Survey Results: Facilities needs of nonprofit organizations in the seven-county Denver metropolitan area

– Final Report –

Prepared by

Nonprofit Finance Fund (NFF) and
Technical Development Corporation (TDC)

Funded by

DANIELS FUND

Rose Community Foundation

About Nonprofit Finance Fund (NFF)

NFF was established in 1980 and is now one of the nation's leading community development financial institutions (CDFIs). NFF serves nonprofits in Chicago, Massachusetts, New York City, New Jersey, the Greater Philadelphia area, the San Francisco Bay area, Washington, DC, Detroit, and organizations nationwide through its partnership-based National Alliances Program. NFF provides a range of financial tools and advice to help nonprofits grow and thrive as businesses while honoring their mission. It provides the kind of money and advice that nonprofits typically cannot get from other sources. NFF makes loans for facilities projects, such as new construction, leasehold improvements and relocation, and for other growth-related needs, such as working capital. NFF also provides workshops and consultations to help nonprofits plan and evaluate their projects. To date, NFF has made 300 loans totaling more than $51 million in support of more than $200 million in projects and served 7,000 organizations. For more information, please visit www.nonprofitfinancefund.org.

About Technical Development Corporation (TDC)

TDC, a nonprofit organization, is one of the country's oldest and largest providers of technical assistance and management consulting services. For over 35 years, TDC has worked exclusively with nonprofit, governmental, educational, and philanthropic organizations, providing them with business and management skills critical to carrying out their missions effectively. They have worked with hundreds of organizations at the local, regional, and national levels, providing services and programs in education, health and human services, community development, and the arts. TDC possesses a strong track record in facilitating successful, challenging and highly complex assessment, planning, and organizational change processes for a wide range of clients, including institutions of higher education, cultural and historic organizations, and social service providers.

About Daniels Fund

Founded in the year 2000 through the generous legacy of cable entrepreneur Bill Daniels, The Daniels Fund works to provide a better life and greater opportunities to communities and individuals in Colorado, New Mexico, Utah, and Wyoming. As of early 2002, the Fund has launched the Daniels College Prep and Scholarship Program and the Daniels Fund Grants Program in Colorado, New Mexico and Wyoming. Programs will begin in Utah later this year. In Colorado, the Daniels Fund Grants Program currently provides funding in the areas of child care/early childhood education and educational initiatives, and will eventually expand to reach five additional areas designated by Bill Daniels. Please visit www.danielsfund.org for more information.

About Rose Community Foundation

Rose Community Foundation (RCF) makes grants throughout the seven-county Denver metropolitan community in the areas of Aging, Child and Family Development, Education, Health and Jewish Life. RCF was established in 1995 with proceeds from the sale of Rose Medical Center. Since its inception, RCF has awarded more than $58 million in grants to improve the quality of life of the Greater Denver community. In addition, RCF's Donor Services Department works in partnership with individuals and families to develop their charitable giving programs. To learn more, visit www.rcfdenver.org.

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A. Overview and Goals

In June of 2001, Rose Community Foundation and the Daniels Fund commissioned the Nonprofit Finance Fund (NFF) and Technical Development Corporation (TDC) to conduct a market analysis of the facilities and capitalization needs of the Denver/Boulder nonprofit community. The goal of the project is 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.

The following questions were outlined at the beginning of the project as key issues to address:

i) What is the size of the nonprofit market in total and by subsector?
ii) What are the trends in Denver and what is their impact on the size, structure, and composition of the nonprofit market and subsectors?
iii) What are the facilities needs of local nonprofit organizations and how does the real estate market impact their current and future needs?
iv) How are organizations currently planning for and making decisions about their facilities investments? What differences occur across the subsectors, if any?
v) How much duplication of effort exists in planning for facilities? What opportunities for collaboration exist among the nonprofit community?
vi) What is the level of need for management and financial technical assistance that accompanies the need for capital? How knowledgeable are the organizations about sound management and financial practices?
vii) What is the range of financial and management assistance products that currently exist for nonprofit organizations to address their capital needs? How much are they used? How well do these services support the needs of nonprofit organizations?
viii) What gaps exist in services and resource availability? How might the foundation clients best bridge these gaps?
ix) How do the greater Denver area's facility needs and issues compare nationally based on the research being conducted by NFF?

B. Methodology

To answer these questions, data was collected utilizing a range of methodologies, including Internet research, a written survey, telephone and in-person interviews and focus groups. Additionally, at the request of the foundations, 28 case studies were conducted on two selected nonprofit subsectors, Jewish organizations and nonprofits serving senior citizens. The following section provides more detail on these data collection efforts.

- Survey - In early July, the "Nonprofit Facilities and Funding Questionnaire" survey was mailed to 876 nonprofit organizations in the Denver/Boulder area. These institutions represented health and human services organizations, youth-serving agencies, community centers, childcare providers and cultural organizations, but did not include schools or hospitals. TDC received responses from 254 organizations, yielding an excellent response rate of 29%.

- Interviews – Interviews were conducted by telephone and in person with key informants who were able to provide perspectives on the facility needs of the Denver/Boulder nonprofit sector. These interviews included nonprofits, foundations and other key funders, city and county government officials, technical assistance providers, intermediaries, financial institutions and realtors. Interviews took place in two clusters and reached 40 individuals in total. Following the events of September 11th, follow-up calls were also made to survey respondents who had indicated that they intended to undertake a capital campaign in the near future.

- Focus Groups – In mid-August, TDC facilitated two sets of focus groups with area nonprofits, one in Denver and one in Boulder. TDC conducted six focus groups at the Community Foundation Serving Boulder County with a total of 30 attendees representing cultural and non-cultural organizations and a wide range of budget sizes. In Denver, TDC facilitated ten focus groups at the Daniels Fund and spoke with 58 individuals from community centers, youth-serving nonprofits, human service providers, childcare centers and cultural organizations.

- Case Studies – Rose Community Foundation selected two nonprofit subsectors to study in depth: organizations serving aging populations and Jewish organizations. Fifteen groups were selected for study in each subsector. These organizations were administered a comprehensive survey on facilities and capitalization needs, and these surveys were followed up with site visits by NFF.

Overall, TDC and NFF were able to obtain feedback from over 400 organizations in the Denver/Boulder area through this market assessment. The staff at the Daniels Fund was extremely helpful in coordinating and managing the Denver focus groups. The Community Foundation Serving Boulder County graciously provided space for the nonprofit focus groups in Boulder, and helped contact organizations and encourage participation. We would like to thank those individuals and organizations that gave generously of their time and insight during this process. Their participation and cooperation were essential to the success of this study and the subsequent response to the nonprofit facilities issue in the region.

C. Key Findings

The analysis of the data reveals several interesting findings. We have organized the findings below to match the key research questions determined at the outset of the project.

What is the size of the nonprofit market in total and by subsector?

DENVER/BOULDER REGION	Denver							Boulder							
	zip code 80201 + 25 miles							city only							
Nonprofits by Sector and Budget	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**

Analysis of 501(c)3 990 forms reveals a total of 3260 nonprofit organizations in the Denver/Boulder area[1]. This number correlates to a 25-mile radius from central Denver as well as the City of Boulder; this region accounts for 24% of all of Colorado's nonprofits, 13,778 in total. In the past decade the growth in the sector has reached 460%, surging to its current level from approximately 3000 organizations statewide just ten years ago. A closer look at the numbers reveals that 76% of these nonprofits are small organizations with annual budgets under $250,000. This correlates to the entrance of new nonprofits into the sector. The three largest subsectors are human services (31%), education (20%) and public benefit[2] (18%).

What are the facilities needs of local nonprofit organizations and how does the real estate market impact their current and future needs?

Of the 254 surveyed nonprofit organizations in the Denver/Boulder area, 88% believe their client population will increase in the next five years[3]. Sixty percent of these organizations stated that their facilities would not meet their anticipated needs in five years, with the most resounding reason being not enough space for future programs. Other major reasons include inadequate storage space, insufficient space for administration/operations, and not enough space even for current programs. When asked to convey major facility concerns, survey respondents most often cited extreme concern over the quantity, cost, quality and location of their space. Fifty percent of surveyed organizations had looked for new facilities in the last two years, and of those who looked, 55% did not find suitable space. Seventy-three percent of nonprofits are not willing to pay more than $15 per square foot for real estate; though, the weighted average Class A rental price for office space in the Metro Denver region is $25.81 per square foot[4].

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[1] This analysis was done using Guidestar.com's search tool. Nonprofits select their own sector designation(s), thus one organization may appear under more than one sector. The most recent 990s available at the time of research were from 1999. These numbers were confirmed with the Colorado Association of Nonprofit Organizations as a second data source.

[2] The Public Benefit sector includes the following subsectors: civil rights and liberties, community improvements, membership benefit organizations, philanthropy and voluntarism, voter education and registration, service and other.

[3] These percentages are calculated from the "Nonprofit Facilities and Funding Questionnaire" sent to Denver/Boulder nonprofits in July 2001.

[4] Trammell Crow Company, MarketScope Denver, 2Q/2001.

Sixty-four percent of organizations do not have a facilities plan and 56% do not have a building reserve. However, 69% of surveyed nonprofits do have an employee assigned to facilities-related issues in some capacity. When asked what kind of facilities-related help they need now or in the future, nonprofits cited the following as most important:

- funding a facility project;
- how to manage a capital campaign;
- planning a facility project, and;
- fundraising.

How are organizations currently planning for and making decisions about their facilities investments? What differences occur across the subsectors, if any?

Most organizations do facilities planning in-house by leveraging resources on their boards and among their senior management. Some form ad hoc committees to deal with real estate issues, many network with other nonprofits who have recently undertaken a similar project, some are also leveraging volunteer expertise to complete facilities projects (e.g. renovations). Only a minority of nonprofits hire outside consultants to help with projects, due to cost.

