

EMCF Investment Recommendation

Recommendation

Invest \$250,000 over 12 months in Youth Villages Inc. for general support and to help defray the costs associated with the time that staff will spend on business planning. Deploy a Bridgespan team to help the organization develop a business plan.

Rationale

Although relatively unknown in the youth development field, Youth Villages is one of the strongest and most effective youth programs the Foundation has ever seen. The organization serves very troubled young people, ages 6 through 18, who face enormous obstacles to making the successful transition to self-sustaining adulthood—including involvement with the foster care and juvenile justice systems, and emotional, behavioral and psychiatric problems. Youth Villages meets the Foundation’s investment criteria for several reasons. It uses a carefully designed in-home and residential intervention that teaches young people and their families better coping mechanisms that improve young peoples’ ability to function within family, school, and peer settings. Based on what is known as Multi-Systemic Therapy (MST) and its derivative Multidimensional Treatment Foster Care Model (MTFC), two proven programs, Youth Villages programming promotes strong outcomes in three areas: (1) academic achievement; (2) successful transition to employment; and (3) avoidance of involvement with the juvenile justice system. Over the past six years, Youth Villages has tripled its active service slots in programs producing the above outcomes from 535 in FY 1998 to 1,497 in FY 2004. (Youth Villages actually served 3,087 in these programs in FY 2004.) The organization’s growth in service capacity has resulted from opening sites in Alabama, Arkansas, Mississippi, Texas and Washington DC, as well as expanding its reach within Tennessee. Over the same period, its annual revenues have increased by 150 percent from \$26.8 million in FY 1998 to \$66.9 million in FY 2004.

Youth Villages has a very effective, two-pronged growth model. It conducts intensive research to identify young people that are being served poorly and at great expense by state institutions. After analyzing their service needs, it develops treatment options that optimize the care these young people require and which it can provide in the least restrictive setting (often in the participants’ homes) and at significantly reduced costs (e.g. up to 33 percent less in Tennessee). Tennessee currently contracts with Youth Villages to provide services in this fashion, and Alabama also is poised to do so. However, most of Youth Villages’ growth is through establishing community-based programs that deliver services in homes using MST and MTFC. With 50 MST teams, the organization is the largest provider of MST programming (the next largest is the country of Norway, with 25 teams). There is strong demand for more teams across the country due to the hundreds of thousands of youth and families that could potentially benefit and the potential cost savings associated for states and municipalities. Now is the right moment for Youth Villages to undertake business planning to test its financial, market, and infrastructure assumptions and enable the organization to plot an optimal growth strategy.

Youth Villages is at a critical inflection point in its development. Going forward, a well-designed strategy is necessary to guide the organization through the next phase of its growth. Although Youth Villages could conceivably pay for business planning on its own, unlike other organizations we have worked with in the past, such as Big Brothers/Big Sisters, it has never created a multi-year business plan. We believe Youth Villages will benefit greatly from the type of assistance that EMCF and Bridgespan could provide during business planning, and in fact, the organization is a perfect candidate for this type of assistance. Not only is a business plan critical for its future growth, but having such a strategic roadmap would provide a way for the Foundation to support Youth Villages in a meaningful way should we choose to go forward with a follow-up grant. As we do with other national direct service organizations, we would likely make a targeted investment against a specific objective or two within the plan rather than a grant for general operating support. Additionally, our involvement (and the credibility we would bring) as a national foundation could play a significant role in signaling to the rest of the field and other foundations that Youth Villages is a powerful youth services organization with effective programs that targets some of the hardest to serve youth in America and should be more widely disseminated throughout the nation.

