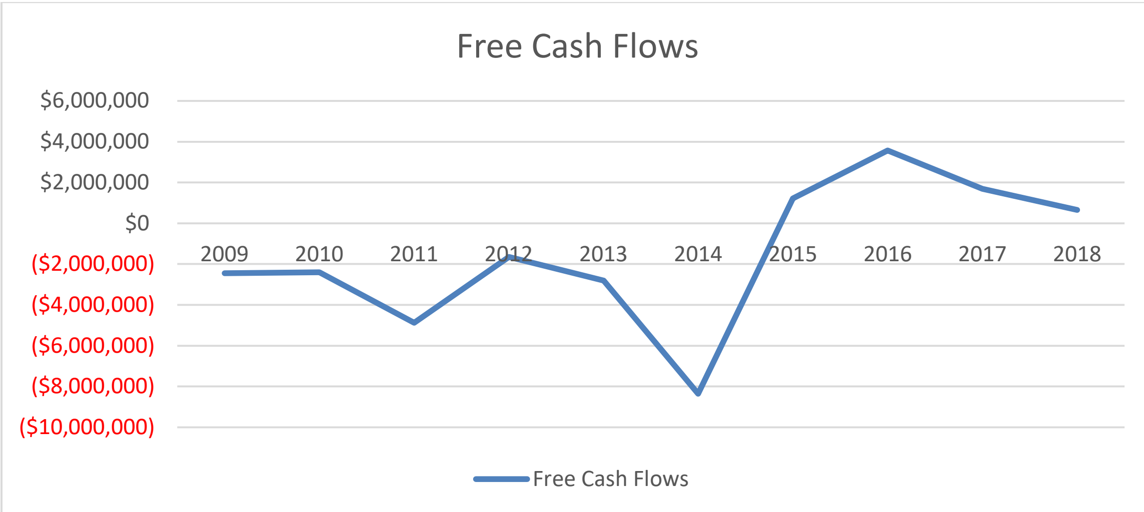


Figure 2. Hope's Cash Flows Amended 2009-2018

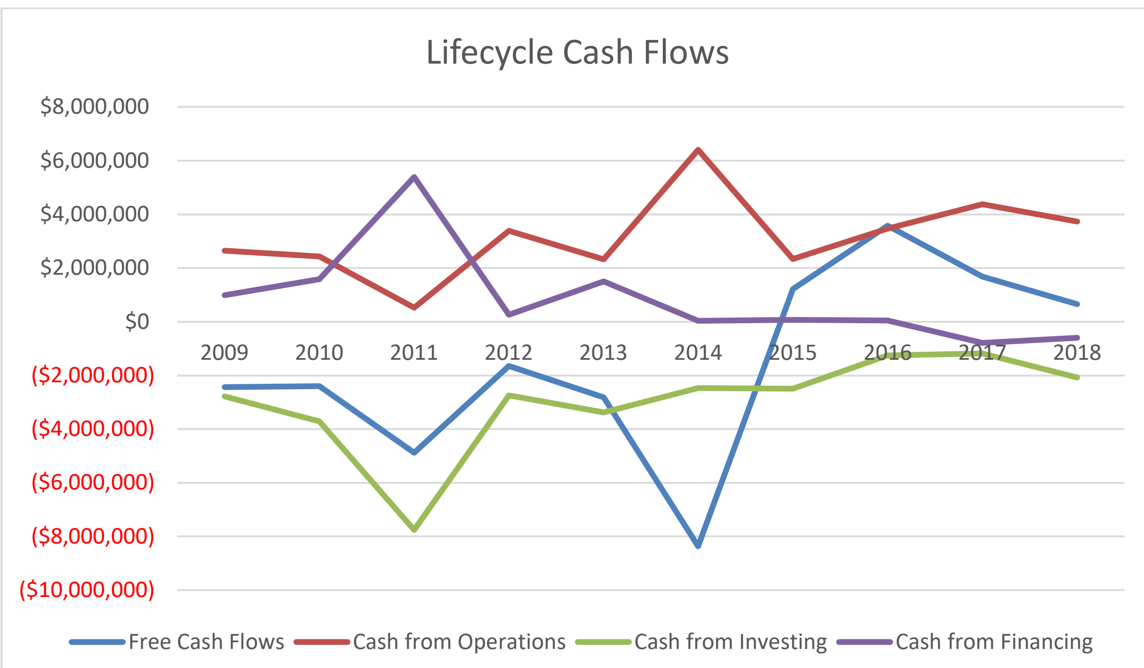


Figure 3. Hope's Return on Invested Capital 2009-2018

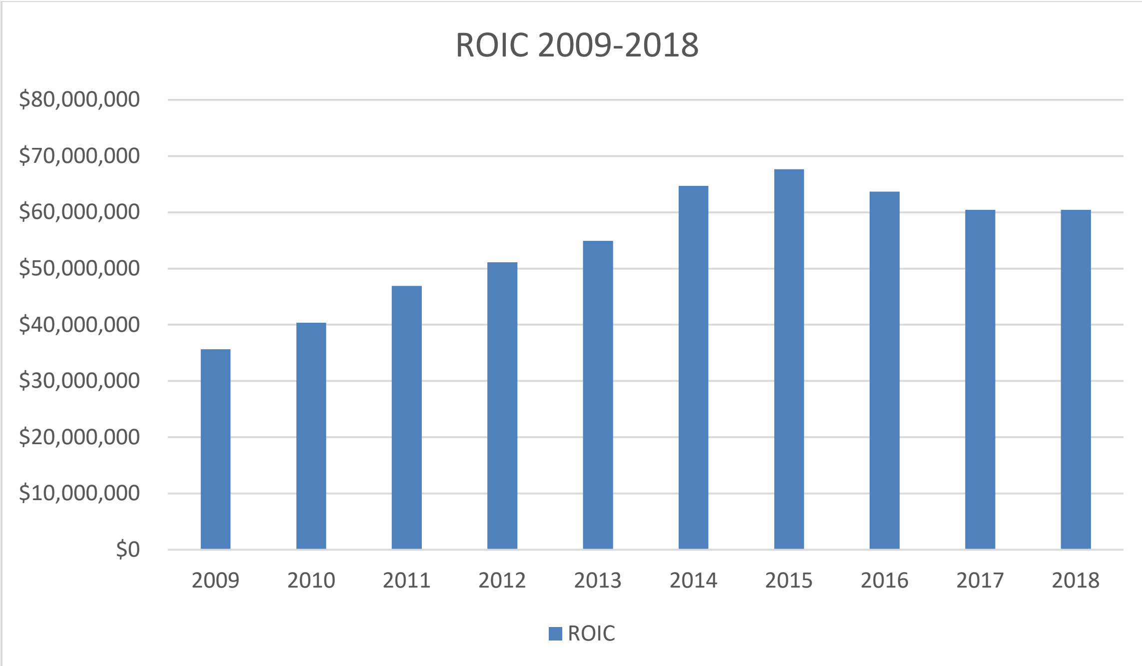


