Transcript of the Fletcher Group RCOE's 2nd Webinar on October 7, 2021 Hosted by Outreach and Engagment Specialist Gene Detherage

[00:00:00] **Michelle Day:** Good afternoon, everyone. And welcome to the Fletcher group's new webinars series. Today's session is scheduled to run from 2:00 PM to 3:00 PM Eastern standard time. I am your moderator for the session Michelle Day, and we'll be assisting you with your participation while the webinar's taking place. Be advised that this meeting is being recorded and will be available to you on our website once it has been transcribed. You can access our website at www.Fletchergroup.org. Also at the conclusion of today's session, there will be a short survey regarding the webinar content. Your participation in that survey is greatly appreciated, and willonly take a few moments to complete. Now, after a few housekeeping items, I will introduce our presenter for today's session and we will begin.

Regarding participant controls. You enter today's session on mute and your video was off and will remain. So for the entirety of the webinar, your chat feature is located at the bottom, right of your screen. Use the drop [00:01:00] down feature to communicate with either the panelists only or panelists and attendees.

We encourage you to enter any comments and or technical issues you may have into that section. The co-host will be monitoring the chat feature throughout the presentation to address any issues that may arise. Please direct all questions regarding the webinar content to the Q and A section. The moderator and or co-host will collect those questions and prompt the speaker to answer. During today's session, we will poll the audience with a couple of questions.

You will see that pop up on your screen. Simply answer the question and your collective responses will be visible to the speaker and the entire audience list. At this time, I would like to introduce today's presenter, Gene Detherage Kentucky outreach and engagement specialist for the Fletcher Group's, Rural Center of Excellence.

Gene's passion for recovery is driven by his love of community and all persons suffering from substance use disorders. A [00:02:00] native of Appalachian Kentucky, Gene has himself been committed to long-term recovery since 2014, and came to the Fletcher group after administering a social model of recovery within the recovery Kentucky program launched years earlier by Fletcher

Group, founder, Ernie Fletcher, when governor. A proven housing specialist Gene's formal training in public administration has helped him excel at planning and development, as well as project management, having now led or assisted with numerous successful Fletcher Group projects throughout Kentucky.

Gene also serves as a member of Kentucky's Advisory Council for Recovery Ready Communities, and as Development Committee Chairman for Frontier Housing, a nonprofit that's grown to be one of the largest affordable housing agencies in Eastern Kentucky. Gene the floor is yours.

[00:02:53] **Gene Detherage:** Well, thank you, Michelle. For the very kind introduction. Thank you to all our participants here today. [00:03:00] We're really glad to have you. I look forward with sharing with you about this topic. Um, it's one that's near and dear to my heart. Oddly enough. Uh, You know, before, uh, having this role in this opportunity with the Fletcher Group, I would have never considered myself a numbers person, but as I've gotten deeper into this work over the past couple of years, it's, it's sort of emerged as, as something that I really care about.

Um, So again, thank you for joining us today to talk about recovery housing finances, and managing recovery housing financials in rural communities. You know, something that drives everything we do here at the Fletcher Group is our desire to provide a safe, stable place to live because that's essential for those seeking recovery from substance use disorders. Without it, people are bouncing from emergency rooms to jails and or couch surfing, in homes where drugs are [00:04:00] often used and that really reduces their chance of experiencing a meaningful recovery journey. Uh, next slide please. So I already introduced me, uh, I did want to start out today with a little bit of a polling question that should be popping up on the screen for everybody. Um, And, uh, I believe we're getting a little bit of feedback from somewhere, or at least I'm hearing it.

Um, but anyway, uh, are you currently, or do you plan to manage, uh, recovery home budgets? It'll definitely help me for the rest of today's presentation if I can get a little bit of a, of a baseline on where folks are are at in this process. So if you could please take a moment to answer that. And I think in just a little bit here, we're going to get the results.[00:05:00]

Okay. Looks like we've got about an even split. Half of the folks on today's webinar, uh, plan to, or currently managing those budgets, uh, about half are not. And we've got a 5% they're unsure. Well, maybe after today's session, you'll have a better bearing on that. We'll go ahead and go to the next slide.

And so, you know, a big part of my day-to-day work is fielding technical assistance requests through our rural center of excellence and recovery housing, and individuals will come to me in various stages of the development process for recovery housing project. And so it's always critical for me to first understand what their, what type of recovery housing they're trying to develop. And here at FGI, [00:06:00] we use the National Association for Recovery Residences standards as both the measurement of the type of recovery housing, as well as an ensurance of quality in that recovery housing. And so rural recovery housing operations can generally be understood in a broad sense as falling into one of four levels as they are understood within the National Association of Recovery Residences standards, NARR Level One, and Twohomes are financially very similar to one another and can be understood as such.