Summary of Foundation Investment

Tentative Date for Payment	\$ Amount of Payment
January 2005	\$250,000

Due Diligence Team
 Woody McCutchen, David Hunter,
 Ralph Stefano, Liam Krehbiel

Organization Profile

Founded	Youth Villages was founded in 1986 when two residential treatment facilities—Dogwood Villages and Memphis Boys Town—merged to create a new organization.
Executive Director	Patrick Lawler, since inception.
Location(s)	Headquartered in Memphis, Youth Villages provides its services through 33 offices in 23 locations in five states plus the District of Columbia.
Mission	Youth Villages helps children and families live successfully.
Budget, FY 05	\$62.4 million
Number of Staff	1,137 employees
Target Population	Youth Villages serves young people aged 6 to 18 (75.5 percent are 12-17 years old) with severe obstacles to achieving successful transitions to self-sustaining adult lives—including involvement with the foster care and juvenile justice systems, psychiatric disabilities and mental retardation.
Demographics	More than 90 percent of children served come from low-income families that qualify for State aid. Of individuals admitted July 2003 - June 2004, 68.8 percent had emotional, 83.3 percent had behavioral, and 23.3 percent had substance abuse disorders (with significant overlap); 56.5 percent were male, 43.5 percent female; 61.7 percent were white, 33.3 percent African American, and 2.1 percent were Hispanic.
Product/Service	CONTINUUM OF CARE (from most to least restrictive): Center for Intensive Rehabilitation Treatment: This residential facility is for children and youth who suffer from the most serious emotional and behavioral problems such as suicidal/self-injuring conditions, psychotic symptoms, and severe behavioral problems (such as inappropriate sexual behavior), some with co-occurring medical conditions - including diabetes and seizure disorders. The Center uses Re-ED, a research-based rehabilitative, cognitively and behaviorally focused treatment model. Residential Treatment: Provides residential rehabilitative treatment using the Re-ED treatment model to help troubled children focus on the present and learn successful behavior patterns. Treatment Foster Care: This program places troubled young people identified as being at risk for group home and residential care with specially selected and trained foster parents in stable homes. The program uses the MST-derived Multidimensional Treatment Foster Care Model (MTFC), which was developed and evaluated by the Oregon Social Learning Center and which randomized control trials show has proven impacts. Intercept Program: This program is provided in participants' homes and features Multi-Systemic Family Therapy (MST), a research validated, cognitive and behaviorally focused intervention of proven impacts (reduced youth antisocial and criminal activities as well as drug use) that address the dynamics of the spheres which most immediately affect children and young people—including relations with their families, peers, and schools. OTHER PROGRAMS: Adoption: This program finds homes for children already in Youth Villages' service continuum who are eligible for adoption. Transitional Living: A program dedicated to helping young people aged 18 to 22 who are aging out of foster care or transitioning out of state custody. Specialized Crisis Services: This program provides assessment and intervention for all children in Tennessee age 6-18 who experience a psychiatric emergency, referring each individual to the most appropriate, least restrictive treatment options (with an emphasis on help at home). Group Homes and Emergency Shelter: Group homes allow youth to receive mental health support while they learn to live successfully in their home communities.
FY04 Reach	In FY 2004, Youth Villages averaged 1,497 active service slots across its programs.
Outcomes Desired	(1) Living at home or a "home-like environment" (foster care); (2) Success in school; (3) Success at work; (4) avoidance of involvement with juvenile justice system.
Evidence of Success	Two of Youth Villages' programs—Intercept and Treatment Foster Care—are based on models that have been proven to have positive impacts on participants. Over 80 percent of all young people served by Youth Villages achieve good age-appropriate outcomes in the three above areas that are sustained at two years post-discharge.