Figure 4. Hope's Return on Invested Capital Compared to Total Revenue 2009-2018

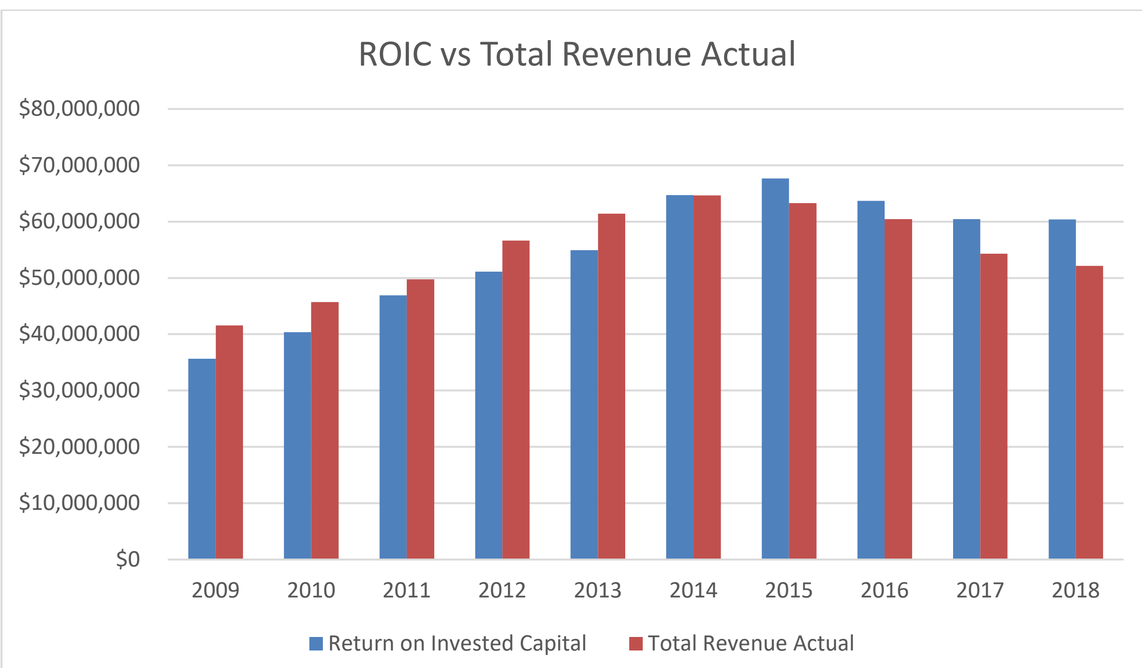


Figure 5. Hope's Return on Invested Capital Compared to Projected Revenue 2016-2018

