

**Invest in Kids/PAES Working Group Meeting**  
**George Overholser, Nonprofit Finance Fund**  
**"Linking Money to Mission: the Role of Patient Capital"**  
**November 20, 2006**

Expansion nationwide of early care and education services will require augmented financing capabilities for all forms of providers - family members, churches, non-profit organizations, for-profit companies and governments. Non-profits especially will need capital to cover operating deficits while they develop sustainable operating and financing structures. This is the topic George Overholser explored at the November Invest in Kids Working Group Meeting.

Our next IIK/PAES working group meeting will be **Monday, January 29 from 3:00 to 5:00 pm**. We will review the work of the Partnership for America's Economic Success (PAES), update everyone on the status of each of the PAES research initiatives and get member comments and guidance on what should be done in the coming year. We will also take a look at what the working group has accomplished over the past several years and the group's ten year plan. Rob Dugger, working group and PAES chairman, will provide a powerpoint overview and lead the discussion.

At the November 20 working group meeting, George Overholser, Founder and Managing Director of NFF Capital Partners, a division of the Nonprofit Finance Fund, presented "Linking Money to Mission: The Role of Patient Capital". This paper focuses specifically on non-profit enterprise finance. Patient Capital is the money that pays the bills while an organization implements its business plan and attains sustainability. Without patient initial capital an organization risks falling into a cycle of continual fundraising that impairs their ability to carry out their mission. In the for-profit world, equity investors fill the patient capital role. But what about the nonprofit sector, where there is no such thing as an equity investor? George's presentation can be found at [http://www.partnershipforsuccess.org/docs/ivk/iikmeeting\\_slides200611overholser.ppt](http://www.partnershipforsuccess.org/docs/ivk/iikmeeting_slides200611overholser.ppt).

George explained that it is easier for for-profit companies to raise money each year through capital markets, which allow them to sustain growth; however, non-profits often have to scramble to raise money. Furthermore, non-profits often stop raising money when they have enough to operate for the current year. This practice may lead to annual liquidity crises, which distract organizations from their mission-related work.

Patient capital is the money needed to cover operating deficits until a non-profit becomes self-sustaining. Between the time a non-profit business concept is proposed and when it is fully operational, there is a normal and expected period of financial deficits. It may take several decades for a non-profit to become fully sustainable, which is one reason it's called "patient". Such capital is not used for traditional capital expenses such as bricks and mortar, an endowment, or specific project costs. Instead patient capital functions as general operating funds and provides opportunities for firms to experiment and adjust as they grow into successful programs. George stressed that patient capital can be both

public and private and pointed out that the success potential of public-private funding partnerships is very great.

In addition to the difficulties non-profits have raising patient capital, many firms also use poor practices when organizing funding. George described how funders and organizations often do not distinguish between money that is needed to build the firm and money that is needed to run the program. The essential idea is the distinction between "building and buying". "Builders" are contributing funders who establish non-profit businesses. They provide in different ways the capital needed for the business to become self-sustaining and in a position to provide services to people in need. "Buyers" are contributors who provide revenue in return for services rendered to people in need.

George pointed to the Nurse Family Partnership as a good example. There were several "builder" check-writers who provided NFP the capital to become established. There are now a wide variety of state, federal, foundation, and individual "buyer" check-writers who provide NFP the revenue it needs to make NFP services available to first time mothers. Governments can act as both builders and buyers, with different government offices providing "builder" and "buyer" funding. More information on building vs. buying may found in Georges's paper "Building is not Buying" at [www.nonprofitfinancefund.org/details.asp?autoId=86](http://www.nonprofitfinancefund.org/details.asp?autoId=86).

Non-profit organizations also need to create capital structures that can endure economic shocks. The Nurse Family Partnership has compiled an extensive list of state and federal government, foundation, and individual funding sources across. By combining state and federal money with private investments, the Nurse Family Partnership collectively has a capital structure that makes sense from "builder", "buyer" and sustainability standpoints.

The Nonprofit Finance Fund (NFF) is an intermediary that identifies promising nonprofit investment opportunities and introduces those opportunities to receptive funders. NFF works as an "investment bank" for mid-sized nonprofits and has grown substantially over the past 12 years. Information about the Nonprofit Finance Fund can be found at [www.nonprofitfinancefund.org](http://www.nonprofitfinancefund.org).

The Fund engages in the following activities:

- Assists in designing a capital campaign and "private placement memorandum," a document explaining the details of an investment to potential investors
- Creates an auditable means of tracking capital investments and results
- Facilitates the closing of a multi-investor "deal" using shared term sheets and reporting