Nonprofit Facilities in the Denver/Boulder Community

A Market Assessment

Prepared by Technical Development Corporation (TDC)
Boston, Massachusetts

Table of Contents

Goal of Assessment

- To provide information, analysis and recommendations to help the larger Denver/Boulder philanthropic and nonprofit community determine how they can address the broad facilities needs of nonprofits in the seven-county greater Denver metropolitan area.

Methodology

- **Survey** – Received and analyzed surveys from 254 organizations. 29% response rate.
- **Interviews** – Reached over 40 organizations via telephone and in-person interviews.
- **Focus Groups** – Spoke with 30 attendees from Boulder, 58 from Denver.
- **Case Studies** – Looked in-depth at 14 Jewish and 13 Senior-serving agencies.
- **Reached over 300 organizations between May and October 2001.**

Key Findings

Most Nonprofits are Small

	Metro Denver							Boulder							
	under $250K	$250-500K	$500K-1M	$1-5M	$5-20M	over $20M	**Sub Total**	under $250K	$250-500K	$500K-1M	$1-5M	$5-20M	over $20M	**Sub Total**	**Total by Sector**
Arts, Culture and Humanities	300	20	11	21	4	2	**358**	64	5	6	3	1	0	**79**	**437**
Education and Research	448	24	30	29	8	7	**546**	89	8	7	10	2	1	**117**	**663**
Environment and Animals	118	5	4	5	3	0	**135**	46	1	1	1	0	0	**49**	**184**
Health	212	38	24	43	17	11	**345**	28	2	4	2	2	1	**39**	**384**
Human Services	669	70	58	68	25	6	**896**	88	6	6	8	4	0	**112**	**1008**
Public, Societal Benefit	392	44	25	43	9	3	**516**	56	3	2	6	1	0	**68**	**584**
	2139	**201**	**152**	**209**	**66**	**29**	**2796**	**371**	**25**	**26**	**30**	**10**	**2**	**464**	**3260**

- 76% percent of nonprofits are small organizations with annual budgets under $250,000.

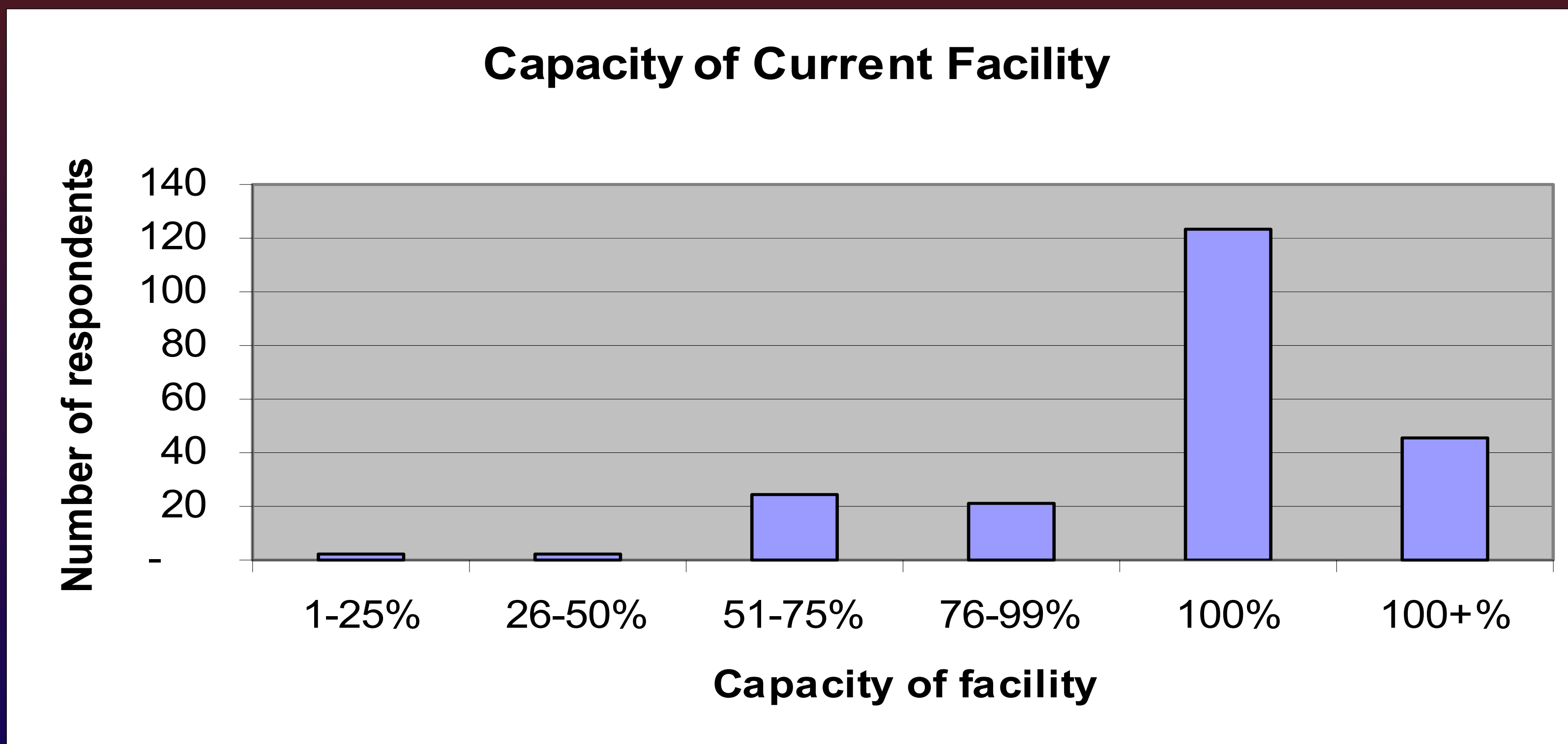
(Data derived from 990 filings compiled by Guidestar)