I. Compelling Product	II. Leadership/Management	III. Financial Health
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| <ul style="list-style-type: none"> ▪ Youth Villages serves children and adolescents (and their families) ages 6-18 (75.5 percent are 12-17 years old) with severe obstacles to successfully making a transition to self-sustaining adulthood. Many youth the program serves are in foster care or under the supervision of juvenile justice systems. Some have severe psychiatric disabilities or are mentally retarded. More than 90 percent of children served come from families that qualify for state aid. Of individuals admitted July 2003 - June 2004, 68.8 percent had emotional, 83.3 percent had behavioral, and 23.3 percent had substance abuse disorders (with significant overlap); 56.5 percent were male, 43.5 percent female; 61.7 percent were white, 33.3 percent African American, and 2.1 percent were Hispanic. ▪ Youth Villages' commitment to troubled children and their families spans more than 18 years. ▪ The core of Youth Villages' programming is Multi-Systemic Therapy (MST), a carefully designed and scientifically proven intervention that teaches young people and their families better coping mechanisms to improve young peoples' ability to function within family, school, and peer settings. For its foster care population the organization relies on the MST-derived Multidimensional Treatment Foster Care Model (MTFC), which also has proven impacts in the areas noted above. | <ul style="list-style-type: none"> ▪ Youth Villages' CEO, Patrick Lawler, and his management team are effective and well qualified, and most of the management team has been with the organization for more than 10 years. ▪ Management has done an outstanding job of leading the organization through extensive growth over the past decade and creating a strong, performance-driven culture. ▪ Youth Villages has an impressive, highly engaged board with strong for-profit experience that reinforces the corporate-like culture of the organization. But the board is very Memphis-centric, something it and Lawler recognize needs to be addressed to achieve geographic expansion. ▪ Both the board and management believe that growth is core to the organization's future, but they feel that the organization must be more strategic about future growth and are enthusiastic about the prospect of business planning. ▪ Management has forged strong relationships with important allies in government, local corporate and foundation communities, and the developer of the multi-systemic program model. However, Youth Villages has yet to establish itself within the national foundation community. | <ul style="list-style-type: none"> ▪ Since 1986, Youth Villages' revenues have grown from \$900,000 to \$66.9 million in FY 2004. This growth has been driven by its success at winning and retaining government contracts in Tennessee as well as Alabama, Arkansas, Mississippi, Texas and Washington DC. Funding from government sources historically accounts for between 80 and 93 percent of total revenue. ▪ Unlike most agencies that rely heavily on public funding, Youth Villages has a very strong balance sheet because it earns a surplus on its government contracts. As of June 30, 2004, the organization has a net asset position of \$59.7 million, which includes reserves of \$29.4 million (\$26.7 million in investment securities and \$2.7 million in cash and cash equivalents). Accounts receivable account for only 18 percent of current assets. ▪ Youth Villages has a strong finance team, led by the director of financial services, who has been with the organization for 13 years. The board is strong in the area of finance and provides sufficient oversight. ▪ Youth Villages comprises two separate but closely affiliated entities—Youth Villages Inc. and Youth Villages Foundation Inc. Youth Villages Inc. is the operating unit while Youth Villages Foundation Inc. is a separate fundraising unit that acts as a reserve and also provides Youth Villages Inc. with capital for special projects. |
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Bottom Line

Youth Villages uses proven programs to produce strong outcomes in all three areas that EMCF cares about: academic achievement; successful transition to employment; and avoidance of risky behaviors. It achieves success with over 80 percent of the young people it serves two years after they are discharged from the program. This is one of the strongest, most effective programs in the country that targets young people facing extremely challenging obstacles to their success.

CEO Director Patrick Lawler and his leadership team have a track record of successfully managing growth. Supported by a strong board, the organization has the right management to lead future growth. However, as Youth Villages continues to expand beyond Tennessee, it needs to build a board that will give the organization more national standing.

Youth Villages is strong financially and has the right personnel and board in place to effectively manage its activities in a context of continued growth.

