



# Working Better Together:

## An Exploration of Shared Services and Mergers

NCAP Management and Leadership Training Conference

January 28, 2026



1



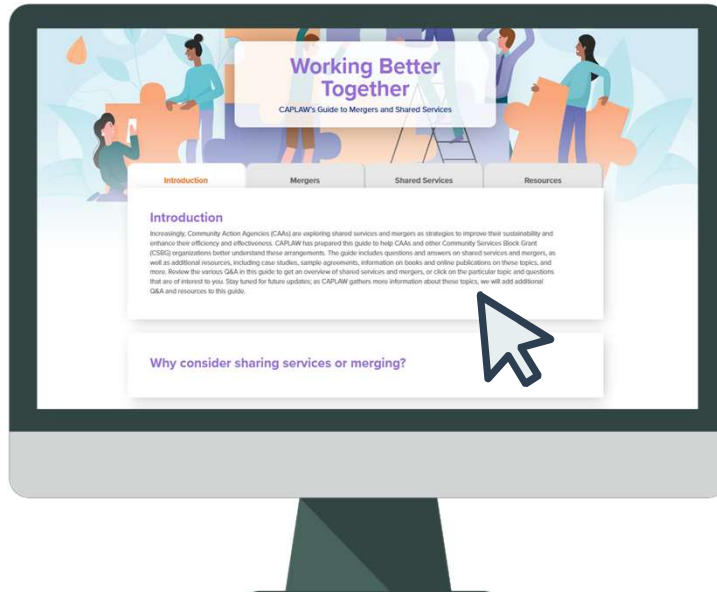
### Jonathan Cohen

Deputy Director + Senior Counsel




2

# CAPLAW Resource



3

3



- Why Share Services or Merge?
- Considerations Before Moving Forward
- Key Points: Shared Services and Mergers
- Government Funding Issues
- Key Players and Their Roles
- Lessons Learned

4

4

## Question #1

### 1. Has your CAA ever:

- a. Shared administrative (e.g., Executive Director, HR, fiscal, IT) services with another organization?
- b. Shared other types of services (e.g., programs) with another organization?
- c. Discussed sharing services but ultimately decide not to do so?
- d. Been involved in a merger with another organization?
- e. Considered merging with another organization?



5

5

## Definitions

### Definition of Shared Services

- Arrangements between multiple organizations to share **administrative** or **programmatic** functions or **physical resources**

### Definition of Merger

- General term used to describe a transaction in which **two or more organizations become one**



6

6

# Why Share Services or Merge?

## Motivating Factors

- **Cuts in government funding** and intensified competition for funding
- Increased funding source expectation for effectiveness, efficiency and oversight
- Strengthen financial position
- **Increase exposure** within community
- Expand service programmatic offerings
- Executive/leadership **transitions**



7

7

# Benefits

## Efficiency

- Reduce duplication & operational \$
- Standardize process

## Economies of Specialization

- Access specialized services
- Raise sophistication level

## Sustainability & Investment

- Expand donor base
- Preserve institutional knowledge

## Purchasing Power

- Bulk purchasing discounts

## Keep identity & autonomy (if share services)

- While minimizing costs



8

8

# Issues to Consider Before Moving Forward

9

9

## Issues to Consider

### When should we start?

- **Before it is necessary** (i.e., before there is a crisis/before programs have been damaged)
- Often **leadership transitions** can be a good time to initiate conversations internally and externally



10

10

## Issues to Consider

### What is the first step?

- **Start with self-assessment**
  - Motivations
  - Desired goals
  - Critical issues
  - Organizational obstacles and red flags
  - Financial position



11

11

## Issues to Consider

### What are some ways of identifying potential partners?

- **Existing** alliances and collaborations
- Board or ED contacts/relationships
- Working with a consultant
  - E.g., state CSBG office or CAA state/regional association