Rapid Growth in Nonprofit Sector

- **Statewide** - In the past decade the growth in the nonprofit sector has reached 460%, surging to 13,778 from approximately 3,000 organizations.

- **Metro Denver** – In the past ten years, metro Denver has grown at a rate of 29.8%, making it one of the fastest growing areas in the country.

NPOs At Or Over 100% Capacity

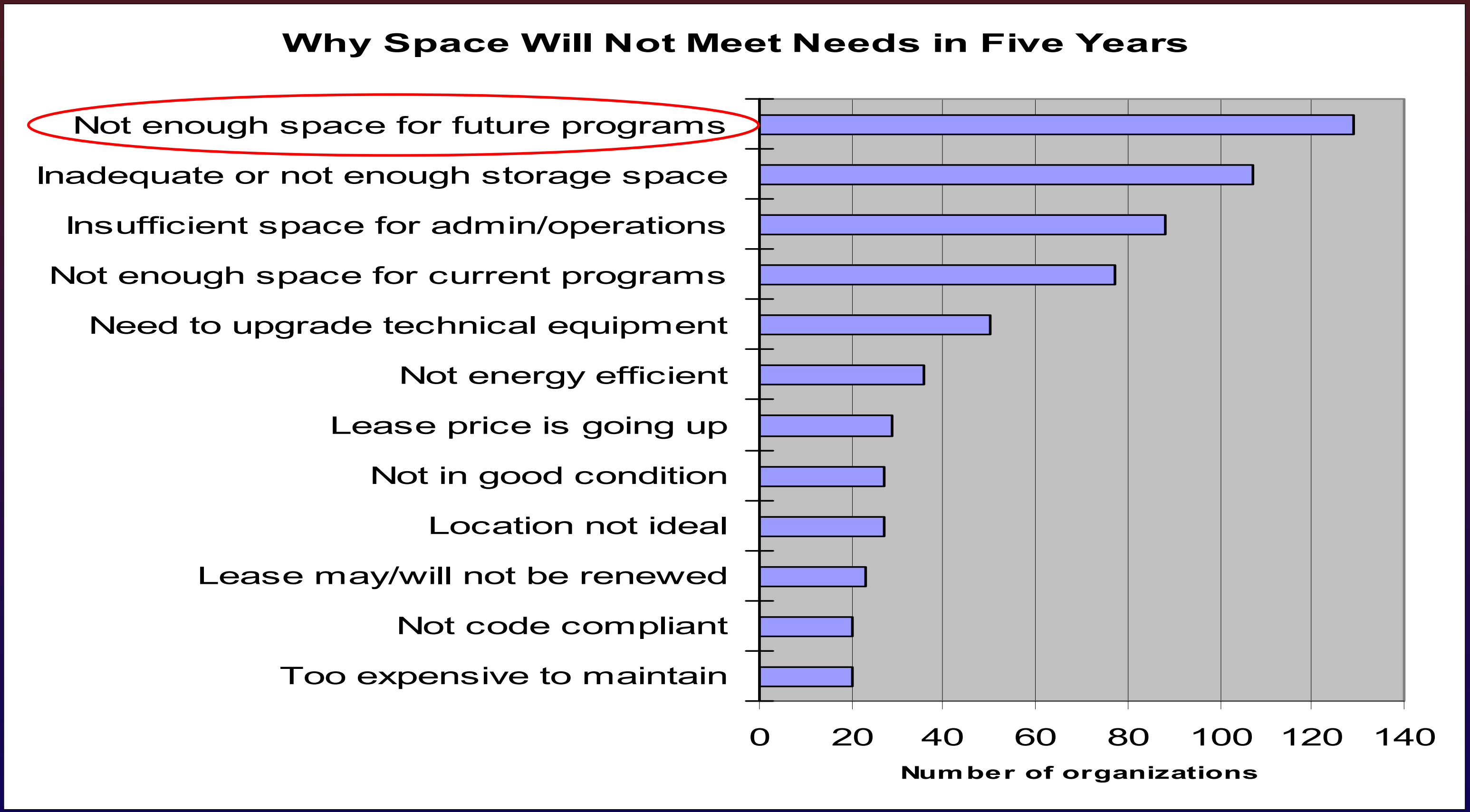


- 77% of nonprofits are operating at or over space capacity.