IV. Operational Viability	V. Outcomes Measurement	VI. EMCF Compatibility
<ul style="list-style-type: none"> ▪ Unlike EMCF's national grantees, Youth Villages manages all of its sites directly in order to ensure strict implementation of its program model, intensive case supervision, and service delivery requirements. ▪ Youth Villages has a comprehensive participant tracking system that uses real time data from all sites on all cases to monitor and manage performance at the local and headquarters levels. ▪ The organization has strong communications, human resources, and information technology departments that have effectively supported the program's growth. ▪ Entry level staff turnover is a continuing challenge for the organization and the organization's turnover rate is at about 32 percent. But management has mitigated this problem by having a strong recruiting program and offering competitive salaries and providing ongoing professional development. Staff turnover has not been an issue at all at the management level. ▪ Youth Villages is currently planning to restructure its senior management to allow Lawler to spend more time on strategic matters and external relations and less time on day-to-day operational activities. Lawler plans to create a COO position in January 2005. That person will take responsibility for managing the organization's programs and back-office activities. 	<ul style="list-style-type: none"> ▪ Youth Villages effectively uses data to manage program implementation and service delivery, as well as for supervision purposes. It also sets individual, program, and organizational performance objectives and manages against them. ▪ Youth Villages has designed and implemented an extensive web-based performance tracking and outcomes measurement system. Currently Youth Villages monitors 10 Core Indicators. These are: <ul style="list-style-type: none"> ▪ Projected vs. Actual Census ▪ Outcome Data (with a benchmark of 80 percent success expected) ▪ Individual Treatment Plan Disruptions ▪ Staff Turnover (the benchmark is not to exceed 3 percent per month) ▪ Physical Interventions (for residential services only) ▪ Serious Incidents ▪ Customer Perception of Care ▪ Revenue over Expenses ▪ Documentation (a benchmark of 100 percent completion within timelines is expected) ▪ Outcomes for each young person receiving services both during the time she or he is in any program and also a 6, 12, 18, and 24 months after discharge. 	<ul style="list-style-type: none"> ▪ The mission, strategy, operational culture, and goal-oriented performance culture are the organizational qualities that the Foundation seeks for its investments. ▪ Youth Villages is building on a history of successful growth and is committed to continued expansion. ▪ This is a critical moment in the organization's history. Business planning would help Youth Villages greatly to determine how to raise, deploy, and manage its resources to optimize its expansion plans. ▪ Youth Villages' dependence on data to assess operations and support management decisions—and its willingness to share all data with us without reservation—made it easy for us to get to know the organization. ▪ The senior management and board—and also the front-line staff—were very eager to share all pertinent information with us and to receive feedback from us regarding their operations. The Foundation can count on having a very open, transparent, and strong relationship with this organization. ▪ Future investment will depend on the business plan and the opportunities for the Foundation to make a targeted investment against one or more objectives of the plan, as we do with other national direct service organization investments.

Bottom Line

Because Youth Villages has invested sufficiently in its infrastructure, systems and administrative support, it is well positioned for the next stage of growth.

Youth Villages has the most sophisticated integrated organizational performance and outcome tracking system of any organization EMCF has ever assessed and it uses this system to track and manage performance in real time at all levels of the organization.

Youth Villages brings all the leadership, organizational, management, and operational qualities to a relationship with the Foundation that we have come to depend on to optimize the effectiveness of our grantmaking.

Overview of Strategic Plan Objectives, FY05

The Youth Villages board and senior management are fully committed to continued expansion while also maintaining its rigorous program quality standards—and they have an admirable track record of having done so successfully over the past seven years. However, the organization's leadership recognizes the need to be increasingly strategic about future growth, especially as it begins to move further away from its headquarters in Memphis. The EMCF due diligence team and Youth Villages agree that business planning could help the organization address a number of objectives that will be core to the organization's long-term success, and solidify its ability to replicate a successful business model in other regions:

- Youth Villages will pursue a growth plan that is manageable and sustainable.
- Youth Villages will be led by a national board with the influence and ability to raise enough public and private capital to fund its long-term growth and sustainability, including funding from national foundations and the federal government.
- Youth Villages will continue to refine its approach to attracting and maintaining public and private funds to support the growth of its continuum of care and related services.
- Youth Villages will design and implement staff recruitment and support processes to attract and retain the necessary talent, especially at the front-line level, to meet its growth objectives.