The size of the organization (as measured in total annual revenues) often determines its ability to successfully plan for a facilities project. Several focus group participants spoke to their practice of recruiting facilities and financial expertise to the board in advance of mounting a project. Larger, more established organizations tend to have more sophisticated board members and more in-house expertise on space issues, though this is not always a guarantee of a successful project. Often times, these organizations have a dedicated staff-person for facilities. In addition, these organizations have strong networks in the nonprofit community and thus know where to go and who to ask should they have a question. Smaller organizations, on the other hand, struggle more with facilities issues because they have fewer resources to devote to finding the right space or to understanding the terminology of a lease, for example. One director described smaller nonprofits' tendency to do "fly by the seat of your pants" financial and facilities planning, and the difficulty she faced getting her board and senior management to confront critical financial questions related to facilities.

Organizations in certain subsectors are more reliant than others on their facilities to fulfill their mission; sometimes this leads to a higher level of facilities-related knowledge in a subsector, but this is not always the case. However, the level of facilities sophistication among these groups varies and tends to be more correlated with size than subsector. A brief description of subsector-specific facilities needs follows:

- <u>Low-Income Housing</u> - This sector tends to be the most sophisticated regarding facilities projects because a core piece of their mission is buying and developing affordable housing. These organizations usually have in-house development staff who are knowledgeable and creative about real estate deals and financing
- <u>Childcare</u> - The design and layout of these facilities must be easily navigated by children and easily accessible by their client population, usually low-income families. The facilities are run down quickly by heavy use, and must meet numerous inspections and regulations to continue functioning. These extra facility

requirements coupled with lack of financial expertise make facilities projects for childcare-related organizations a more daunting task than for other nonprofits.

- Charter Schools - Like childcare facilities, charter schools have very particular needs for their facilities and must meet numerous regulations. These relatively young organizations receive a majority of their operating funding from the state, but many are now approaching the private sector more for funding. Facilities pose a critical challenge for charter schools. Many are housed in temporary or inadequate quarters, and as they grow, need to invest in permanent or expanded facility.
- Healthcare - Community-based health-related organizations also have a continual need to upgrade facilities and meet stringent regulations. In 2001, the Colorado Community Health Network conducted a Capital Needs Assessment Survey of Colorado health centers. All of the survey respondents expressed a need for capital development projects within the next five years.[5] The most urgent need identified was for the purchase of land and buildings.
- Arts and Culture – Arts and cultural organizations require specialized facilities, such as theaters, galleries and performance space, to fulfill their missions. A minority of arts groups organizations have more sophisticated staff, have worked with outside consultants, are planning or are implementing capital campaigns and would be, if asked, a resource for their colleagues. Most arts organizations continue to struggle with the issue of facilities.
- Human Services - Many of these organizations have very limited knowledge of acquiring and owning buildings or managing capital campaigns. Indeed, many do not have a significant portion of their annual operations supported by individual fundraising and, therefore, do not have the donor base that is a precondition for entering into a capital campaign. In addition, demand for services tends to increase in economic downturns, as the indigent population increases, though access to institutional funding is often more difficult.

What are the trends in Denver and what is their impact on the size, structure, and composition of the nonprofit market and subsectors?

The Economy and Real Estate Market

The US economy's prolonged boom and more recent downturn have significantly affected the Denver/Boulder nonprofit community and its quest for facilities. Over a year ago, at the end of the Internet boom, the Denver/Boulder real estate market was at capacity. The proliferation of technology companies meant that demand, and thus prices, for space had risen significantly. The redevelopment and gentrification of vacant lots and formerly marginal buildings and neighborhoods left little affordable space to nonprofits serving low-income populations in central locations. Most nonprofits reported being unable to expand their programs due to a lack of space, and in many cases the real estate crunch prevented them from sustaining existing services at high-quality levels. A small number were threatened with closure without adequate space for programs.

[5] Colorado Health Centers Capital Needs Assessment Survey Report, April 2001. Prepared by Capital Link in collaboration with the Colorado Community Health Network.

As the economy has shifted over the past six to twelve months and many dot-coms folded, more space has become available in the Denver/Boulder area. Yet, most of the Class A commercial space is still unattainable for nonprofits due to price or location. For example, many nonprofits serving low-income residents need to be centrally located and easily accessible by public transportation; this prevents them from running their programs from a facility along the US-36 corridor where there is available space. While this space may be suitable for some nonprofit offices at the right price, it seldom fits the more specific criteria for program space.

While the economy has continued to soften over the last year, the September 11th attacks increased the rate of decline. Realtors revealed that since September rental prices have fallen even more, with Class B buildings now renting at $15-18 per square foot and Class C space at $12-13 per square foot. These rates more closely approach an affordable range for nonprofits, which hovers around $10-15 per square foot.

Capital Campaigns and Giving

A large number of capital campaigns are currently planned or underway in the Denver/Boulder area. One informal survey announced that more than 80 organizations were planning campaigns with a total dollar value of $1.3 billion[6]. Though some key informants believe that a fair portion of those campaigns will be financed publicly, many we spoke with wondered if this magnitude of giving is truly achievable.

Unfortunately, interviews and focus groups prior to September 11th already painted a bleak picture of giving in Colorado. One interviewee cited Colorado as residing in the lower 10% of states in terms of charitable giving. Many focus group participants mentioned the stark discrepancy between per capita wealth and per capita giving in the area. The 2000 Giving and Volunteering Study conducted by the Denver Foundation confirmed this sentiment. The study found that "despite a 16% rise in the median incomes in Metro Denver since 1989, residents are giving at nearly the same level as they were more than a decade ago." This trend will only be exacerbated by the downturn in the economy and subsequent negative affects on the portfolios of foundations, corporations and individual donors. One major bank TDC interviewed cited an expected 10-15% drop in its corporate foundation grants for next year, a net loss of up to $225,000.

Finally, it has been noted that many feasibility studies for planned capital campaigns were done in more "optimistic" times, as one interviewee put it. However, follow-up calls made after September 11th to many organization anticipating capital campaigns reveal that 71% of these nonprofits are continuing with their campaigns at the same levels. Together, these factors suggest a forthcoming challenge for Denver/Boulder nonprofits in their efforts to secure money for facilities-related projects.

Aversion to Debt

[6] This list was compiled by Joni Baird at US Bank in the summer of 2001. However, some organizations on this list are not 501(c)(3)s, and many will finance their campaigns with public money.

The majority of nonprofits and funders in the Denver/Boulder region expressed an aversion to using debt as a financing tool for facility projects. "I want to raise the money and own the building outright," one nonprofit director told us. Indeed, debt in general is not looked upon favorably. Another Executive Director said debt "sounds scary", another described borrowing as "poor financial planning" or a "last resort", while still another called it "the kiss of death". Nonprofits' fears seemed to stem from a lack of experience using debt for facilities projects and a fear that they would not be able to pay back debt.

There is also a widely held perception that funders do not look favorably upon debt when considering grants. Several funders reinforced this impression, relating their misgivings about nonprofits reaching fundraising targets by acquiring debt to close a fundraising gap at the end of a campaign. Additionally, funders do not want to provide grants to help nonprofits pay off debt. One funder explained,

> I'm really resistant to that [debt] – I'm not responsible to stockholders, but I'm dealing with every man's money [individual donations] out there …people don't understand why their money is going to paying interest on a loan. That perspective is shared by the nonprofit community.

Funders in other communities, such as New York, Boston and San Francisco, share these concerns to a certain degree, but are more used to seeing debt as part of a facilities project, and are therefore somewhat more comfortable with the concept.

Among those interviewed, there are a number of larger, more sophisticated nonprofits and funders who realize the value of borrowing for certain purposes when the payback schedule is clearly defined by a facility or business plan. One funder summarized this sentiment by saying, "We used to be negative towards borrowing, but now we look at it as a potentially strategic tool. We want to see their financial plan to see how they will manage it." Another funder noted, "I don't mind financing as part of a larger capital project as long as it is part of the plan to begin with." Funders who are open to debt are adamant about doing the proper planning beforehand in order to pay it off. Overall, it appears that those with greater financial management sophistication are willing to consider debt as a part of doing business, whether to support cash flow or as part of a facilities project.

While the most common form of borrowing is a line of credit for cash flow or bridge purposes, some more sophisticated nonprofits are borrowing for facilities-related projects with varying levels of success. Some organizations relate very positive experiences, while others say they will avoid borrowing again if they can. The Ocean Journey experience was mentioned numerous times over the course of interviews and focus groups as a standout cautionary tale about the pitfalls of taking on debt. Another Executive Director of a larger nonprofit said,

> I came to do a turnaround. The facility was run down. We had deferred maintenance issues. Participation had dwindled. We developed a business plan. We launched a capital campaign and the city issued bonds. With these funds we rebuilt and expanded the facility. We are in a far better position --- our programs throw off revenue. We have a successful story, but we are still fragile. Our debt service is significant and this forces certain choices --- we can't offer a retirement package, benefits are limited and we are

just keeping up with salaries. And we are not funding depreciation though we would like to.

This organization undertook a sophisticated facilities project that improved their space situation. However, the director notes that by taking on debt as a nonprofit without large surpluses, her organization faces the opportunity costs of no retirement, reduced benefits for her employees, and not funding depreciation. Correspondingly, her organization will not be able to build up reserves or attack deferred maintenance as a result of her debt service. These are the difficult decisions nonprofits must face when considering debt. The full report discusses the availability of working capital in the lending community.