Facilities Needs are Great

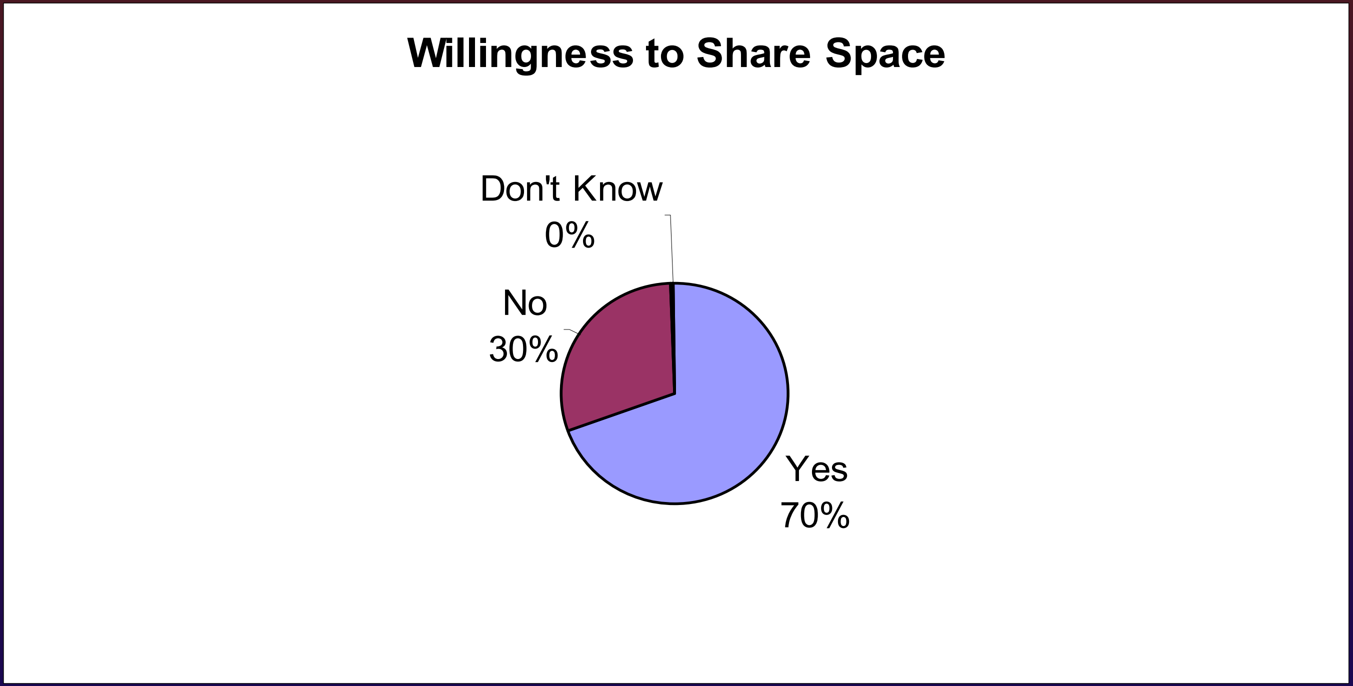
- 88% of surveyed nonprofits believe their client population will increase in the next five years.
- 60% of these organizations stated that their facilities would not meet their anticipated needs in five years.
- 50% of surveyed organizations had looked for new facilities in the last two years, and of those who looked, 55% did not find suitable space.