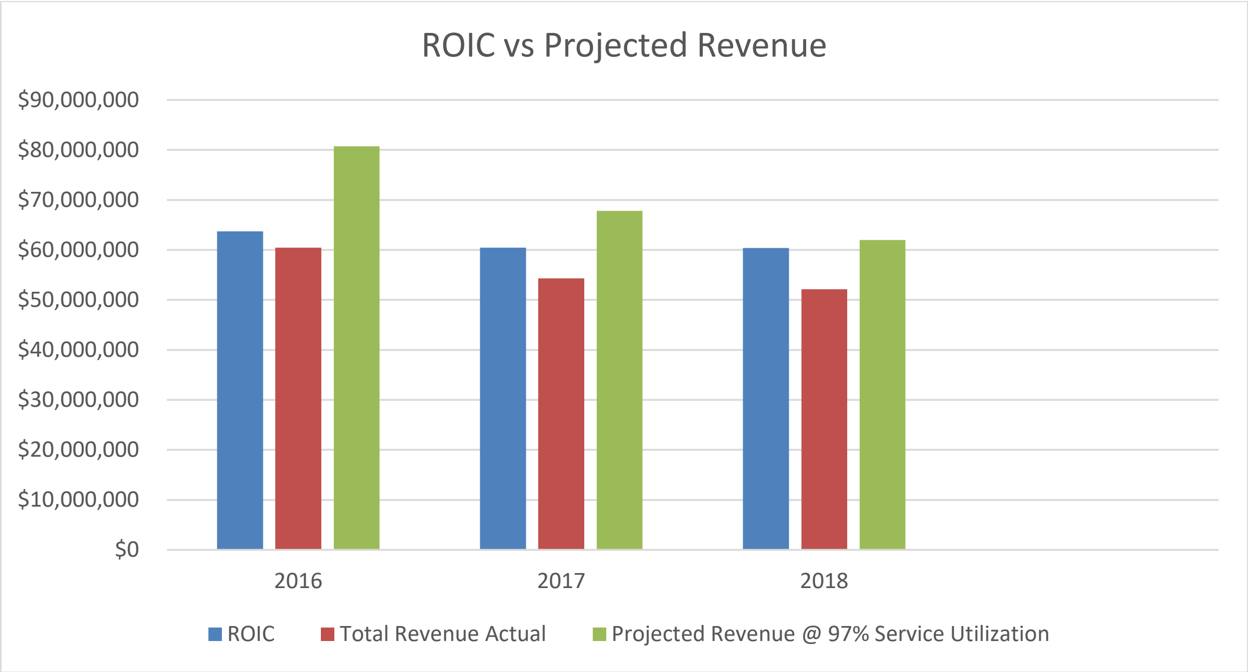


Figure 6. Hope's Long-Term Debt to Equity Ratio 2008-2019

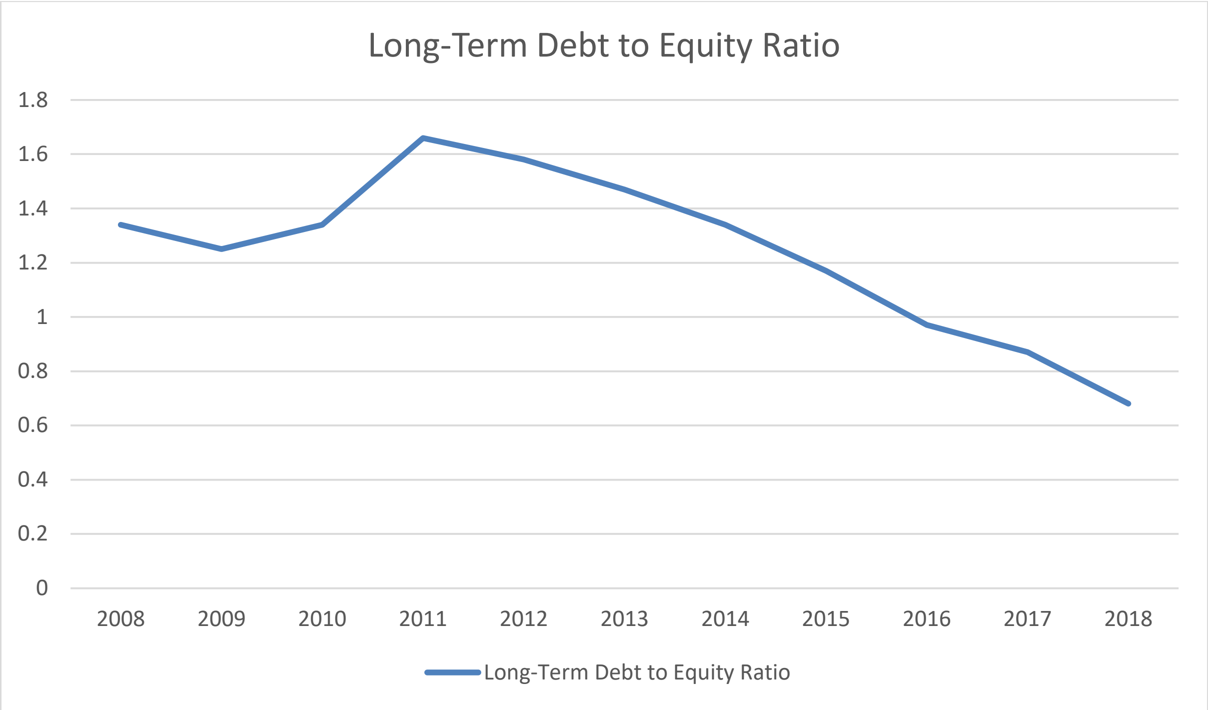