Lack of Technical Assistance (TA) on Facilities and Capitalization

Technical assistance in the Denver/Boulder area is typically provided by one of the "Big Four" or an individual consultant. The Big Four is comprised of the Colorado Association of Nonprofit Organizations, the Community Resource Center, Metro Volunteers, and the Colorado Nonprofit Development Center. While these organizations do offer technical assistance on varying topics, overall the focus tends to be on small or start-up organizations, and on more basic issues such as building a board, financial planning and fundraising. In addition, the format seems to be more focused on training or workshops rather than on consultation, which is perceived to be more desirable to many nonprofits that TDC interviewed.

When asked more specifically about facilities and/or capitalization-related TA, feedback from nonprofits and funders in the community highlighted the lack of expertise in these areas. Relevant quotes include:

- "I am overwhelmed how thin we are in terms of resources to go about [facilities] projects in a thoughtful way."
- "The TA we have is not comprehensive…nine out of ten executives don't have the skills and need them, and some don't necessarily know they need them…"
- "What's a pro forma? Why would you do it before you do a facilities project? Why is it that different projects require different capitalization?"
- "We need honest feasibility studies that are focused on helping the organization make the right decision because I see most nonprofits avoid the issue of the practicality of facilities projects."

Though there are a few organizations that provide help with facilities projects (e.g., REACH, Colorado Council on the Arts), many key informants felt that it would be helpful to invest more in TA and ways to make it more comprehensive. While most foundations view TA as a positive addition to the Denver/Boulder region, at least one funder expressed concern that "more TA means a proliferation of nonprofit organizations." On the whole, however, the nonprofit community felt that the current array of TA does not yet address what is needed, especially with regards to help with facilities and capitalization.

How much duplication of effort exists in planning for facilities? What opportunities for collaboration exist among the nonprofit community?

Overall, the Denver/Boulder nonprofit community has not yet thoroughly tackled the issue of facilities. This is evident by the lack of facilities-specific TA and the related paucity of funding for capital concerns. While the issue is discussed informally, it seems this study is one of the first vehicles for convening nonprofits to talk about facilities. The nonprofits that participated in focus groups were extremely grateful for the chance to share their experiences and learn from others, and asked that the dialogue be continued.

Of the many individuals TDC spoke with for this study, the overwhelming majority expressed an interest in collaboration on facilities issues. These individuals represent nonprofits, foundations, financial institutions, realtors, TA providers and other intermediaries. How these players can or should work together to address facilities issues, however, needs to be considered in greater detail by the nonprofit community in light of the current gap in services.

What is the level of need for management and financial technical assistance that accompanies the need for capital? How knowledgeable are the organizations about sound management and financial practices?

Similar to facilities planning, most nonprofits are doing financial planning in-house, primarily due to cost reasons. While the need for this kind of TA seems high, the willingness and/or ability to pay for these services is much lower. In fact, one director summed up many focus group participants' sentiment by saying she wanted "affordable TA, preferably free". Some nonprofits are finding creative solutions to this paradox of need and cost by finding pro bono financial consultants, using board retreats to do financial planning, leveraging volunteer hours, or partnering with interested for-profit organizations.

Larger organizations seem to have institutionalized the important dimensions of financial planning, having dedicated staff for this purpose. Executive Directors at this level understand the value of building reserves, funding depreciation or creating an endowment, while smaller organizations may not even be aware of the components of long-term financial planning. However, even those organizations that acknowledge the importance of funding depreciation, for example, may not have the capacity to implement this practice within their organizations.

What is the range of financial and management assistance products that currently exist for nonprofit organizations to address their capital needs? How much are they used? How well do these services support the needs of nonprofit organizations? What gaps exist in services and resource availability?

According to the survey, 95% of nonprofits have a relationship with a bank, and many have opened lines of credit for working capital as a buffer for economic swings. A handful of banks and one investment house in the Denver/Boulder area have specifically established relationships with the nonprofit community, and while they are not aggressively targeting this group, they are quite willing to provide working capital and facilities loans at market rates. The Denver Foundation's Community Cash Flow Fund also provides financing to nonprofits, though they say they have not seen the response they expected to their offerings. Apart from these providers, very few organizations in the Denver/Boulder area provide loans to the nonprofit community. Many nonprofits that support the idea of a new intermediary for lending purposes stress that they would like to see below-market rates.

Even though some financing is available to nonprofits, the community requested more hands-on expertise on how to use it. While many organizations provide or sponsor workshops or training on the above-mentioned topics, including CANPO, the CRC, Metro Volunteers, Volunteer Connections (Boulder), and several foundations, nonprofits universally feel that one-on-one consultation is needed to support putting ideas and concepts into practice. Again and again, key informants said that though workshops do help them to acquire a basic financial vocabulary, for example, they require help applying these issues in the context of their own organizations.

How do the greater Denver area's facilities needs and issues compare nationally based on the research being conducted by NFF?

The Denver/Boulder nonprofit community faces some similar challenges compared with its counterparts nationwide. Finding affordable and well-located space is the most urgent and prominent issue for many nonprofits across the country. The large volume of capital campaigns and the wide spectrum of sophistication on facilities issues in the Denver/Boulder area are also common themes on a national scale. Universally, there is a pressing need for education on financial matters and credit as they pertain to nonprofits and facilities projects. The case studies of Jewish and senior-serving organizations, however, revealed the following trends to be unique to the greater Denver area as compared to TDC's and NFF's findings in other parts of the nation:

- Social service agencies have received a large quantity of donated space at subsidized or no cost. Usually these nonprofits are then expected to manage maintenance and repairs on their own, which can sometimes exceed what would have been typical annual rental costs.
- Nonprofits have a different definition of "not enough" space as compared with organizations in other more densely populated regions; sometimes this translates into a less proven need for more space. A useful metric for comparing Denver nonprofits' use of space with other cities' nonprofits' use of space is the square feet per full time employee or per client within each organization.
- Few nonprofits use an owner's representative or management company for a facility project. Instead, organizations tend to hire an architect through board connections and staff members manage the project.

D. Key Implications: How might the foundation clients best bridge these gaps?

It is clear that there has been an explosion in the number of nonprofits in Colorado over the last ten years, from 3000 organizations to over 13,000. The vast majority of these nonprofits are organizations with small budgets, little space, limited and often inexperienced staffs and little to no experience with facilities and managing a capital campaign. As many of these less sophisticated organizations begin to grow, they cross a threshold at which point they feel that they should or could have bigger or better facilities and begin to make preparations to secure such facilities.

Research indicates, however, that many of these organizations undertake facilities projects with a narrow focus on the building or space itself rather than looking at how such a project might impact the organization as a whole over the long term. Moreover, not only do many local nonprofits lack the skills and expertise internally that are needed to make a facilities project successful, but many fail to engage external sources of this knowledge as well. Some nonprofits in the Denver/Boulder area have taken on relatively large facilities projects with budgets two to ten times the size of the organization's annual revenues. In NFF's experience, facilities projects that cost more than 150% of the organization's annual budget have the following impact on the organization:

> Almost always involves program growth beyond what can be demonstrated by existing demand. Entrance into significant new areas, such as space rental, is typical. Organization almost completely transformed with the addition of major new funders and users, a greatly enlarged staff, and a much higher level of fixed costs. Management and governance systems will probably undergo major changes.[7]

Securing outside expertise is critical if Denver/Boulder nonprofits are to address their facilities concerns in a manner that is sustainable and does not jeopardize the long-term health of their organizations.

Because of the burgeoning nature of the Denver/Boulder nonprofit community, foundations will see a significant increase in requests and competition for capital and operating dollars, as well as an increase in the demand for facilities-related technical assistance.

<u>Act as Conveners</u>

Nonprofits are looking for clear and consistent leadership from foundations on facilities and other pressing issues. Organizations that participated in focus groups and interviews were extremely grateful for the opportunity to learn from their colleagues and to begin a conversation about an important issue. Many indicated that they would like to see these types of activities continue. Rose and Daniels are already perceived as leaders in the area of capital funding, but they have the opportunity to engage more of the funder and nonprofit community in discussions and action steps around facilities and related topics. Outcomes or goals of convening on this issue could include:

- <u>Define success and educate the community around facilities</u>

  Before the nonprofit community can effectively resolve the issue of facilities, it must first understand how to define successful projects. Funders and technical assistance providers might also educate the nonprofit community so that all players have a common language when talking about facilities and the longer-term financial and operational implications that facilities projects have on nonprofits and the larger

[7] Nonprofit Finance Fund, Facility Project Planning 2000, Tab 2.4, "Your Project's Relative Size."

community. Nonprofits would like to see foundations begin to discuss and clarify issues such as:

- 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?

Foundations that participate in this dialogue need not feel obligated to then fund capital, but it is important that funders and nonprofits share a common language and understanding of the facilities issues facing the community, in order to effectively address some of these concerns.

– <u>Advocate for capital dollars</u>

The stark discrepancy between demand and supply for capital resources in Denver/Boulder means that the handful of existing capital funders must encourage other foundations, corporations, individuals and government to support this issue. Just as the foundation community has taken a leadership role regarding encouraging individual giving, it could also focus on cultivating other possible donors such as municipal and county entities, the state legislature, corporations and other interested parties. In this way, foundations help to increase the total pie of available capital.

However, it is important that the foundations also help to set realistic expectations among the nonprofit community about the potential of capital giving. It seems clear that it will be difficult to meet the facility needs of the many growing nonprofits in the community given the sheer volume of potential requests now and in the future. An already limited pool of capital has been further diminished by the economy's recent effect on foundation, corporation and individual portfolios. In addition, a delicate balance exists between capital dollars and operating dollars, and nonprofits are not advocating that grantmakers supplement one for another. Advocacy around developing shared facilities for nonprofits and addressing the pressures of gentrification may also be appropriate.

– <u>Assess technical assistance infrastructure</u>

Nonprofits report wanting an objective third party to help them successfully maneuver through the complexities of facilities projects. Such assistance is currently not available in one location and must be pieced together from various technical assistance providers, nonprofit colleagues and business communities in Denver and Boulder. The foundations have the opportunity to define needs and then examine the existing array of technical assistance to assess whether local providers together have the necessary expertise and sufficient capacity to help with facilities and space utilization, as well as other important related issues.