Levels Three and Four are unique from LevelOne and Two recovery housing, and are also unique from one another respectively. For the purposes of this presentation today, the most important thing to note is that service intensity follows the NARR level as shown in the graph, a higher service [00:07:00] intensity results in more complex expense and revenue streams.

Similarly, lower NARR levels have less complex revenue and expense streams. And I believe one of our co-hosts Jennifer has put some more information in the chat. That'll give you access to this graph for later. And next slide please. So when we talk about who is actually running a recovery house. I always use the term operator.

And generally there are three categories of rural recovery residence operator, depending on the type of rural operator being discussed can change the way in which that operator controls, manages and utilizes its finances. And the owner operator model is common. A lot of folks call that like a mom and pop, and this references an [00:08:00] individual or a very small group of individuals that own, or lease a home for the purposes of creating a recovery residence operation.

The owner operator is typically limited to NAR levels. One and two, the owner operator may hold the property within a business or maybe a small not-for-profit organization. The key here is that it is very small, a relatively informal organization. That's operating that recovery residence. A nonprofit as a recovery residence operator could be operating homes at any of the four NARR levels. They may vary in size and complexity. Key differences for nonprofit operators are the ability to access grants, as well as governing differences in that a nonprofit usually reports its financials to a volunteer board of directors. And finally a private business [00:09:00] operating a recovery residence could be the same as an owner operator with a single home, but organized as a private enterprise, such as a limited liability corporation. It could however, be a large organization or a small component of a larger organization.

The important differences here are the availability of grant funding opportunities and the underlying profit motive of the enterprise, which can potentially, but not necessarily divert from the mission of recovery residences. And next slide, please. So this is our second polling question. Before we start to dig more deeply into everything, the question is how much experience do you have in managing finances, personal business, et cetera.

Um, and there's varying experience on down through the list. And the last one is what are finances, um, You know, different folks [00:10:00] take different approaches with, with this type of thing. You know, some folks are maybe involved in the finance budget end of their organization. Some people are real particular about their household budgets.

And again, this will give me a decent best baseline for them information moving forward. So that's great. It looks like. Uh, bit about a third of our folks here today are very experienced. And then, uh, almost half rate themselves as experienced and only a handful as neutral, inexperienced, and one person asking what are finances.

And hopefully we'll, we'll clear some of that up today. Um, but it's good to know that, uh, a good chunk of our audience today is going to be familiar with some of these concepts. So next slide please. And so budget basics for rural recovery homes, [00:11:00] um, bullet point number one, make more than you spend. Bullet point number two, make sure you cover your expenses.

Um, the budget process for rural recovery residence is nearly the same as any other. The goal is to bring in enough money to cover your expenses. Understanding the various expenses that come generally to property management and housing, as well as those expenses, which are unique to recovery housing is what we will be covering in further detail later.

However, understanding the basic principles of a budget are crucial. Understanding when, and in what amounts you will collect revenue is the first step. Similar to a household budget, you start with how much money you make, but we will use the gross figure because the calculation of taxes will come later. That that kind of dives into stuff but the basic principle, you want to [00:12:00] know the maximum amount of money that you can bring in. And we'll call that the gross amount because we want to look at that number before anything is deducted from it. And so second, you need to understand and itemize each specific expense that is required for operating your recovery residents.

A general list of these will be provided later. Next slide, please.

So there's two primary types of expenses when it comes to developing recovery housing, you have capital expenditures and operational expenditures. And in the pursuit of rural recovery housing, You know, these are the two types of expenses an organization or individual is going to incur. So first we'll talk about capital expenditures.

Capital expenditures are often singular, meaning that they only [00:13:00] occur once. A common example would be either the down payment needed to purchase a single family home that you're going to use for recovery residence or some other structure that you're going to use for rural recovery housing. Another common example is spending money to rehabilitate a building or a home, an organization already owns to make it ready to use as rural recovery housing. And so when we're operational in the field, you know, we run into both those categories rather frequently. It's not uncommon for a church or a nonprofit to already own some property, whether it's a home or something that they used as an office at one time.

And they want to turn that into recovery housing. But just as often, you know, we'll work with organizations that want to build something from the ground up. But in both those cases, we're talking about capital expenditures. And [00:14:00] the second category of expenditures are operational expenditures. Operational expenditures are continuous, meaning they occur on a regular basis.

A common example would be the salaries of staff or a debt service or mortgage payment on a property. Another example would be taxes or insurance premiums, and also your ongoing maintenance expenses. Although each category is distinct, both play a crucial role in the development of a budget. Oftentimes you will need to develop two separate budgets, one for capital and one for operations.

This is especially true for larger projects, such as those that fall into the NARR Level Three and NARR Level Four category. And just to say a little bit more about that, you know, your NARR Level One, or Level Two homes are almost always located in a single family residence. [00:15:00] And so the capital expenditures and the capital, right, like what you're going to write up for buying that property is often a lot similar than if you're doing a level three or a level four facility, those level three and level four facilities, you know, maybe you're looking at housing 50 to a hundred people. In which case you're going to have a much more complex, uh, capital structure for how you're going to build a building that large and often use some specialized, uh, specialized financial objects to do that.