12

12

## Issues to Consider

### What should we look for in a partner?

- May, but need not necessarily be, another CAA or Head Start grantee
- Both organizations bring strengths (e.g., resources, relationships, experience, skills) to the table
- Compatible missions, services, organizational cultures
- Strategic service fit
- Geographic fit



13

13

## Sharing Services: Key Points

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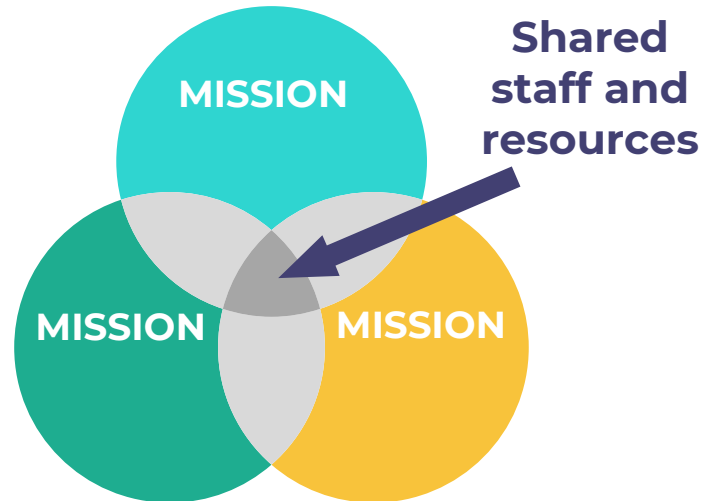
## Why Share Services?

When organizations **share staff and tasks**, more time, money, and energy is available to **feed the mission.**

### WHAT DO WE GAIN?

#### Capacity

- Through scale
- Through specialization



15

15

## Services That Can Be Shared

### Physical Resources/Co-Locating

- Workspaces, libraries, kitchens, conference rooms, offsite storage and servers
- Buses, transportation systems
- Copiers/printers/fax machines
- IT, hardware, software, servers, cloud applications
- Communications systems, phones, video conferencing

#### Easiest to Share

- easy to value, divide, monitor
- pay rental or usage fee
- does not require high level of trust
- upfront investment and decisions about features/amenities
- in-kind/match

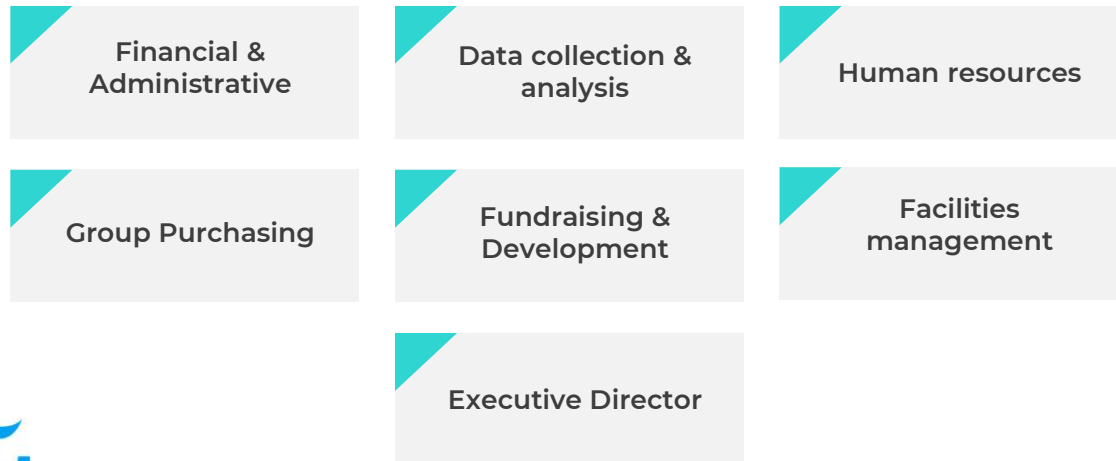


16

16

## Services That Can Be Shared

### Staffing



17

17

## Services That Can Be Shared

### Programs

- Client intake
- Program operation
- Curriculum research, development and delivery
- Community events
- Advocacy campaigns