Greatest Need: Future Program Space



❖Nonprofits need more program, storage and admin space.

Many NPOs Willing to Share Space



❖70% of surveyed organizations are willing to share space with similar nonprofits, but most are not sure how to proceed to do so, and are looking for leadership on this issue.

Multitude of Capital Campaigns

- 49% of surveyed organizations have recently completed or are currently undertaking a facilities-related project.
- 46% anticipate a major capital campaign for a facilities-related project in the next 5 years, and 54% of these campaigns will be to acquire new space.
- Of the 57 organizations that provided cost estimates for their anticipated facilities projects in the next 5 years, a rough estimate of the combined dollar value is over $105 million.

Barriers to Facilities are Significant

- 73% of nonprofits believe they cannot pay more than $15 per sq. ft., but the average Class B rental price for office space in the Metro Denver region is $21 per sq. ft (as of 2Q01).
- The development and gentrification of formerly marginal neighborhoods pushes prices up and makes certain kinds of spaces less available.
- Nonprofits have specific requirements for type and location of space.
- In Boulder, green-space policies restrict land use, reducing the supply of suitable property, and thus increasing prices.

Small Pool of Funds for Capital

- Small group of foundations address capital needs.
- Local banks are willing to provide secured facilities loans to larger nonprofits (over $1M), but are not actively seeking them out.
- Most nonprofits and foundations are averse to using debt for facilities projects.

Facilities Projects Done In-house

- Leverage in-house expertise.
- Network among colleagues.
- Use professionals for certain purposes.

Size matters:

- Larger organizations tend to have more staff, larger boards and wider networks to leverage.
- Smaller organizations tend to struggle more.