And we'll go ahead and go to the next slide.

So again, capital expenditures are often time limited and only occur once. And hopefully we're going to be able to understand our sources, our uses of capital for rural communities, what our debt obligations are and how financing can be your friend to accomplish your [00:16:00] goals of creating recovery housing.

So, you know, these expenses. Only occur once because they often involve substantial amounts of money and sometimes complex financial instruments or arrangements, which are themselves, uh, sometimes require you to expend capital, to even go for an application. A common example that we face in our work is the Low Income Housing Tax Credit (LIHTC) program.

You're going to need a substantial amount of money to even try and apply, to get a LIHTC, which will give you additional capital to do large construction projects. And so the first step in understanding your capital expenditures is understanding their sources and their intended uses. For example, if you are seeking to become an owner operator of a single rural recovery residence, it is important to understand where you are going to get the funding you need to [00:17:00] begin and how you're going to spend it. The classic example of this is the down payment needed to buy a home. The arrangement is very similar for a NARR Level One or Two rural recovery residence. In this example, therefore, the source of capital is your own personal investment.

Say it's $20,000. The use of this capital is to acquire a mortgage loan from a qualified lender. You source the capital to use a mortgage loan to buy a home. Then you begin operating a rural recovery residence. Sources and uses can be far more complex when you began considering NARR Level Three or Four developments.

These sources could include things like the low-income housing tax credit program or community development block grants. They could also include donations from foundations or outlays of capital from private business created through their revenue streams. [00:18:00] One example here could be a rural, private clinical treatment provider who operates a rural residential treatment facility.

On the company spreadsheet, they recognize for several years, they've cleared a handsome profit and recognizing the critical need for a more elaborate continuum of care, they decide to invest in a rural recovery residence. Here, the source is the revenue generated by the private enterprise after costs of operations.

The use is the acquisition of a structure to utilize as recovery residence, or maybe they build one from the ground up. In any case you should go into the planning of your rural recovery residence project by understanding the sources of capital that are available to you and how they will be used. In many cases, the use of capital is aimed at acquiring a debt obligation, a debt obligation is any financial arrangement, which requires that you make regular payments [00:19:00] towards that debt such as a mortgage loan or a business.

It often includes both the interest and principal payments on the debt, as well as any property taxes. There are many institutions and organizations that can provide specialized financing that can assist in acquiring a debt obligation for a rural recovery housing project, beyond traditional private financial lenders.

These can include community development financial institutions, affordable housing nonprofits, and federal agencies or their state-based arms like the U.S. Department of Agriculture, local development districts departments for local government and the U.S. Department for Housing and Urban Development. In short financing and otherwise unobtainable amount of capital to get a recovery home started in your rural community can provide a source of capital that might otherwise be inaccessible. In this way, [00:20:00] financing your project can be your friend and debt does not always have to be a dirty word. And next slide, please. Give me a sip of water. That was a long one. And so now we'll move on to operating expenses here on the slide. You know, I've got your most common operating experiences as bullet points. Um, I'm not going to go through those one by one, but so as with any property, certain operating expenses are a given.

If you're using a building or a house, you likely must pay either rent on a lease or otherwise cover a debt obligation service like a mortgage. Rent on a lease will usually be explained in your leasing agreement with the property owner as well. The details on what is covered in the lease. Under a leasing agreement, you are usually paying for things like major maintenance, [00:21:00] property insurance, and oftentimes utilities. A debt service on a property for your rural organization owns will often be a compilation of principal interest and property taxes, but you'll be responsible for any maintenance or insurance costs.

Ownership of the property by your rural organization is usually in much more sustainable option for NARR Level One and Two type recovery housing. Although this is not universal. Oxford house is a form of recovery housing that leases all of its homes from property owners and serves rural communities. But their entire business model is set up for this. For most owner operators, as well as nonprofits or private businesses seeking to enter the rural recovery housing space, you will have difficulty maintaining a rural recovery housing program if you do not own the property. The primary driver for this is that the [00:22:00] additional revenue you need to provide programmatic services, pay staff, persons, or self subsidize your program fees is often eaten up in the margin at property owner will add to a lease agreement to obtain their profit. This does not always hold true for NARR Level Three and Four homes. However, where there are other definite means for obtaining revenue beyond the collection of rent or program fees or reliance on subsidies or grants.

And I'm going to provide some small suggestions, uh, for each item on the list, uh, beyond the debt service for maintenance, you want to be able to keep your property in good condition. One good rule of thumb is to set aside 1% of the appraised value of the property each month into a maintenance. For example, on our level one or two type rural recovery residents occupying a home valued at $200,000 should aim to set aside [00:23:00] $200 per month for maintenance expenses.