– Decide whether to establish a facilities program

Once the foundations understand the gaps in current services, they can then determine how best to coordinate existing services and whether to bring in or craft new services to meet regional needs. Should the foundations decide to build a program, they can consider who should be involved, what cost structure is optimal, and what ideal combination of services could be offered.

II. SURVEY FINDINGS

A. Overview of Survey Findings

Of the 876 surveys that were mailed to Denver/Boulder area nonprofits, 254 were returned, yielding a response rate of 29%, an excellent rate given the length and level of detail of the survey instrument (see Appendix 1). While more extensive analysis of the survey follows this section, highlights are below. Please note that the percentages for each question are calculated according to those respondents who answered that question. Towards the end of the survey, the number of individuals who responded to questions tends to decline, and therefore while the percentages for those questions may be high, readers are urged to consider the base number of respondents.

Profile of Survey Respondents – Most organizations that responded to the survey are relatively new, relatively small in terms of annual revenues and staff size, and focus on education, health or youth services. This profile mirrors the makeup of the Denver/Boulder nonprofit sector as a whole.

Profile of Respondents' Facilities – An equal proportion of organizations own or rent their buildings, while a smaller number have donated facilities; most facilities are small spaces under 3500 square feet. Of those that own their facilities, most do not have mortgages. Of those that rent, most do not pay more than $15 per square foot and many leases are coming due in the next two years.

Facility Concerns – A majority of respondents feel that their current facilities will not meet their needs in the near future, and quite a few expressed interest in sharing space with other nonprofits. Most respondents say their facilities will not meet their needs in five years due to the lack of space for current or future programs, storage or administrative activities. Cost, quality and location are also major concerns.

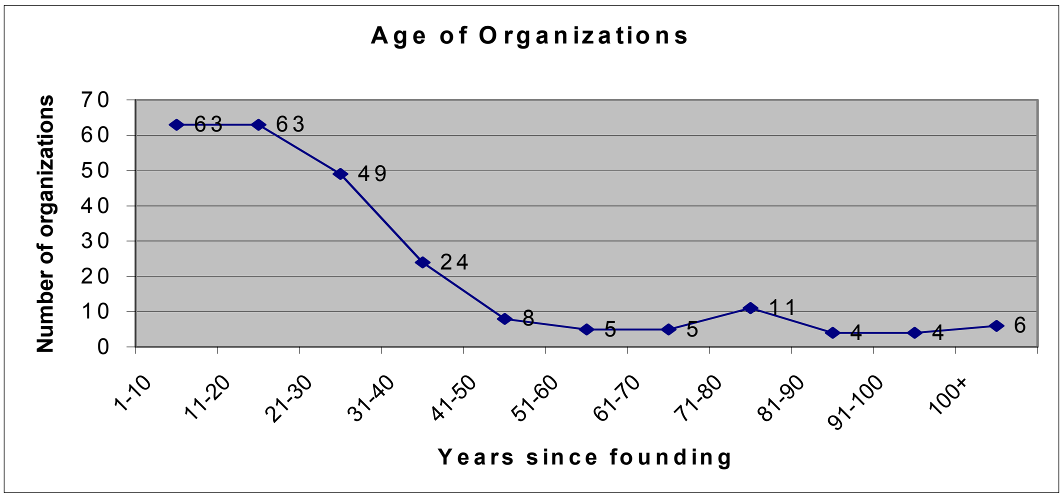
Facilities Projects – While half of the surveyed organizations have looked for facilities in the last two years, a majority did not find suitable space. Most organizations do not have a facilities plan or building reserve, but have assigned an employee to address facilities issues. Looking forward, almost half of the respondents will undertake a capital campaign in the next five years to fund a facilities project, most likely the acquisition of new space.

Borrowing Experience – Almost all organizations have a relationship with a bank, and most say their Boards will let them borrow money. However, few respondents have taken out loans in general; the most common form of borrowing in the past five years has been through a mortgage. In the future, nonprofits want more access to loans for working capital, new ventures, facilities and bridge loans. These responses to simple check boxes in the survey, however, belie the level of caution regarding the use of debt expressed by nonprofits in the focus groups and interviews.

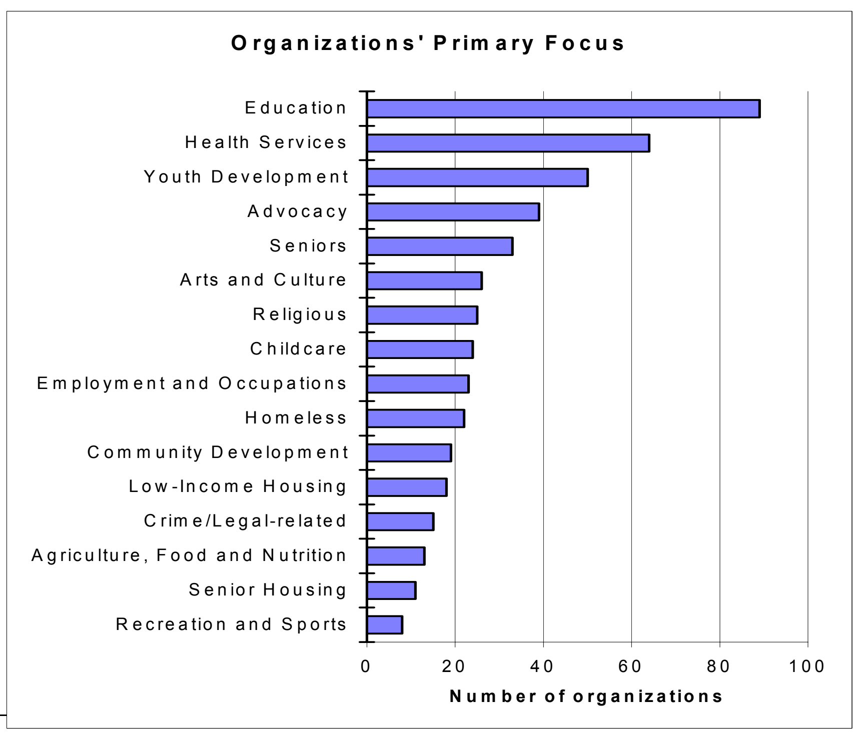
Consulting, Planning and Training – A majority of organizations have Board committees to help with strategic planning, but much fewer have committees for facilities projects or capital campaigns. The survey indicated that many organizations have had positive experiences working with consultants for organizational development and fundraising. Looking ahead, demand for facilities-related help should increase dramatically.

B. Profile of Survey Respondents

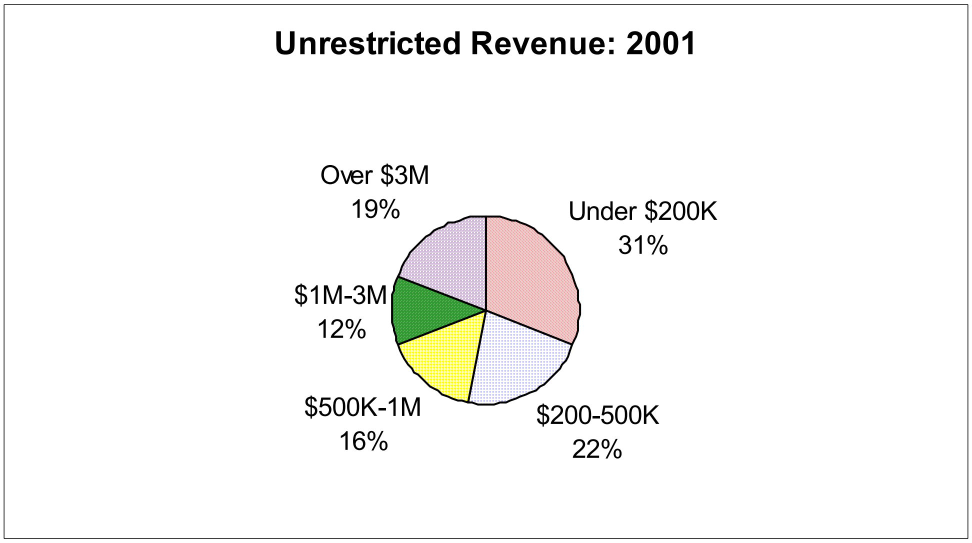
Fifty-two percent of responding nonprofits have been in existence for 20 years or less. Twenty-six percent are 10 years old or younger. From the graph below, it is clear that the number of organizations declines rapidly as years since founding increases.



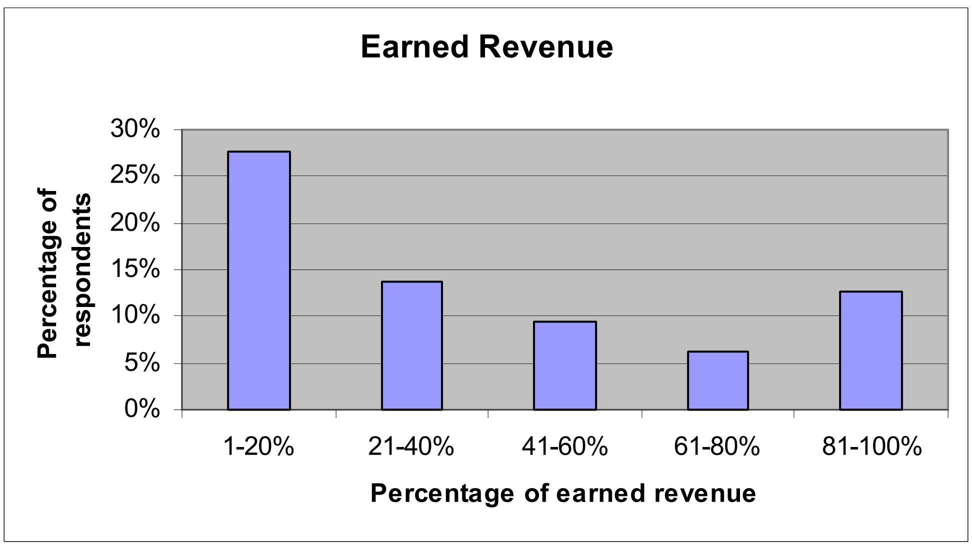
Thirty-five percent of respondents characterized themselves as having a primary focus on education, 25% on health services and 20% on youth development[8].