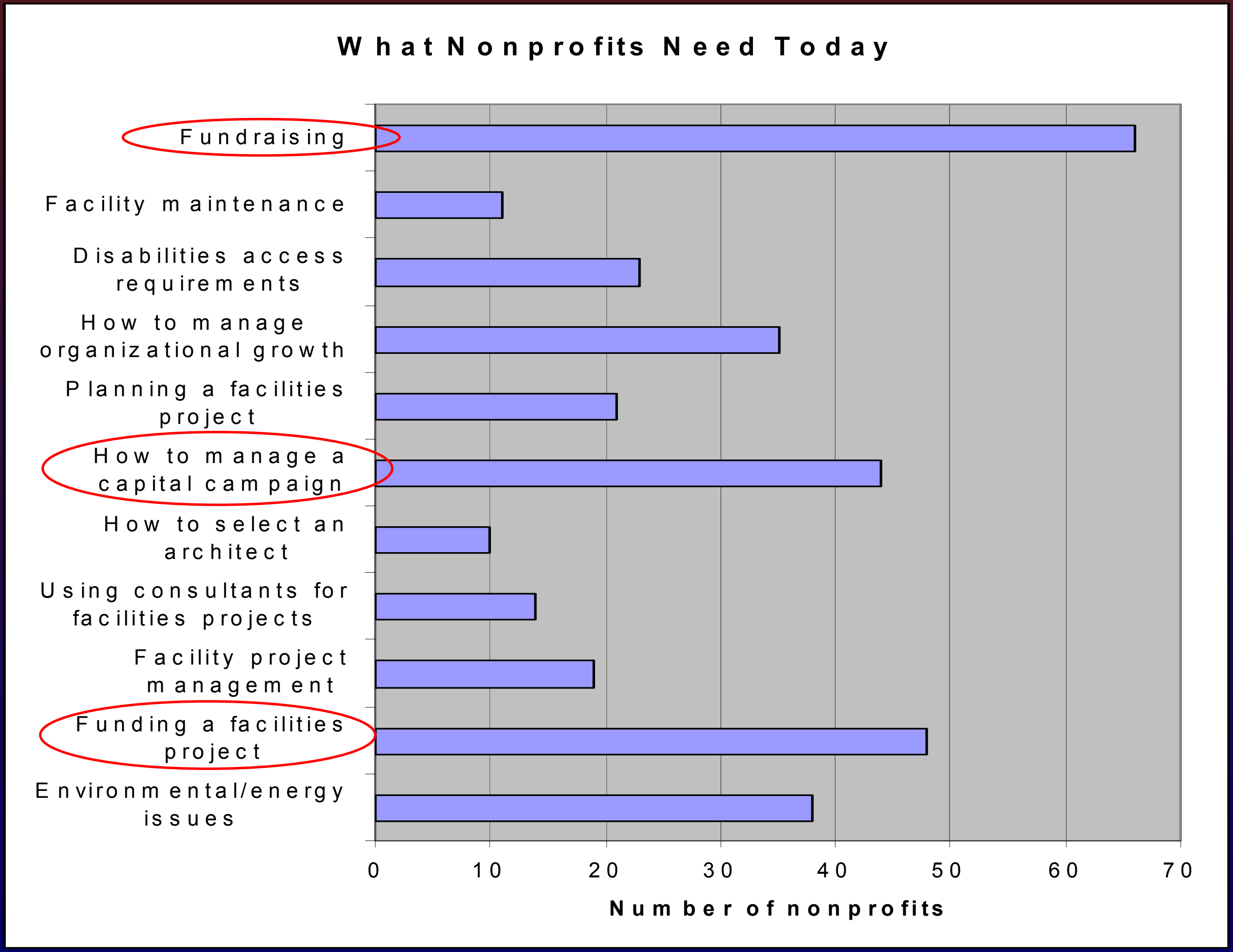
Expertise Depends on Subsector

- Low-income housing
- Childcare
- Healthcare
- Arts and culture
- Human services
- Charter schools