**More difficult to share**

Requires high level of trust and commitment among participating organizations



18

18

## Structuring Arrangements

- **Program collaboration agreement**
  - Jointly applying to grants
  - Collaborating on aspects of implementing a project
- **Management/administrative services agreement**
  - Sharing staff or physical resources
  - Jointly operating a program
- **Fiscal sponsor agreement**
  - A nonprofit organization acts as a “fiscal sponsor” for another entity (typically one that does not have its own 501(c)(3) tax-exempt status)



19

19

## Examples of CAA Shared Services Arrangements

- **CAA #1** manages the administrative and fiscal functions of **CAA #2** as well as **CAA #2's** programs (but **CAA #2** continues to employ program staff).
- **CAA #1** engages another nonprofit to provide it with an executive director and chief financial officer.
- **CAA #1** provides a fiscal director to **CAA #2**.
- **CAA #1** provides fiscal and HR services to **CAA #2**.
- **CAA #1** provides an entire weatherization department, including the weatherization director, crews and inspectors, to **CAA #2**.



20

20

## UBIT Issues

- Exempt organizations are subject to a tax on **unrelated business income**
- Identifying UBI:
  - Is it a “trade or business”?
  - Is it regularly carried on?
  - Is it substantially related to the CAA’s exempt purpose?



21

21

## UBIT Issues

### Providing Administrative Services

- **Fees** generated from performing administrative services for other non-profit organizations are likely to be deemed to be UBI
- Factors the IRS will consider:
  - Relationship of service provider to the recipient
  - Fee charged for services
  - Nature of services (commercial?)
  - Recipients of the services



22

22



23

A presentation slide with a teal header and a teal footer. The title "Mergers" is in a white font on the teal background. Below the title, the section "Preconditions for Success" is followed by a list of seven items, each with a checkmark. The CAPLAW logo is in the bottom left corner, and the number "24" is in the bottom right corner.

## Mergers

### Preconditions for Success

- ✓ Trust
- ✓ Clear strategic planning and vision
- ✓ Merger champion
- ✓ Experienced leadership (executive director)
- ✓ Board and staff buy-in
- ✓ Thorough due diligence
- ✓ Attention to organizational culture and integration



24

24

# Mergers

## Key part of the process: Conduct Due Diligence

- Each org conducts thorough investigation to ensure it understands the **operations, assets, and liabilities (actual and potential)** of other org
- Satisfies directors' **fiduciary duties** to respective orgs
- Categories of info to inspect:
  - Corporate structure & records
  - Contracts
  - Finances/debts
  - Existing or threatened lawsuits
  - Intellectual property
  - Employment matters
  - Compensation arrangements

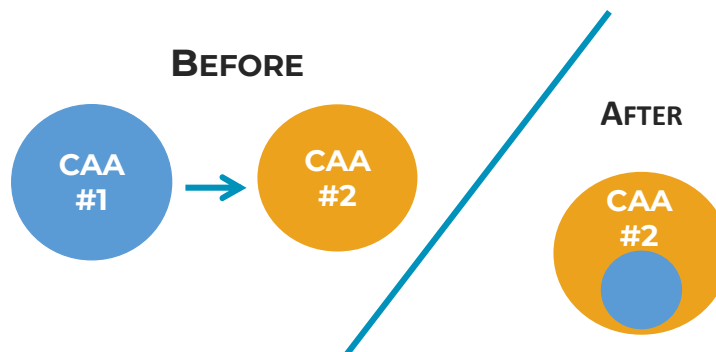


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# Structure: Acquisition Merger

Surviving corporation assumes assets and liabilities of one or more corporations, which then cease to exist (non-surviving corporations)