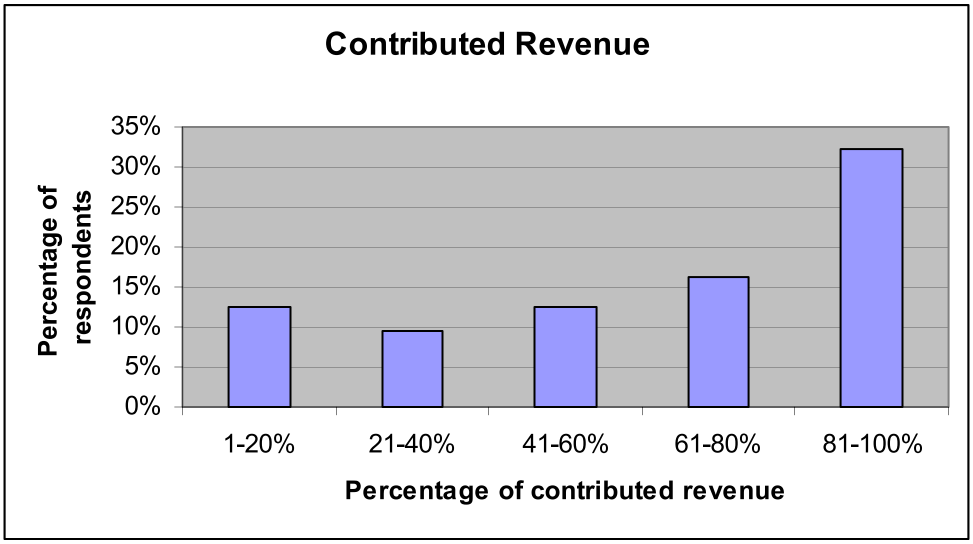
[8] Nonprofits were able to select more than one primary focus, so percentages will not total to 100%.



Sixty-nine percent of respondents have annual revenues under $1,000,000. Thirty-one percent have budgets over $1,000,000, and another 31% have budgets under $200,000.



Most respondents earn between 1-20% of their total revenue…



…and receive 81-100% in contributed revenue.

Sixty-seven percent of responding organizations have 20 or fewer full-time employees, and of those, 54% have between one and 10 full-time employees.

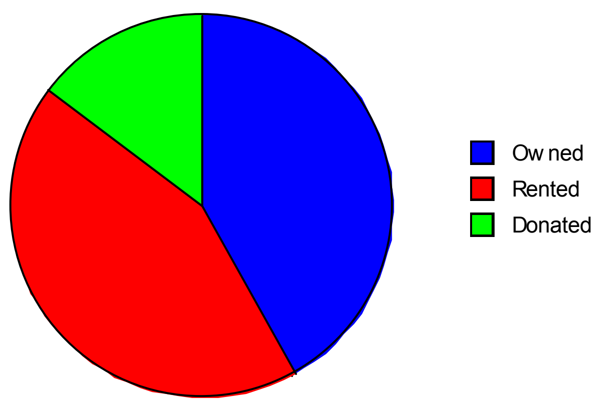
C. Profile of Facilities

Ninety-four percent of all organizations that responded to the survey have at least one site or building. Of this group, 61% (146 organizations) have only one site, while the remaining 39% (92 organizations) have more than one site[9].

Survey Question 13: Is the space owned, rented or donated?

Frequency Distribution for 13. Site 1

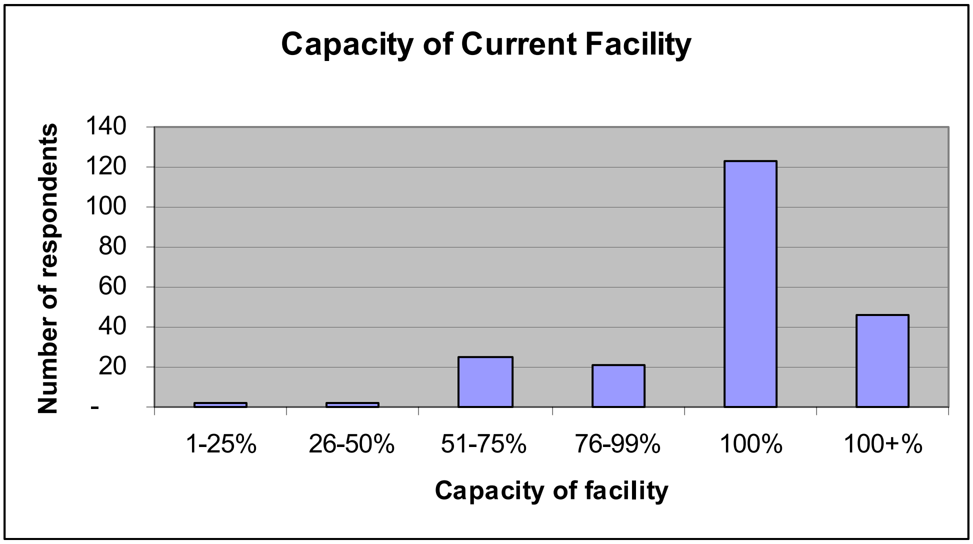
	Count	Percent
Owned	101	42.083
Rented	104	43.333
Donated	35	14.583
Total	240	100.000



Overall, an equal proportion of organizations owned (42%) or rented (43%) their facilities, while a smaller number had a donated site (15%). Fifty-one percent of all sites are less than 3500 square feet in size, 21% are between 3500-10,000 square feet, and 28% are over 10,000 square feet.

[9] The following analysis will focus on statistics for the first site organizations listed in the survey (for those listing multiple sites), unless otherwise noted.

Of those organizations that own their space, 61% do not have a mortgage. If the space is rented, 71% of organizations pay $15 or less per square foot, 25% pay between $16-20, and the remaining 4% pay over $26 per square foot. In addition, 54% of renters have only one to two years left on their lease, and 59% of all renters will not or are unsure whether they will renew their leases when they come due.



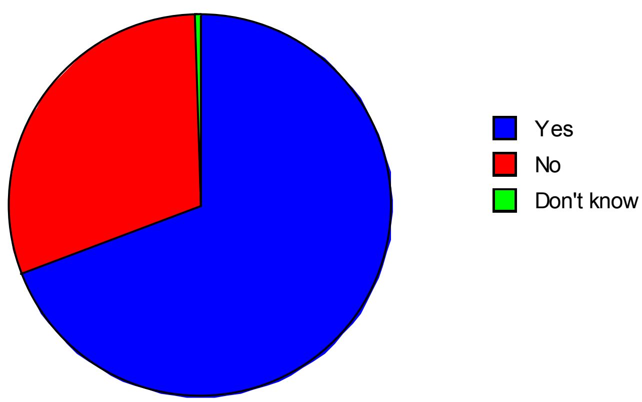
This may be because 77% are full or over capacity in terms of use of space, and 60% say their space will not meet their anticipated needs in five years.

Sixty-nine percent of responding organizations said they would be willing or interested in sharing space with another nonprofit with a similar mission or facility needs.

Survey Question 24: Do you currently, or would you be willing or interested in sharing space with another nonprofit with a similar mission or similar facilities needs?

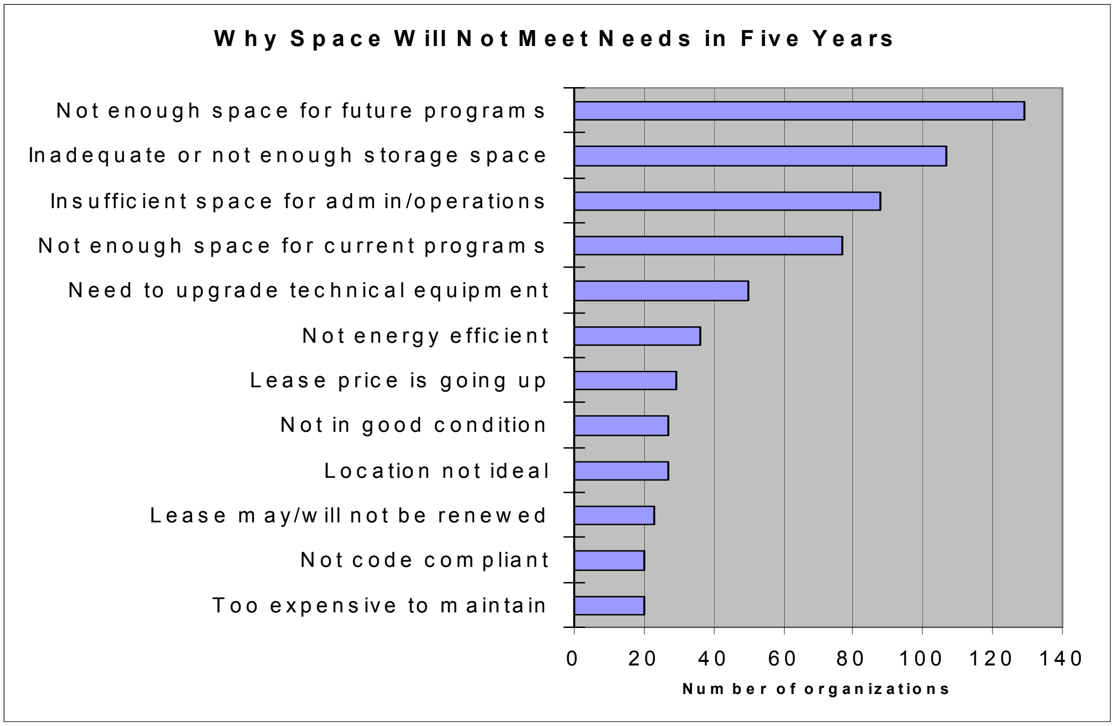
Frequency Distribution for 24. Share space