This is different for larger facilities at the NARR Level Three and Four type rural recovery residence. And where you may have maintenance staff in addition to addressing maintenance needs. For larger facilities, it is wise to consult a commercial property or property management professional on how to calculate and plan for ongoing maintenance expenses.

Excuse me. Depending on your organization and organization type and the types of revenues generated, you may hold tax obligations beyond property taxes. Be sure to consult a business or tax professional to understand your tax obligations regarding your specific project. Certain types of insurance are given such as property and general liability, but be sure to understand the costs of premiums and understand the expense breakdown for your budget, whether it be monthly, quarterly, [00:24:00] or yearly, you may also have specialized insurance policies, which you need to carry depending on your employee profile and the types of services included in the rural recovery residents.

Be sure to identify and calculate these expenses as well. Some real recovery residences do not employ any staff, such as NAR level one homes. However, NARR Level Two and beyond will have some sort of staffing structure. A common misconception in practice is that it is appropriate to compensate a house manager with free rent. Although best practice appears to indicate that it is better to contract this individual for their specific task and role. And be sure to consult an HR or legal professional to understand your obligations to your employees and potential liabilities you may encounter without the appropriate structure in place.

Utilities costs will tend to fluctuate and can vary widely depending on [00:25:00] location, property type and size. The nature of the operations being undertaken in a rural recovery residents will adjust these. A general rule that can serve you well, is itemizing the specific utilities for your location and attempting to find comparable examples so that you can estimate your costs.

Another suggestion is to be conservative in your estimates. For example, if you feel confident that your electricity costs will run $300 per month, go ahead and add 10 to 15% to that figure and see if your numbers still work out. It is always better to plan on spending more and end up spending less than the other way around.

You may or may not encounter professional fees for clinical consultations for residents or legal fees for filings or other legal work. If you anticipate anything like this will be an ongoing expense for your operation, it is wise to [00:26:00] budget for it in the beginning.

Advertising may or may not be a part of your recovery residence plan. But if it is be sure to set your goals and budget for their execution, then add that figure to your operating expenses. Additionally, the Fletcher Grouphas created a national recovery housing registry, where individuals anywhere in the country can find and contact your rural recovery housing operation.

And we can provide more information on that at the end. There are some expenses unique to rural recovery housing. Do you expect to provide meals for your residents? Transportation? Legal assistance, or other services, which don't fit neatly into any of the categories already mentioned? If so, then you need budget for them up front.

Although budgeting should be an integral part of the process in developing a rural recovery residence, it can be difficult to do if you don't really understand what level of recovery housing and what type of programming you intend to deliver [00:27:00] to your residents. A final and wholly unique item to the operating expenses of a recovery residence are what I call, stop gap funds, which are covered on their own in the next slide.

But before we get there, we're going to go on to our final polling question today. So this last, uh, polling question is, do you have, or have you ever been involved in emergency funding? Sometimes it's called contingency management planning. This can be personal, or this can be for a business. Uh, for example, do you have an emergency fund for yourself or your family?

You know, if you were to get injured, you know, would you be able to pay your bills for a certain amount of time? And it's sort of the same concept for, for business and recovery housing. Got a good spread on this one. Um, I don't know who you are, but I love the person that keeps taking this, this last point.

Somebody has to change jar. That's awesome. [00:28:00] Um, but it looks like a little over half said yes or somewhat, um, There was about 5% that said neither. And then a good third that said not really. So that's good. We're going to cover this concept today and feeling competent. We're going to have plenty of time for questions today.

So. All right. We've already got a few going. All right. Um, so now we're going to talk about stop gap funding. Um, stop gap funding can also be thought of as a type of rainy day fund or a push pull account as I've worked with different folks. I've had it. I've heard it called both. But the key point here is to address the fundamental need of compensating for lost revenues.

If other subsidies are unavailable for rural recovery residences and, and this concept, although it can be applied in personal life in [00:29:00] business, it is unique and very important to address when it comes to recovery housing. So in traditional property management, there's a concept known as the vacancy rate.

The vacancy rate is the amount of time you believe a specific unit or a property will experience a complete loss of revenue from the collection of rent. And traditional property management. This is usually 10 to 15%. So this concept is extremely important to understand for rural recovery housing, because what is thought of as a vacancy rate in traditional property management translates to drop out rate in rural recovery housing.

For anyone with experience in substance use disorder treatment, it is well understood that compliance with treatment plans and retention in treatment programs is a perennial difficulty. When this is compounded by the stigma [00:30:00] surrounding those labeled as criminal or felonious due to an untreated substance use disorder, it can create real barriers for those attempting to bring recovery housing, to rural communities where jobs may already be limited.

And the ability to obtain gainful employment is jeopardized by a criminal record. When those factors are combined with the inherent difficulties of recovery from substance use disorder that already exists, it creates a situation in which rural recovery housing operators cannot take for granted the traditional rent collection model of property management.