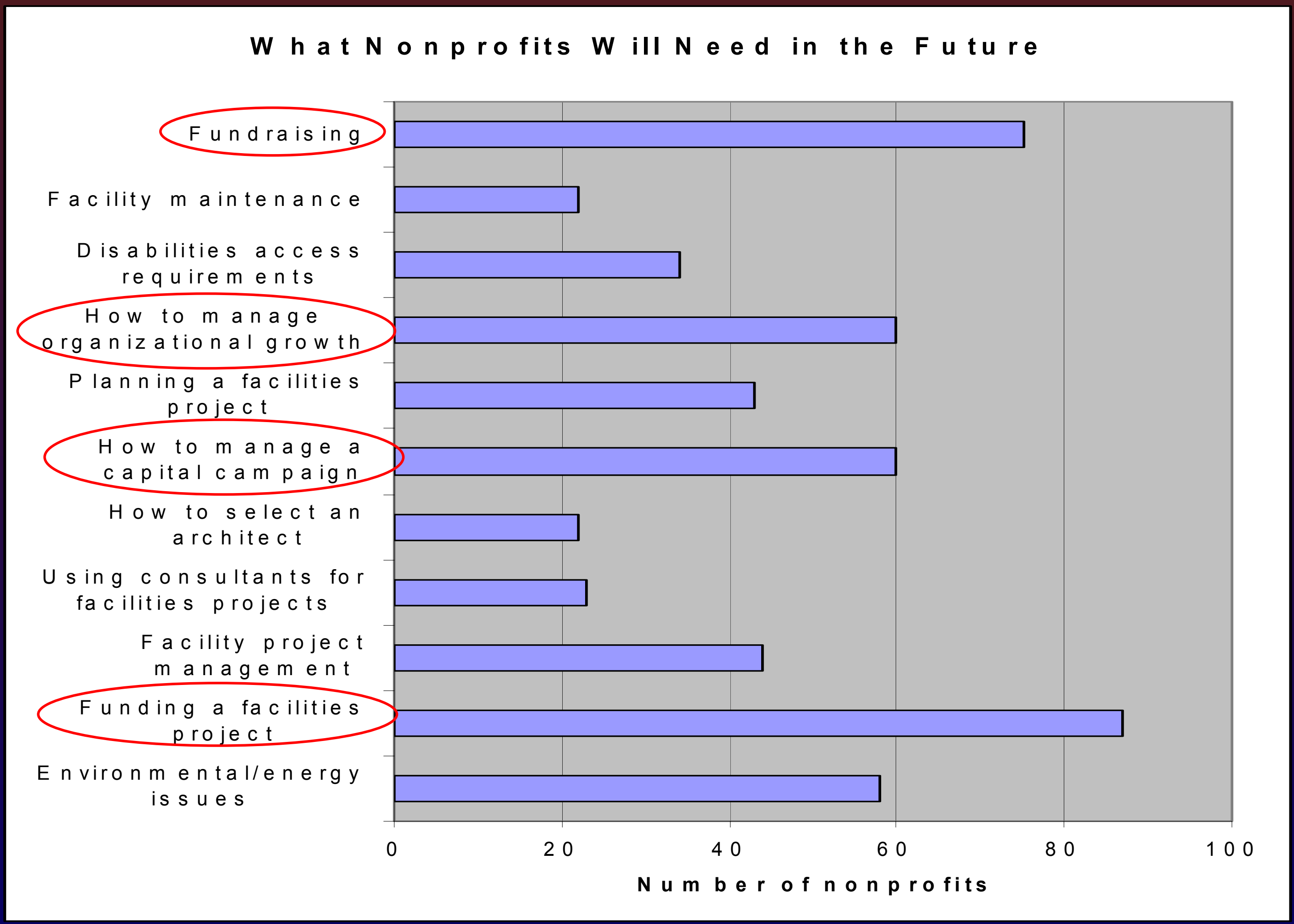
More Expertise

Limited Expertise

Current Facilities Help Wanted



Future Facilities Help Wanted



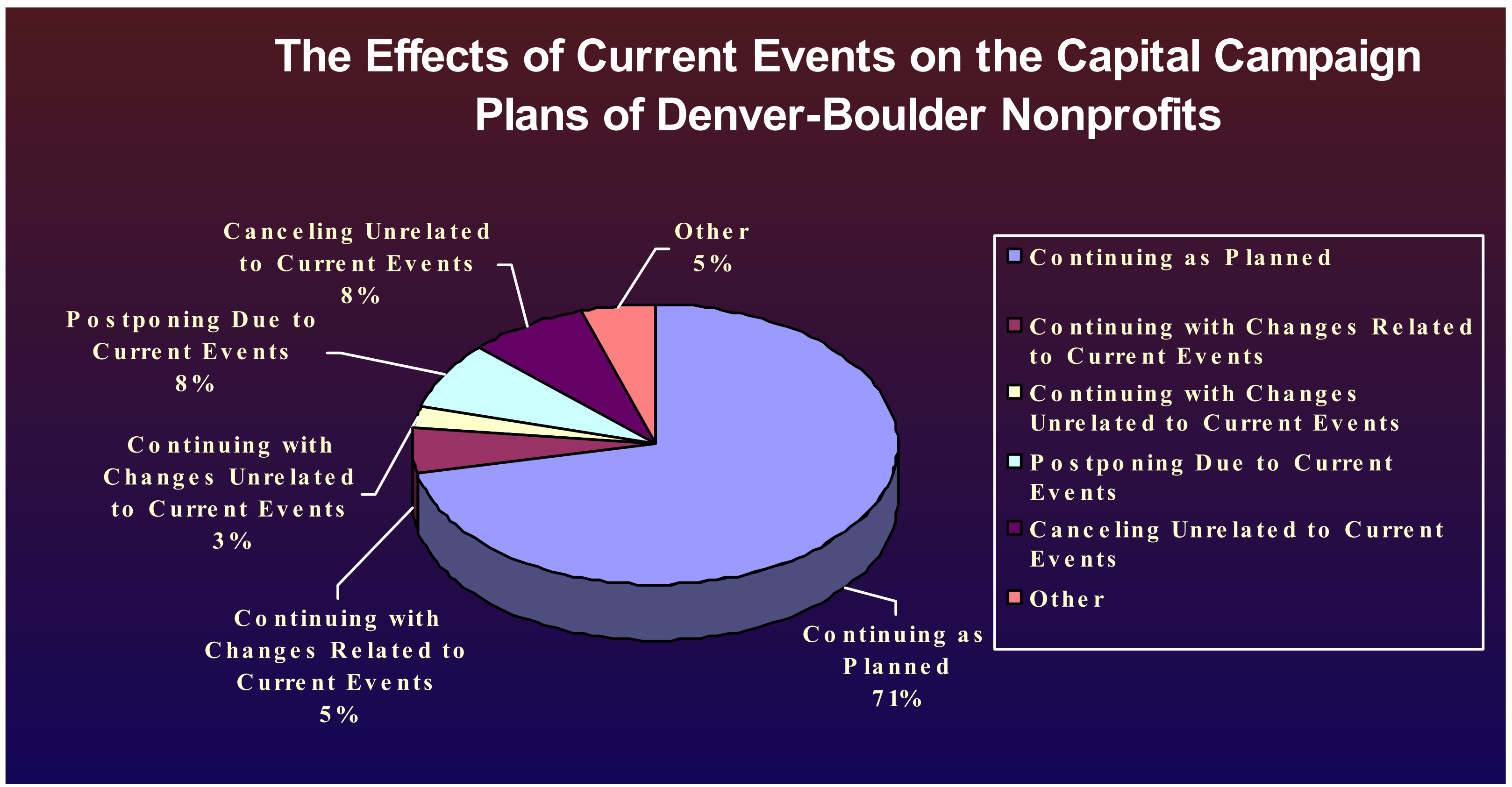
Sub-optimal Facilities Expertise

- Most TA provided by CANPO, CRC, Metro Volunteers, CNDC and individual consultants.
- Array of TA does not adequately cover facilities issues.
- Nonprofits prefer one-on-one consultation to workshops for facilities assistance.

Effects of the Economy

- As of 3Q01, realtors predict that Class B and C rental space will become more available and affordable for NPOs, at $12-18 per square foot.
- Program space is still difficult to find due to more specific criteria (location, ADA, permits, etc.).
- Recession will likely reduce donations from individuals, corporations and foundations.
- Despite falling rental prices, there is ongoing need for support of capital issues, especially program space.