	Count	Percent
Yes	160	69.264
No	70	30.303
Don't know	1	.433
Total	231	100.000

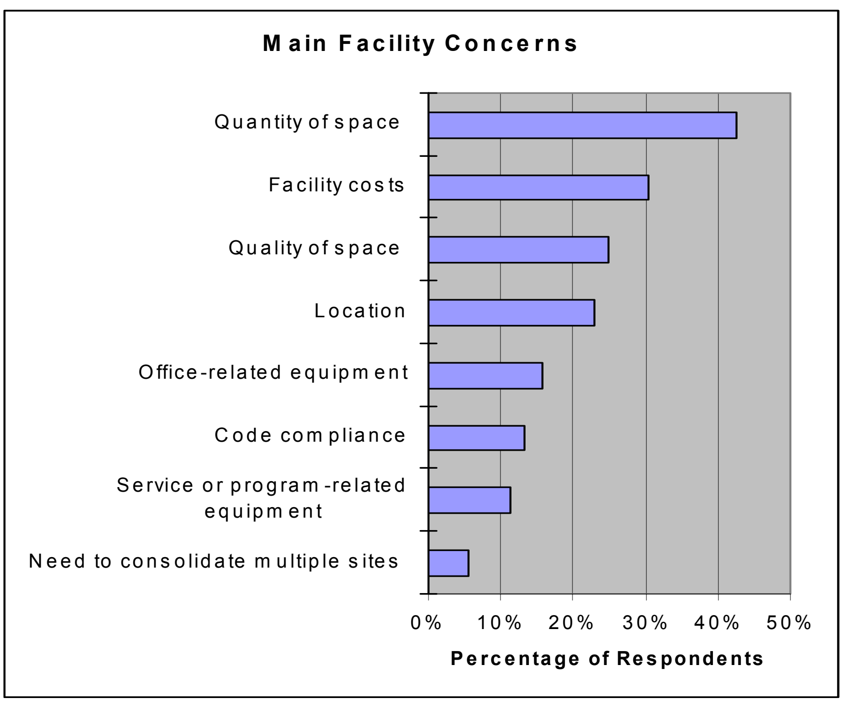


D. Facility Concerns

Most respondents say their facilities will not meet their needs in five years due to a lack of space for current or future programs, storage and administrative activities.



Not surprisingly, the main concern regarding facilities is around the quantity of space available. Cost, quality and location are also major concerns.



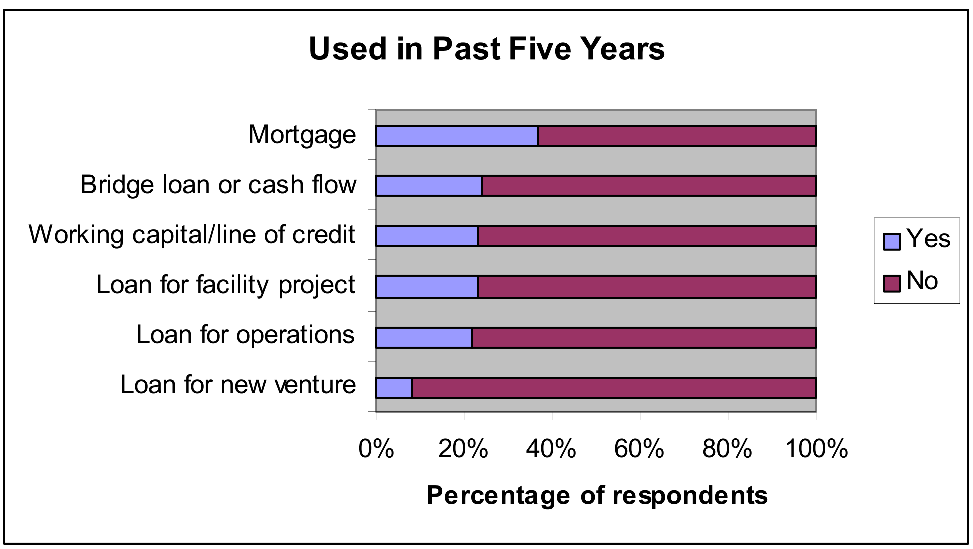
E. Facilities Projects

Fifty percent of surveyed organizations had looked for new space in the last two years, and of those who looked, 55% did not find space within their price range. Seventy-three percent of nonprofits are not willing to pay more than $15 per square foot for real estate. Sixty-four percent of organizations do not have a facilities plan and 56% do not have a building reserve. However, 69% of surveyed nonprofits do have an employee assigned to facilities-related issues in some capacity.

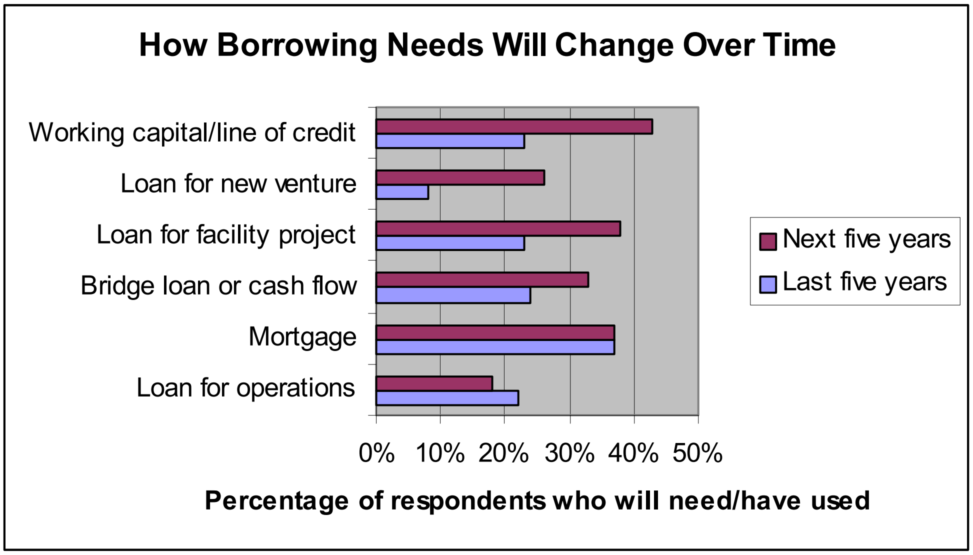
Forty-nine percent of responding organizations have recently completed or are currently undertaking a facilities-related project. Forty-six percent anticipate a major capital campaign for a facilities-related project in the next five years, and over half (54%) of these campaigns will be to acquire new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

F. Borrowing Experience

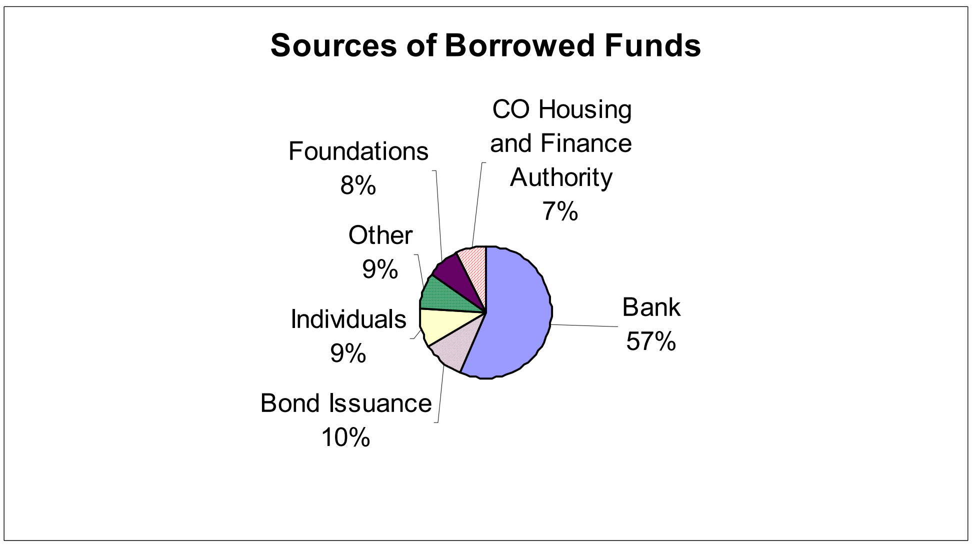
Sixty percent of organizations say their board of trustees allows them to borrow money. Ninety-five percent have a relationship with a bank, and only 4% have ever been turned down for a loan.



While few respondents have taken out loans in general, the most common form of borrowing in the past five years has been through a mortgage.



Looking out over the next five years, more respondents will need working capital than have used it in the past five years. This is also true for new venture, facility and bridge loans. The demand for mortgages will stay the same, while the need for operations loans will decrease.