Although solid data is not yet available. If you consult with a rural recovery residence operator, they will inform you that approximately 50% of individuals who enter recovery residents will either leave the residents on their own volition or otherwise become non-compliant with the guidelines of the recovery residence and not [00:31:00] be eligible to reside there anymore before they contribute anything to the residencefinancially.

The obvious solution to this issue is to require that someone pay a deposit prior to moving in. And this is a method, many rural recovery housing operators use, but this method creates a significant barrier in and of itself. For an individual leaving a treatment program who may have less than 30 days in remission is unemployed, possibly unemployable and otherwise indigent.

A massive barrier has been created for accessing the desperately needed rural recovery housing. Stop gap funding is a self subsidizing model that can be a solution to this barrier, a rural recovery residence that can provide both a grace period of four to six weeks and anticipate not receiving any payment from a resident for that time.

Excuse me. Is well on its way to sustainability. [00:32:00] And it's staying true to the mission of rural recovery housing by giving individuals an opportunity to capitalize on a treatment event without potentially avoidable financial barriers. The development of stop gap funding mechanisms is possible, but its total details are outside the scope of this webinar.

The general concept for the mapping of operating expenses is this how. Whatever your design for collecting program fees or rent from those coming to your home plan on not collecting 50% of those funds. Some of the time, of course, there will be lean times and fat times where everyone is staying and paying on time.

However, it is difficult to plan a budget on unknowable circumstances. The good news is that over time the vacancy rate or dropout rate will become low. Oftentimes as low as 20 to 25% on average, but this is after a home has operated for a [00:33:00] while and become stabilized. So the new rural recovery residents, it is wise to plan on a 50% rate and utilize available funding sources appropriately and build something into your operating expenses, budget to account for the loss of funding that is to occur at some point.

This will further be elaborated on in the sustainability section of this webinar. So now we're going to talk about revenues. This is so, you know, all we've talked about so far is debt and expenses, but now we're going to talk about where money comes in. So, if you've ever wondered where the phrase no margin, no mission comes from.

And if you've ever worked in a nonprofit, you've probably heard it. A Google search will credit the phrase to sister Irene cross, who a nun who successfully operated six hospitals and believed that charity was insofar. And organizations aimed at delivering specific services ought to have a solid [00:34:00] financial footing.

If you have ever worked for a nonprofit, you're likely very familiar with this. So far, all we have discussed are the costs of operating recovery housing. The other side of that coin is revenue or income. Ultimately, the formula for successful rural recovery housing is simple. If you add up all your revenue, subtract all your expenses and you are left with a number greater than zero.

Well, you have a successful program. This is true for all levels of recovery, housing, and all organizational types. The first form of revenue is the simplest to understand if you've ever rented a place to live or paid on a mortgage. You understand the concept you are responsible for giving someone or something, a certain amount of money to enjoy living in that space.

For real recovery housing, this money is often referred to as a program fee or rent. There can be certain illegal [00:35:00] ramifications to the term you use to define this exchange of money. So be sure to consult a legal professional before you began writing up a leasing or other agreement, typically a rural recovery residence.

Well, how's more individuals than would typically live in a given space. This is in no way, an endorsement or advocation for cramming people into a house, but it is important to address a common misconception that every individual in our rural recovery residence ought to have their own bedroom. Within the social model of recovery, the foundation of any rural recovery residence, the ability to learn to both live in harmony, or at least tolerance, with others and be subject to accountability and deliver accountability or.

This is something rural recovery, housing aims to achieve and often does so by situating, more than one individual in a bedroom, depending of course, on size and other factors. Given [00:36:00] that rural recovery housing can function on this revenue stream alone, as many do in rural communities across the country.

Program fees or rents are usually paid weekly instead of monthly and are usually evenly divided amongst the residents of the home. On the next slide, I will show you a viability calculator, which can help illustrate this point, but for now a simpler example. A four bedroom home could comfortably accommodate eight individuals.

If the weekly program fee is $100 per week, this would result in a potential revenue of more than $3,450 per month. Notice I said potential though, because we must account for the stop gap problem, which will again, be illustrated on the next slide. Other sources of revenue often varied depending on NARR level and facility type, but we will cover each briefly here.

Formal subsidies are existing local state or federal programs [00:37:00] would provide funding for housing. A common example is section eight housing programs provided through HUD. Insurance, whether private or federally funded is a large source of revenue for many rural organizations providing clinical SUD services.

This is usually most applicable to NARR Level Three and Four homes. But in many cases, an organization can generate sufficient revenues from billable services to either extend the stay of resident for free or otherwise float the cost of transitioning from a treatment event into rural recovery housing, where the individual then seeks gainful employment to later pay a fee for service or rent payment grants can be divided into two primary categories.