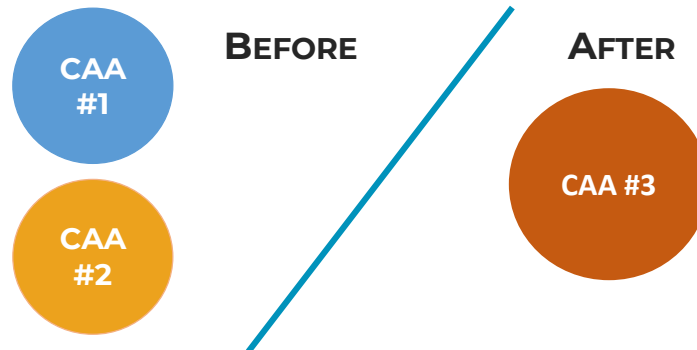


26

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## Structure: Consolidation

A new corporation is created, which assumes assets and liabilities of two or more other corporations, which cease to exist

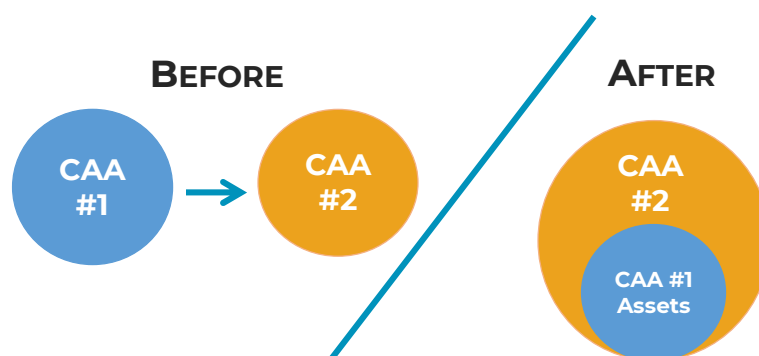


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## Structure: Asset Acquisition/Transfer

One corporation transfers all or a portion of its assets (but usually not liabilities) to another and then dissolves

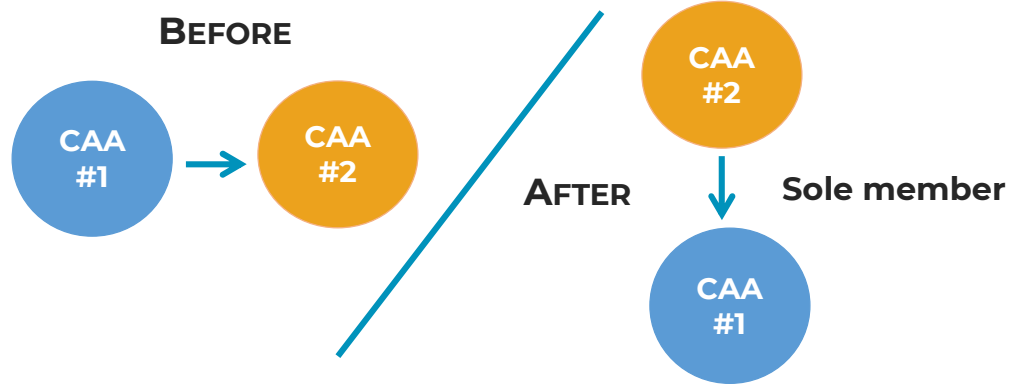


28

28

# Structure: Parent-Subsidiary

One corporation becomes a subsidiary of another corporation (parent)



# CAPLAW Resource

This block displays various resources. On the left is the cover of the manual "COMBINING FORCES: A MERGER MANUAL FOR COMMUNITY ACTION AGENCIES" by CAPLAW. Next to it is a "TABLE OF CONTENTS" listing sections like "BEFORE STARTING" and "THE MERGER PROCESS". On the right is a digital interface for the manual, titled "Combining Forces: A Merger Manual for CAAs". The interface includes a search bar, a list of topics (Collaboration, Mergers, Board of Directors, Executive Director, Finance Director), a date (2020), and a brief introductory text about mergers for CAAs. At the bottom of the interface are two buttons: "View Tool" and "View Appendices".