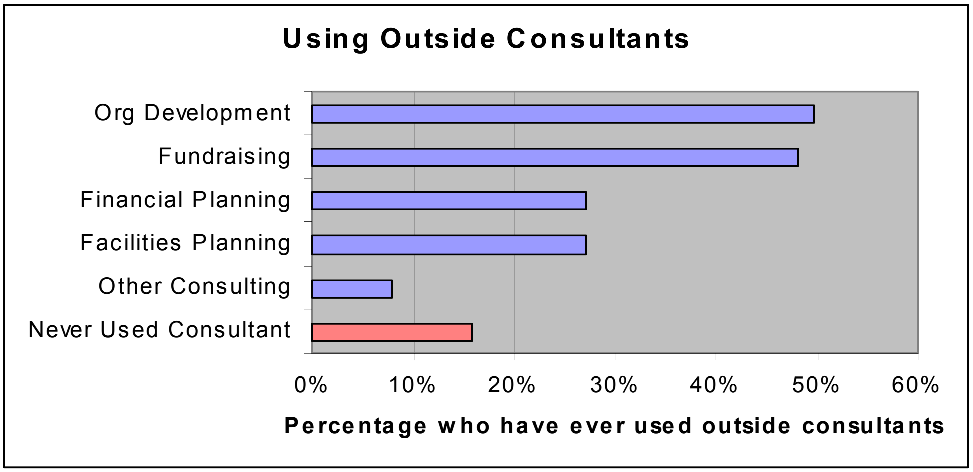


Of those organizations that have borrowed funds in the past, a majority has borrowed from local banks such as The Bank of Cherry Creek, Key Bank or Wells Fargo[10]. Fifty-eight percent of all borrowers say their borrowing experience has been easy, 30% characterize their experience as moderate, and 12% say the experience was difficult.

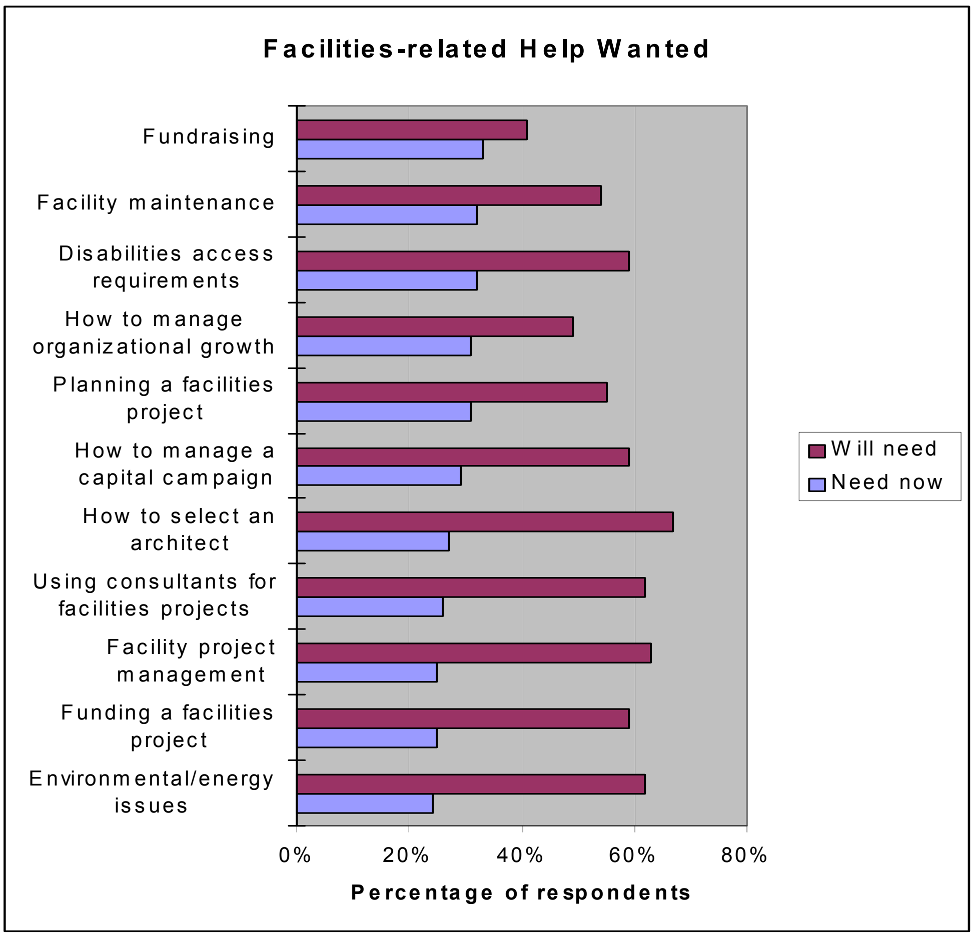
G. Consulting, Planning and Training

Sixty-two percent of nonprofits have board committees to help with strategic planning, while only 30% have committees for facilities issues, and 34% have committees for capital campaigns.

[10] These were the top three loan providers specified by respondents. A majority of respondents, however, did not specify their loan provider.



The most common experience with outside consultants was for assistance with organizational development and fundraising. Ninety-three percent of those organizations that had used outside consultants were satisfied with the services they received. Of the 16% who had never used an outside consultant, 57% said the primary reason was cost.



The need for facilities-related help will dramatically increase in the future according to this survey. Fundraising, facility maintenance, disabilities access and organizational growth are the topics organizations identify needing the most help with now. In the future, how to select an architect, facility project management, environmental/energy issues and using consultants for facilities projects in general are the issues with which nonprofits will need assistance.

H. Summary

The survey results are reflective of the growth in the Denver/Boulder nonprofit sector. Most organizations that responded to the survey are operating with a small staff, a small facility and a small budget, of which the majority is contributed funds. These organizations expect to grow in the near future, which means they will be looking for new facilities and starting capital campaigns to support these projects. This might suggest another wave of capital campaigns in the next three to five years as organizations ramp up for growth. Because these organizations are smaller and less experienced with facilities projects and related financing issues, they will most likely need more assistance, as they stated at the end of the survey. Also, the responding nonprofits indicated an interest in and willingness to borrow for many reasons; this is surprisingly different from feedback from interviewees and focus group participants. These conclusions will be incorporated later in the report as we highlight the implications of the totality of our research findings.

III. KEY INFORMANT FINDINGS

The following sections describe research findings from interviews and focus groups as they pertain to particular interest groups and regions. The first five sections focus on findings related to nonprofits, foundations, TA providers, financial institutions and realtors, and the last section highlights city-specific conclusions for Boulder.

A. Nonprofit Findings

There are a myriad of different nonprofit organizations in the Denver/Boulder area, and not surprisingly their experience with facilities projects and related planning and financing issues differ somewhat according to their size, sector, and often the strengths and particular expertise of their executive director and boards. However, there are a number of overarching themes that apply to the majority of nonprofits in the region, and these are highlighted in the first section below. Following this section, distinctions in perspectives by size and sector are explored.

How Nonprofits Approach Facilities and Financial Planning

Like the majority of the survey respondents, focus group participants and interviewees look at their current facilities and believe that lack of space will somehow stand in the way of meeting the growing demand for their services at a continued high quality level. All the nonprofits TDC had the opportunity to speak with aspire to improve their facilities and to situate them in locations appropriate and accessible to the populations they serve. This is particularly true among those whose space provides the platform through which activities, programs and services can be offered, and applies to a broad range of human service providers (day care, community centers, homeless shelters, programs for abused and neglected children, community-based health care, and recreation programs), educational services, as well as organizations focused on culture and the arts. Further, for many of the organizations with which we spoke, facilities are also directly connected to their ability to generate revenue that supports the organization and its mission.

Many of the larger, more established organizations that participated in the study are in the process of planning or raising money for facilities projects (expansions, renovations and improvements) or have projects already underway. A good number of these organizations are sophisticated consumers of facilities and related fundraising and financing expertise, and in some cases, have expertise and experience to share with their less experienced colleagues. These highly experienced nonprofit managers are, however, not the rule. The majority of nonprofit managers aspire to improve their facilities but cite lack of expertise, limited long-range financial planning, and inadequate funding as limiting their abilities to succeed. At present, the majority of nonprofit managers with whom we spoke identified the following steps to approaching a facility project:

<u>Leverage in-house expertise</u> – Due to resource constraints (money and staff time), and a lack of on-staff expertise, organizations turn first to board members to do as much facilities and related financial planning as possible. Many of the organizations with which we spoke told

of recruiting to realtors, developers, architects, investment bankers, etc. to their board specifically for these purposes. Forming an ad hoc committee to work on facilities issues is also a typical response, but this approach has its pluses as well as minuses according to interviewees. On the one hand, focus group participants told us that they undoubtedly could not have taken on a project without the skilled help and guidance of key board members. On the other, several participants noted that projects could take on a life of their own when board members push a project without stepping back to understand its overall impact on future operations. What is missing in these cases, noted one focus group participant, is "an objective view that can help the organization stop or turn away from projects that might well have a negative impact." While some of the larger organizations interviewed had full strategic or business plans that helped guide them on facilities and financial planning, most organizations said a board retreat was as close as they came to strategic planning.

Network among colleagues – Along with leveraging in-house expertise, many key informants' first step in a facilities project is to talk to other nonprofits that have undertaken a similar endeavor. By networking, nonprofits are able to locate service providers, printed resources and other important information to help them with the process. Nonprofits also seek businesses that might be willing to support the project either financially or through in-kind products or services.

Use professionals for certain purposes – Typically, nonprofits will only outsource functions that cannot be achieved with in-house resources and that must be completed in order to continue a project or sustain operations. Organizations will use realtors to help find space, capital campaign consultants for capital campaign strategy, investment firms to manage funds, consultants for feasibility studies, and CPAs to help run financial projections or give financial advice. Some of these services are provided pro bono and others at reduced or full fee-for-service rates depending upon the relationship that has been negotiated. Many nonprofits, however, feel they cannot afford the kind of project-long technical advice or consultation they would like to help with facilities projects or financial strategy. Nonprofits want the kind of advice that sets the entire project plan and component pieces in a business context, but are not sure where to go to get this kind of assistance.