Since September 11th



- 71% of nonprofits are continuing as planned with their capital campaigns.

Key Opportunities

Convene and Learn

- Foundations have the opportunity to come together and educate themselves on facilities and related issues.
- Possible outcomes or goals of convening on this issue might include:
  - Advocate for capital dollars
  - Educate the community about the role/effectiveness of debt
  - Assess technical assistance infrastructure
  - Investigate facilities-related models and best practices
  - Define success, convene and educate the nonprofit community about facilities

Educate Community About Debt

- ❖ Used correctly, debt can be an effective tool to solve a facilities problem for a nonprofit organization.

OR

- ❖ Debt can lead an organization down a “slippery slope” to its possible demise.

- ➢ The community needs to recognize the differences between effective and ineffective uses of debt, as well as what good financial and facilities planning looks like in these different circumstances.

Ineffective Use of Debt – Case Example

Organization #1

- Founded in 1911. Provides services to immigrants and refugees with a $5M budget.
- Historically break even operation. Few surpluses generated.
- Few high end donors within its base.

Project

- Bought new facility in 1998 with $4.8M bond issue. At the same time, established line of credit of $600K for operations with a second mortgage.
- In 2000, opened a museum in new building. Assumed that earned income would quickly cover the cost of operations.
- Total cost projection = $3.5M - Raised $2.5M cash, $1M pledges. Financed the pledges.
- Project cost overrun of $1M; Financed by $1M additional loan.

Outcomes

- Visitors never materialized. Operating costs of museum drained main organization funds.
- Could not pay interest on line of credit.
- Forced to use some pledge payments to support operations.
- Interest payments alone total $100,000 annually.
- Organization is raising money just to pay off debt.

Why Debt Didn't Work

Lessons From Organization #1

- Organization extended itself with no history of surpluses. Kept layering debt upon debt.
- Stepped outside of historical operating experience.
- Facility cost overrun – project not well defined or managed.
- Earned revenue model inadequately understood and modeled.
- Fundraising requirements outside donor interest & capacity.

Effective Use of Debt – Case Example

Organization #2

- Provides social services and job training.
- Founded in 1988 – tripled in size over past 6 years.
- $1.5M budget – 95% government contracts.
- History of operating surpluses.

Facilities Project

- Operated out of two leased sites – $80K occupancy costs.
- Purchased single facility to consolidate and keep growing.
- Total cost = $1.5 mm – raised $900K, financed $600K.
- New occupancy costs = $93,700 ($71K debt service).
- Occupancy covered: $72K government contracts + fundraising.

Why Debt Worked

Lessons from Organization #2

- Solved an operating constraint and established a platform for future growth.
- Leveraged a history of surpluses.
- Built upon evidence of continued program demand.
- Covered majority of debt service with stable source of income.
- Established achievable fundraising goal.

Assess TA Infrastructure

- Nonprofits have clearly expressed a need for facilities expertise in the near future.

- Does the Denver/Boulder community have the right resources to respond to this need?
- If not, how might the management services organizations, nonprofit community and foundations strategize to fill this gap?

Investigate Best Practices

Some examples:

- Sector-focused funds - Childcare facilities funds in San Francisco, Chicago and Massachusetts
- TA and loans - The Nonprofit Finance Fund
- Health and human services campus - The Foundation for Seacoast Health in Portsmouth, New Hampshire
- Shared space model - Community Services Center Program of the Donald W. Reynolds Foundation in Las Vegas, Nevada
- Foundation convening – Arts funders in San Francisco

Convene Nonprofit Community

- What are some productive ways that the nonprofit sector in Denver and Boulder can frame thinking about capital and related technical assistance?
- What are the financial and operational requirements nonprofits should meet to be eligible for support with facility projects?
- How should the community as a whole think about space utilization?
- How can the community address the impact of gentrification and green space pressures on nonprofits?
- How should the community as a whole respond to debt in facilities projects?
- How can the community take advantage of the willingness to share space?