# Government Funding Issues

31

31

## Funding Source Rules

### CSBG

- **Get state CSBG office on board**
  - Will new designation be required?
- For mergers, be aware of tripartite board composition requirements



32

32

## Funding Source Rules

### Head Start

- **Need OHS approval** of change in “key personnel” (45 C.F.R. § 75.308(c)(ii))
- **Need OHS approval** of change in use of real property or facilities subject to a federal interest (45 C.F.R. § 1303.48(b))



33

33

## Funding Source Rules

### Head Start

- If Head Start grantee’s “**legal status**” changes, HHS will require recompetition (45 C.F.R. § 1304.5(a)(2)(ii))
  - Recompetition not required if Head Start grantee survives the merger
- **Need to notify OHS** of name change



34

34

## Funding Source Rules

### Cost Allocation

- Need to **properly allocate costs** of services performed under shared services arrangement
- Include an appropriate allocation of **indirect costs**

### Procurement

- Entity receiving services must follow its procurement policy and comply with the Uniform Guidance's procurement standards (2 C.F.R. §§ 200.318 – 200.326)



35

35

## Other Issues

- Ability to transfer other government grants/contracts
- Merger costs likely to be unallowable charges to federal grants, except with prior approval
  - See Uniform Guidance, 2 C.F.R. § 200.455
- **Keep your funding sources informed!**
- Accreditation/licensing
- Union issues



36

36

# Key Players and Their Roles

37

37

## Board Members

### Roles

- Analyzes **pros and cons** of options, whether and how it will fulfill mission (especially for mergers)
- **Board committee**
  - Explores options and partners, including meeting with potential partners and overseeing negotiations
  - Oversees due diligence
  - Keeps full board informed



38

38

## Board Members

### Votes

- **Full board votes on:**

- Creating committee and scope of its authority
- Whether to merge
- Shared services or merger agreement
- Corporate merger documents (plan of merger and articles of merger, etc.)



39

39

## Board Members

### Documenting the decision

- Important to **document** board and committee **discussions** and **votes** in minutes
  - Include the basis for board/committee decision(s)
  - Attach reports, other documents on which board/committee relied



40

40

## Board Members

### Fiduciary duties

- **Duty of Care:** In overseeing the organization, nonprofit board members must act with “the care an ordinarily prudent person in a like position would exercise under similar circumstances”
  - Possible personal liability if board members don’t carefully examine potential merger partner



41

41

## Board Members

### Business judgement rule

- Under the “**business judgment rule**,” nonprofit board members who exercise good faith judgment will usually be protected from liability to the corporation
  - Even if the corporate action turns out to be unwise or unsuccessful



42

42

## Board Members

### Duty of care

- **Board members must make informed decisions**
  - Obtain and consider written reports and professional advice before making important decisions
  - Ensure that a full, deliberative process is conducted and that directors are able to ask hard questions and get answers



43

43

## Board Members

### Sample Merger Decision Matrix

Variable	Value	Priority	Scores Based on 100 Total Points
Decisionmakers	Board leadership, Sr. Staff	H	
Timeframe	3-6 months	M	
Program/Mission Fit	X100	H	
Operations Fit	X75	M	
Culture	X75	M	
Relative fit of Board	X55	M	
Systems	X35	L	
Public Relations/Fundraising	X95	H	
Is there a need?	X55	H	
Economically Feasible?	X100	H	
Impact on other programs?	X55	M	
Can we provide a quality service?	X100	H	
Assets	X90	M-H	
Current Assets/Liabilities	X90	M-H	
Leases Obligations	X50	L	
Pending Litigation Issues	X100	H	
Other benefits the merger brings?		H	



44

44

# Management

## Role

- The executive director or interim executive director, chief financial officer, chief operating officer (program or operations directors), other staff
- **Due diligence**
  - Programs and activities
  - Financial strength and viability
  - Sustainability
  - Staff culture and roles
- **Plan for integration (merger)**