Why EMCF is Confident in this Investment:

- Youth Villages is a data-driven, high performing organization that has taken an opportunistic approach to growth while increasing financial strength.
- Youth Villages is the largest provider (by far) of MST—a proven in-home intervention for high-risk youth that is in great demand and at the core of the organization's growth plans.
- Youth Villages has a very strong management team, a solid board (that recognizes its need to develop further), a highly focused and performance-driven organizational culture, and a sophisticated performance management system that it uses at all levels to make data-driven decisions.

Based on all of the above, we can be confident, therefore, that Youth Villages will (a) grow appropriately, (b) sustain itself organizationally and financially, (c) use our investment to advance its growth strategy, and (d) continue to help the growing numbers of young people it serves at high levels of effectiveness achieve targeted outcomes.

Risks and Issues the Foundation will Monitor:

- The EMCF due diligence team, Patrick Lawler and the Youth Villages board leadership all agree that the organization's board needs to broaden its geographic representation beyond Memphis and attract members with significant experience and leverage within the public policy arena.
- As the demand for Youth Villages' services increases, the organization will need to resist the temptation to grow haphazardly or in a way that is not in the best interests of its long-term viability.
- Youth Villages' staff turnover rate is currently 32 percent (due mostly to departure of line staff) and has been even higher in recent years. A high turnover rate could hinder the organization's ability to manage growth effectively.
- Youth Villages has always been highly reliant on government funding sources and has historically been successful at retaining contracts year after year because of the organization's ability to achieve better outcomes at a lower cost. However, even Youth Villages has not escaped its share of funding cuts over the years (and threats of funding cuts).
- As Youth Villages expands into states where it does not control a full continuum of services, there is a risk that the organization will not be able to achieve the same effectiveness or outcomes as it does in Tennessee.

Next Steps for Finalizing Investment

- Obtain EMCF board approval for an investment of up to \$250,000 over twelve months to support operations and conduct business planning.
- Talk with other private funders to better understand their interest in funding Youth Villages in the future.
- Determine grant terms and conditions.
- Meet with Youth Villages' senior management team and board of directors to review due diligence findings and terms and conditions for our investment.
- Identify the appropriate business planning team to work with Youth Villages.
- Continue internal discussions about appropriate follow-on grant even as business-planning process gets underway.

Addendum: Board of Directors

Johnny Pitts (Chair)
Lipscomb & Pitts Insurance Co.
Memphis, TN

Kenneth May (Vice-chair)
FedEx Kinkos
Dallas, TX

Mark Prudhomme (Treasurer)
Northwestern Mutual Life Insurance
Germantown, TN

John Skelton (Secretary)
Ernst & Young LLP
Memphis, TN

Jim Barton
Ripley, TN

Judge Joyce Broffitt
Criminal Division
Memphis, TN

Mike Bruns
Comtrak, Inc.
Memphis, TN

Harold Byrd
Bank of Bartlett
Bartlett, TN

Mary Cooper
Nashville, TN

Jim Duncan
Talent Force
Memphis, TN

Reverend Robert Earl Jones
Hill Chapel Missionary Baptist Church
Memphis, TN

Adrienne LeBlanc
Milestone Financial
Cordova, TN

Bob Loeb
Loeb Properties, Inc.
Memphis, TN

Rusty Lulloff
Hilton Hotels Corporation
Memphis, TN

Phil McNeill
Equity Inns, Inc.
Memphis, TN

William Menkel
National Bank of Commerce
Memphis, TN

Dan Overby
First Tennessee Investment
Memphis, TN

Jim Parrish
Morgan Keegan & Company
Memphis, TN

Ronnie Randall
Kele, Inc.
Bartlett, TN

Bill Reeser
St. Jude Children's Research Hospital
Memphis, TN

Sherry Schedler
Juvenile Court of Memphis & Shelby County
Memphis, TN

Carolyn Turman
M.L.G. & W.
Memphis, TN

Betsy Walkup
Nashville, TN

David Wedaman
Memphis, TN