Figure 7. Hope's Total Assets 2008-2018

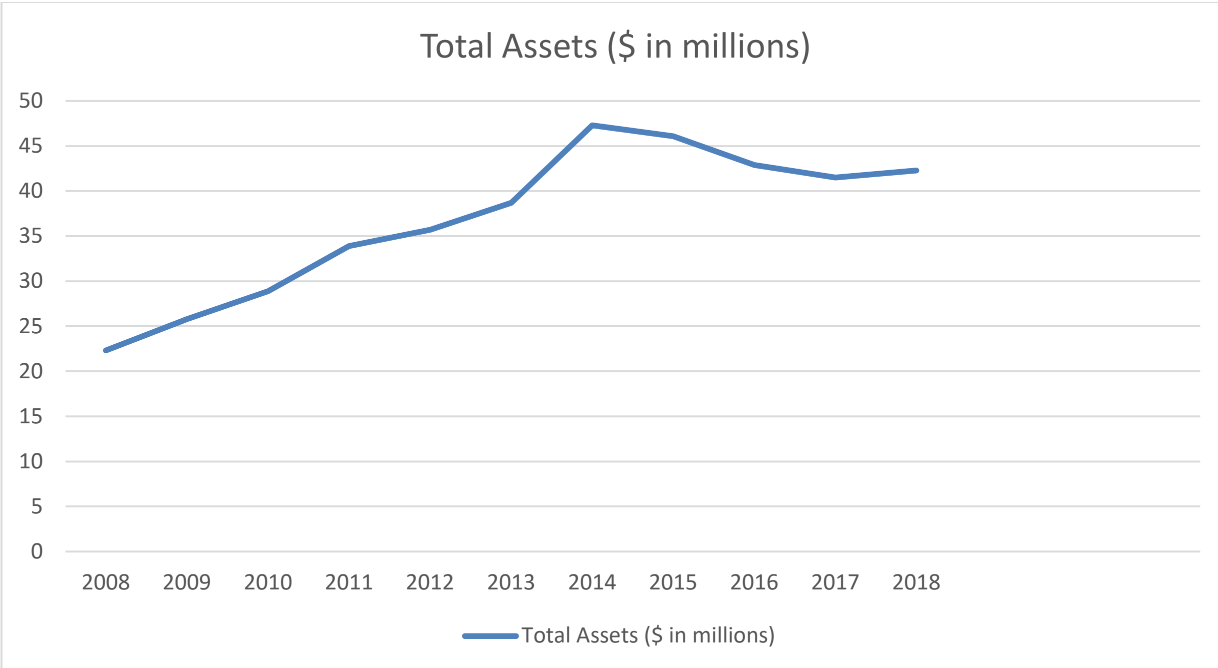
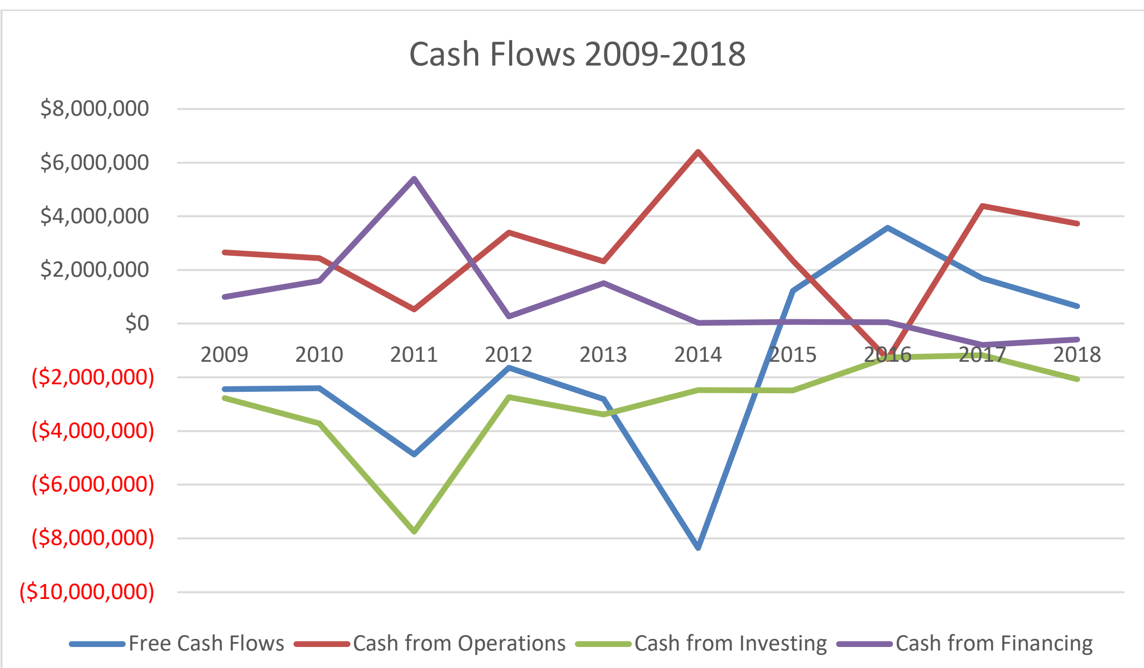


Figure 8. Hope's Cash Flows Unamended 2009-2018



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