Operational and capital capital grants may help you obtain a building or home that has little to no debt on it. Therefore your program fees can be extremely low or even free for a time. [00:38:00] This also opens up money in your operational budget due to not having a debt service obligation, operational grants can help pay for staffing or services.

Some may even provide short-term rental subsidies. However, rural recovery housing is a relatively new concept and most, to most, and grants specific to rural recovery housing are relatively new, but both SAMHSA and HUD have funded recovery housing projects in rural communities over the last two years.

And it is hopeful that there are more funding opportunities to come. Fundraising is often a critical component to any rural recovery housing venture. Although it is not advisable to rely too heavily on fundraising, a good capital campaign or a regular charitable event for operational funding can go a long way to helping your rural recovery residents succeed or get started.

Donations may not always be [00:39:00] thought of as revenue. But regular receiving of cleaning supplies or food donations can eliminate an expense you may not otherwise be able to cover. Furniture donations can also help a new recovery, rural recovery home get started. Contracts are an important source of revenue for rural recovery residences, but can also come with some ethical pitfalls that should be learned about and avoided.

However, rural recovery housing is an extremely valuable community service, which greatly reduces the burden on taxpayer dollars. As such many rural recovery residents programs receive contractual support from state or local governments. It may cost a rural county government as much as 75 to a hundred dollars per day to house someone in a detention center.

The cost of this stay is very rarely recovered and very rarely results in improved outcomes for an individual with SUD. A rural recovery residence can often [00:40:00] guarantee up to six months or greater of high-quality recovery services with dramatically better outcomes for far less money. A savvy rural recovery home operator can deliver meaningful recovery capital services for individuals for 20 to $40 per day.

And this may be in addition to other revenue streams, contracting services to community agents partners, governments, or even businesses can create an additional revenue stream, which replaces a temporary subsidy or otherwise fills a major budget gap. For example, is a recovery, if a recovery residence contracts three of its 10 beds to a local jail for $20 a day, they could likely net an additional $21,900 per year for their program while saving that local government upwards of $60,000.

Scholarships or sponsorships or another option where an individual organization [00:41:00] or family member guarantees the service fee for housing for a short period of time for an individual. This can be a solution to the stop gap issue as well. So again, this, this presentation will be, uh, available, I think, near the beginning of next week for folks to download.

But this slide, uh, provides, uh, first the conversion formula for turning weekly program fee or rent collection into monthly for the purposes of budgeting. Um, and that's there on the screen. And the second item is an example of expenses versus. Desired revenue per resident broken down by number of residents.

So, you know, you can see on that chart that if your house is fully staffed, you know what you're going to have to ask from individuals versus if you're at like 60% capacity. This exercise in itself can be [00:42:00] extremely useful when we start thinking about sustainability for your rural recovery residents, which we'll talk about next on the surface.

Any rural recovery housing venture can appear unsustainable after all, you're trying to provide a service within a framework that has traditionally operated solely as either a for-profit industry, or has remained within the realm of federal affordable housing program. Hopefully after this webinar, you will walk away with an understanding of how rural recovery housing can be inherently sustainable at any of the NARR levels, especially in rural communities.

If you have followed the steps laid out so far, there should be some understanding of what type of operator you are and what level of rural recovery housing you hope to provide using this framework. And the budgeting tools described. You can begin to understand your operational limitations. Reflecting on the previous slide, which laid out a breakdown of the per person revenue for [00:43:00] row recovery housing.

One important topic of sustainability is designing your rural recovery residenceto function effectively below its capacity. If you have a home that can cover all its expenses with 60% of its bed occupied, you have an inherently sustainable. In other words, if you have an eight bed home that pays all its bills with only five beds occupied full time, then you have developed a very sustainable home and gone a long way toward addressing the stop gap problem mentioned earlier. Understanding operational limitations is still largely driven by organizational type and the NARR level. You are trying to provide a rural NARR Level Two, Level One, or Level Two home, shouldn't also attempt to operate as an employment agency. Although you may have community partners who help with this and with whom you have formal or informal arrangement.

Neither should a NARR [00:44:00] Level Three or Four home, although it may have formal staff who assist in those efforts. Remember rural recovery housing is not intended to be a catch-all nor is it intended to act as a substitute for clinical treatment services or as a medical detoxification center. The purpose of rural recovery housing is to provide the individual seeking recovery with safe, affordable housing, which is supportive of a recovery lifestyle and free from illicit substances, unprescribed medication or alcohol.

Defining the scope of your work, the purpose of your housing, and the operational parameters of that housing will help you understand your operational limitations. Don't try to be everything to everyone, or you may run the risk of being nothing to nobody. Planning for success is critical for anyone undertaking a rural recovery housing venture.

You should understand well the rural environment you are [00:45:00] attempting to develop recovery housing in what are the other businesses and agencies that provide recovery capital resources, such as fair chance empoyment, criminal record expungement, mental health services, childcare services, medical services, leisure opportunities, and transportation support.