45

45

# Advisors

## Role of outside professionals

- **Attorneys** – involve early in process; initially each partner should work with its own counsel
  - CAPLAW is available to consult with CAAs on CSBG-, Head Start- and other government-grant specific issues
- **Consultants** – help identify partners and facilitate merging or other partnership
- **Accountants** (especially for mergers) – tax filings, impact on financial statements, due diligence



46

46

## Lessons Learned

47

47

## Lessons Learned

- Have a **strong advocate** for arrangement
  - CEO, board/board chair
- Build **trust** and **familiarity** with the other org
  - Good relationship prior to sharing services or merging is essential
- Be clear about how arrangement enables each org to achieve overall goals
- Conduct thorough **due diligence**
- Keep funding sources informed
  - Involve major funding sources (government/private) early in process



48

48

## Lessons Learned

- **Communicate** with and involve **staff** members
  - Communicate early and often to get staff buy-in
  - Clarify new roles
- Don't overlook **organizational culture issues**
  - Address integration issues from the outset
  - Anticipate future issues and concerns
- Engage **outside experts**
  - 3<sup>rd</sup> parties offer outside perspective
  - Rely on experts who are familiar with the merger process



49

49

## Lessons Learned

- Ensure arrangement is **properly structured**
- Exercise effective oversight over arrangement
  - Boards of organizations must exercise fiduciary duties
    - E.g., ensuring compliance with terms of government grants and contracts, monitoring financial transactions
- Keep organizations separate and **observe corporate formalities**
  - Separate board meetings, bank accounts, tax ID numbers



50

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# QUESTIONS?



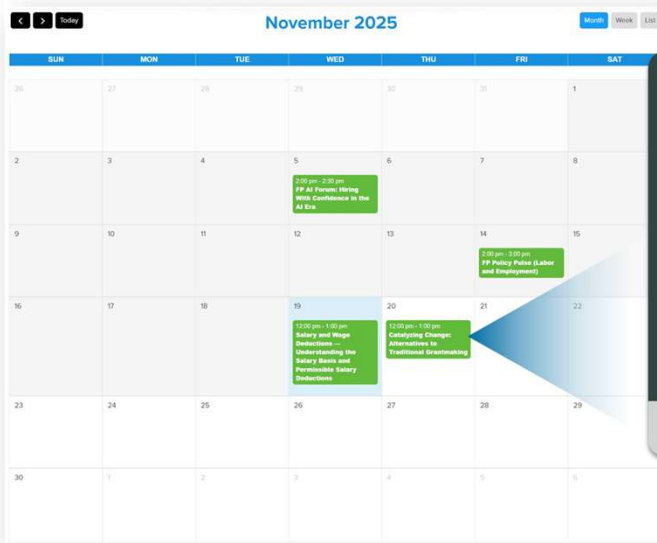
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51

## Events & Training Calendar



52

**200 Resources**


**60 Topics**

**20 Types**

*Including:*


- Articles
- Legal Updates
- Sample Policies
- Webinars
- Videos
- Training Modules
- Interactive e-guides
- Case Studies
- Podcast

## Visit CAPLAW's Resource Library!




Uniform Guidance  
Crosswalk

This Crosswalk focuses on key substantive changes made in 2024 to the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, 2 CFR Part 200 (Uniform...



Being Direct: Shared Cost  
Recovery through Direct Cost  
Allocation

This updated Bylaws Toolkit will help CAAs develop bylaws that are clear, effective, and up-to-date. The toolkit outlines key concepts for an agency's bylaws, such as the authority of the Board of...



Tips on Preparing for a Possible  
Government Shutdown

With the possibility of a federal government shutdown looming, what should CAAs be doing to prepare? This resource offers 10 tips to consider.

[www.capl原因.org](http://www.capl原因.org)