Depending on your NARR level, you may provide some of these things yourself, or you may not. The question is this: Do they already exist? Who provides them? And what is your relationship with that provider? If you establish rural recovery housing, but no one will hire people in recovery, how will you collect program fees?

If they will hire the individual, how will they get to work? If, if they cannot walk there and there is no public transportation, where will your residents come, come from? We can rationally imagine that there are many people looking for what you hope to offer, but how will they access your housing from wherever they might be?

Will the rural community, accept your recovery [00:46:00] home, or will you face scathing nimbyism and stigma to plan for success? Meaning means having the right information and building the right relationships. Recovery is a complex process that takes a lifetime, one day at a time. Answering these many other questions are crucial to your success and having rural recovery housing, which is sustainable. Just because of projects, financials make sense, doesn't necessarily mean that it will be successful, although that is an unreplaceable pillar to your success.

Fortunately, the Fletcher Group offers technical assistance, in all these areas and has resources available to address these and many other issues, your, that you may request and we'll have feature webinars on some of these topics. Surviving after the grant is more of a mindset than a practice too often rural organizations with brilliant intentions begin operations on a project because it has grant funding, but fail in the early days to [00:47:00] accurately account for expenditures to determine revenue sources, which will ensure that the project or the program survives once the grant has concluded.

A proper understanding of all your financial inflow and outflow can help you understand how to create a rural recovery residence, which continues on after the grant and utilizing all available revenue sources mentioned earlier and deliberately diversifying your revenue. Streams can take you along.

This is particularly true for NAR Level One and Two homes. And it's also possible for NARR Level Three and Four homes as well with the proper relationships and structures. Remember if you begin operating a rural recovery residence in an inherently unsustainable revenue model, the costs at the end of the grant could be devastating to your residence.

Homelessness, return to use events and possibly even overdose. Do not be dissuaded from attempting recovery housing, but also do not take it lightly or simply do it because there is a grant [00:48:00] opportunity with no realistic means of continuing to beyond the ground. Finally maximize the use of the social model of recovery.

The social model focuses on the empowerment of residents to take ownership of their SUD status, as well as their recovery. This isn't limited to attendance itself, help meetings. This includes pursuing self-realization job and other skills, familial reunification self-sufficiency, and many other life skills.

The most common misconception about people in recovery and rural recovery housing is that these are all things which must be done for the resident by a staff person. When in reality, they are things that can be supported in the right environment. The social model focuses on creating the space and opportunity for individual success. Not delivering that success by giving it away. A well-run rural recovery residence provides its residents with the structure, guidelines, and [00:49:00] access to resources for the individual to pursue self-determined objectives. It also provides accountability from one resident to another, for behaviors or actions which jeopardize recovery or the safety and homeostasis of the house.

So we've got about 10 minutes left, um, you know, just, uh, run over the major points, you know, determine the type of your rural operation, understand where your money's coming from and how are you going to use it and plan to be sustainable. And I'm going to go ahead and stop talking there so that we have time left for questions.

[00:49:38] **Jennifer White:** Great. Thanks Gene. And great job. Um, and, and this can be kind of a heavy topic and we do have some questions. If we don't get to everyone's questions, please feel free to reach back out to the Fletcher Group for technical assistance, um, to support you in this. And I will go ahead and drop our link again. Um, as Gene's answering questions in the chat for anyone that [00:50:00] doesn't have it, but, um, the first question is what are some of the more common investment strategies and instruments used by Kentucky operators?

And where would you recommend a new organization should begin?

[00:50:15] **Gene Detherage:** So, again, it depends on what level of recovery housing that you're seeking to develop. Um, one tool that I have gotten a lot of traction out of here in Kentucky are, is the community development block grant program. That's a national program. Uh, those federal dollars flow down to local communities, uh, depending on your state government and its structure kind of varies the way in which that flows down, but within the framework of CDBG, um, If you're working with the right folks in your community that are connected to those program dollars and you have a local government that's supportive, it's not [00:51:00] hard to pull data and evidence about incarceration numbers, overdose, those sorts of things to make a good case, to use CDBG dollars for capital expenditures in recovery housing projects.

Another one, which is really a part of our bread and butter, and part of our foundation is the use of the low-income housing tax credit program. Uh, and those are for like large 100 bed size projects. CDBG is great for something that's 20 to 40 beds. Um, but by and large for your like NARR Level One and Two homes, it's still pretty much finding a mortgage that's going to fit your needs. A good interest rate, a good payment. That's going to make sense. I hope that answers that question.

[00:51:49] **Jennifer White:** Thanks, Gene. And you've covered a little bit of this, but I'm going to see if you want to expand on it anymore. What are alternative employment agreements that are created for resident [00:52:00] managers of recovery houses, other than rent compensation?

[00:52:03] **Gene Detherage:** That is a great question. So when I'm working with a new house or somebody that's seeking to maybe doing an expansion, um, I always suggest doing like a 1099, uh, subcontract, and I mean, you can pretty much fit it on one page, what their responsibilities are going to be. And if you're running a NARR level Two home, uh, in some instances, even level three, The range of duties and responsibilities for that individual are probably going to be limited between 10 to 20 hours of work per month.

And so what I always suggest is when you give them that 1099 contract stipend, you make that dollar amount equal to, or slightly greater than whatever they would be paying in rent. Um, anyway, I know that sounds like a long way [00:53:00] about doing it because you're basically handing them a check that they're turning right back around and hand it back to you.

But, but what it does for you as an organization, One, it allows you to get workers' comp on that individual, which is going to provide a nice liability umbrella for your organization and the work that they're doing. And you know, it really just protects your organization from liability or possible suit issues.

[00:53:29] **Jennifer White:** Thank you again. Um, so our next question is how much of this information applies to non-rural recovery housing facilities?

[00:53:38] **Gene Detherage:** Well, I'd say that probably all of it. Um, you know, these concepts are, are universal, you know, are you bringing in enough money to pay your bills? And if you're making more than that, and that's what you're trying to do.

That's great. Um, I'd say probably [00:54:00] the biggest difference is if you're in a non rural setting, you might have access to maybe more philanthropic dollars. You know, there are certain grant programs aim themselves towards non-rural communities, but 99% of it's universal.

[00:54:22] **Jennifer White:** Thanks Gene. Um, how about what tax expenses does a 5 0 1 C3 incur, real estate taxes for example,

[00:54:31] **Gene Detherage:** share anything on that. It is going to depend on what the ownership structure of the property. Actually looks like. So in most jurisdictions, if the 5 0 1 C3 entity owns the property, it should be free from tax liability.

Um, but I always recommend that you consult with a tax professional [00:55:00] or legal advisor for your specific instance.

[00:55:06] **Jennifer White:** Thank you. So one of our participants, um, states that one idea I've encountered and considered is calculating and setting aside depreciation costs as cash to build a reserve fund. What are your thoughts on this?

[00:55:24] **Gene Detherage:** I'm assuming that you're private and I actually really liked that idea. You know, if you're going into this as a, uh, I'll put it in quotations as a for-profit venture. And you're going to go ahead and longitudinally plan to use your depreciation against your revenues over the lifetime of your project to pull in for your stop gap fund.

I like it, probably the only difficulty I see with it would be, can you guarantee that, that you're going to be able to obtain [00:56:00] that depreciation in a liquid format. If you, if you can't touch that depreciation as a liquid asset, I would be kind of skeptical about it. That's a great question though.

[00:56:14] **Jennifer White:** Um, and now we've only got a few minutes left, so we're going to, we've got three.

I'll try to get them done if we can, if not, please reach out to us. So, um, what are some good insurance providers for a NARR Level Two or Three recovery house? And they do not tell me what area of the country they're in.

[00:56:30] **Gene Detherage:** Sure. So. At NARR Level Two, you shouldn't be delivering any clinical services inside the house itself. It may be a requirement of your program that someone's at accessing those. And that's the same for level three. Um, if you're operating, so I'm just gonna make an assumption that maybe you run like a, a clinic or something that is getting those [00:57:00] revenues. What in your original question was, who's a good insurance provider.

That's impossible for me to say. Um, the way the individual states have both their Medicaid and private insurance programs set up are both regionalized and state-based. Um, and then kind of like a more global answers, outside of clinical residential treatment programs, which would only be a non NARR Level Four.

There's currently not an existing funding mechanism that allows insurance to reimburse for recovery housing. Um, you know, it's our hope that that changes someday, but, uh, broad strokes. That's just how it is right now.

[00:57:50] **Jennifer White:** Great. Thank you. And I know we have two questions that I'm not going to be able to get to.

Um, but I do know that this individual knows how to reach out to us. So I hope that he will. [00:58:00] Um, and if everyone wouldn't mind, um, continuing to stay on and completing the survey, we would appreciate it. And again, if you have any questions or want to reach out to the Fletcher group for technical assistance, um, we can be reached at www.Fletchergroup.org.

And thank you Gene for this wealth of information.

[00:58:19] **Gene Detherage:** Thank you. That was great being with everybody.

[00:58:25] **Michelle Day:** This concludes our webinar session. Thank you so much for joining us today. Also, please tune in on the first Thursday of each month from 2:00 PM to 3:00 PM. Eastern standard time, we will be hosting subject-matter experts from across the nation to bring you valuable tools and resources for rural recovery house operators and SUD professionals.

If you would like information on technical assistance, you can go to our website, again, www.fletchergroup.org, which I have also copied in the chat, and submit a technical assistance request. Lastly, please take a moment to respond to [00:59:00] the survey questions once they become available on your screen. Your feedback is very important and greatly.

Thank you and have a blessed day.

-end-