Nonprofit Community Perspective on Borrowing Money

The focus group discussions both in Denver and Boulder as well as the individual interviews offered some significant nuance to the survey responses concerning debt. In response to survey questions, most respondents said that they could and expected that they would use debt for working capital or facilities related projects. Not surprisingly, the focus groups brought out the experiential, and sometimes emotional, subtleties related to the subject of debt in the nonprofit sector. By and large, nonprofits said their first choice is to raise money as opposed to borrow it. Borrowing or bonding sets most respondents on edge even when they cite it as a "good business practice."

Here too, the size of an organization has much to do with its perspective on borrowing. Most small and some larger organizations are not comfortable with borrowing money if they can help it. One director said, "Financing is not what we do. We are all shuddering under the experience of Oceans Journey. I would never think of financing unless it was a large renovation. Our organization has had brushes with bankruptcy." Many in the nonprofit community view debt as a result of "poor financial planning", "messed up" or a "last resort". Several noted that even when it may be the right solution to complete a project, it is something that can become a "monkey on your back." One nonprofit leader noted that bond financing can become "evergreen", or ever-present, and that servicing debt can pull operating resources away from having funds to offer good employee benefits or fund depreciation such that it supports facilities over the long run.

Meanwhile, some of the larger nonprofits (and a few mid-sized nonprofits) cite very positive experiences with facilities-related debt, including mortgages, bond issuances, loans against capital campaign pledges, and combination packages thereof. Some of these are among the larger cultural organizations in Denver, but others were larger childcare providers, health care providers and human service agencies.

A few nonprofits have specific covenants in their by-laws against borrowing, but the majority of our respondents noted that they could indeed borrow. Many funders expressed apprehension about supporting organizations that amassed debt. The main concern regarding borrowing is that grant dollars are being used to pay off debt, or even worse, to service the interest payments rather than support services. Here too there are concerns that taking on debt in the absence of a clear business plan is a sign of poor facilities or capital campaign planning.

<u>There are some acceptable uses of debt</u> – Many key informants said they had lines of credit with their local bank for cash flow or bridge purposes. Others had acquired zero-interest loans from board members. Still others had equipment leases or loan guarantees. These are considered, by and large, to be acceptable business practices.

<u>Planning to pay off debt</u> – While the initial reaction to debt was negative for a majority of key informants, many could see certain instances where it makes sense (e.g. purchasing space instead of paying high rental costs), provided that a clear pay-off strategy was established at the outset.

Demand for Facilities and Financing Assistance

Many key informants are unclear as to where to go to get help for facilities projects and the related financial planning. While they acknowledge several institutions that provide training on more basic issues such as "How to Start a Nonprofit" and "How to Read a Balance Sheet", as well as individuals who help with capital campaigns, many organizations expressed a need for a program or service that could walk them through the whole facilities project one-on-one. The following sections highlight key informant reactions to the types of assistance they would like with facilities projects.

<u>Workshops are a helpful first step</u> – Many nonprofits expressed interest in attending workshops to gain the broad perspective and vocabulary necessary to tackle a facilities project. Larger, more sophisticated organizations feel they already have the basic knowledge that would come from such a set of workshops. Some expressed a desire for take-away reference material to complement the concepts learned in the workshop.

Consultation preferred over workshops – Many participants recognized the difficulties of transferring knowledge gained in a workshop to organization-specific problems or challenges – you still have to "do the project yourself". "How do I apply general concepts to my specific context?" was an oft-repeated comment. Nonprofits expressed a need for the benefits of individualized consultation as opposed to the more general information learned in workshops. They want experts to help them solve their specific problems. Participants also stated that this consultation needs to be affordable, and a number said free.

Loan products appealing to larger organizations – Larger organizations expressed interest in loan products such as medium to long-term loans, recoverable grants, guarantees and interest subsidies. Smaller organizations reiterated their hesitance to use debt since they are not clear on how they could pay it back. Additionally, they cited board hesitancy and bylaw restrictions that would prevent them from pursuing such options.

Support and referral appealing to smaller organizations – While many of the larger organizations feel they already have referral networks in place, most of the smaller organizations expressed a desire for help finding information and services. Many envisioned this service as a type of information hub with print resources, searchable online information, and lists of "nonprofit friendly" or endorsed service providers.

"One stop shop" idea is appealing – While nonprofits acknowledge that there may be facilities-related help available, many are unclear where to find it, and say that most technical assistance focuses on a discrete piece of a facilities project, such as feasibility studies or project management. Many observers looked favorably on developing a hub for facilities-related services at the local level.

Differences Between Larger and Smaller Organizations

On the whole, organizations with annual revenues over $2 - 3 million have larger in-house staffs and boards with more expertise in financial and facilities planning. Many of the smaller organizations noted that they have difficulty recruiting "high level" board expertise and that their executive directors must fulfill multiple management roles. Due to greater board and staff capacity, larger organizations are able to divide responsibilities for more effective management.

In the financial area, several representatives of larger organizations noted that it is usually the board's role to guide investments, endowment, and risk management while the management supervises day-to-day operations. These organizations understand working capital as a standard need, and recognize that one of the important components of managing a facility is funding depreciation. In focus groups, these organizations were much more open to using debt to finance facilities projects, and many groups have already put together sophisticated packages of debt, bond issuances and contributions. "We see ourselves as a sophisticated group. We have fiscal management. We're tracking our dollars long-term. We have an excellent working relationship with a bank."

The nonprofit focus group participants highlighted the often stark differences between large and small organizations. As one participant noted:

> Absolutely the needs are different. I came from a pretty large nonprofit – we were in multiple locations. Over the course of 12 years we went from owning one building to owning many and needing to be delivering services to many more than one location. Our administration then needed its own building separate from services. Here at a small nonprofit, we grapple with paying the bills.

Among the smaller organizations' managers with whom we spoke, most note that they are inexperienced with facilities and related financial issues. Among the comments we heard in this regard are:

- "Some groups are like first time homebuyers, they know so little".
- "For some of us there is not a lot of general long-term thinking. It is really hard to get folks (within the organization) to think about new facilities. The thought of raising the money is daunting. We have no clue how to do it and it is easier just to keep renting."
- "We are a community center and we have been given the gift of a building. It will take approximately $6 – 7 million to refurbish it. We have lots of concerns about the building. Will it work for us? Though we really need a facility, we probably need about 5000 sq. ft. and this building is more than double that amount of space. All we've done for the past two years is focus on the building, and the community is wondering, where are the programs?"
- "The biggest threat for small organizations is that the building will consume so much time that we cannot focus on program development."

While these groups need the most help, they often do not have the money to pay for advice, nor the staff time to devote to managing a project either on their own or with a consultant. Small organizations try to get around the obstacles of fewer resources by having volunteers or pro bono consultants help with financial planning and facilities projects. The most successful organizations have very strong board support and help. Again, while most small organizations are more averse to debt, concepts like credit enhancements, for example, make borrowing more palatable.

Differences by Sector

An organization's expertise on facilities planning is often related to its dependence on facilities to fulfill its mission. Those organizations that rely heavily on one or multiple sites to carry out their programs are usually more versed in the process of finding and/or renovating buildings than those nonprofits who only need office space. The following sectors have particular needs, capabilities and challenges regarding facilities projects.

<u>Low-Income Housing</u> – This sector tends to be the most sophisticated regarding facilities projects because a core piece of their mission is buying and developing affordable housing. These organizations usually have in-house development staff that is knowledgeable and creative about real estate deals and financing. Bankers who are active in the nonprofit community often cite nonprofit low-income housing developers as the type of nonprofit with which they are most familiar, and the ones for whom they have dedicated resources.

Childcare – The providers of childcare are highly dependent upon their facilities, and structure, layout, equipment and location are all important issues. Given the highly regulated nature of their services and facilities, most daycare executive directors have had experience with facility projects, either new construction or renovation. Several daycare providers attended the focus group sessions. The following statements exemplify some of the specific facility issues of the childcare sector.

- "We are in facilities that are over twenty years old. Architects originally built the building without much input from the staff. These are not conducive to the childcare programs we operate here. The playground is in the wrong spot! This is not a child friendly facility."
- "Given our current facility we are limited in how we can grow. We have a waiting list---and we want to stay in the community. This is a low-income community where childcare is important. We could build on the current site and expand with a new facility. But how would we relocate temporarily?"
- "If you are a childcare center, whether you own or lease - every ten years you will need a major renovation. The wear and tear on facilities is enormous. We just finished a $300,000 improvement. The reality of childcare facilities is that just any space won't do. We are highly regulated. It is very expensive to build or renovate. That is different from many other parts of the nonprofit sector. We had to have 5 inspections just to sign off on a kitchen hood."

The design and layout of these facilities must be easily navigated by children and easily accessible by their client population, usually low-income families. The facilities are run down quickly by heavy use, and must meet numerous inspections and regulations to continue functioning. These extra facility requirements coupled with lack of financial expertise make facilities projects for childcare-related organizations a more daunting task than for other nonprofits. It is not surprising then that other communities across the country have developed childcare facility funds to provide technical assistance and financing dedicated to the special needs and situation of childcare providers.

Charter Schools – Like childcare facilities, charter schools have very particular needs for their facilities and must meet numerous regulations. These relatively young organizations receive a majority of their operating funding from the state, but many are now approaching the private sector more for funding. As one funder noted, "Charter schools have created a category of new need that historically had been met by the public sector. This has created a capital crisis that is not being addressed." Facilities pose a critical challenge for charter schools. Many are housed in temporary or inadequate quarters, and as they grow, need to invest in permanent or expanded facility. This situation is not unique to Colorado, indeed it is part of a national crisis. The state of Colorado has recognized this problem and has developed a dedicated per pupil funding allocation to go along with the allocation for operations. This dedicated funding stream will make it possible for charter schools to consider securing financing for facilities projects.

Healthcare – Community-based health-related organizations also have a continual need to upgrade facilities and meet stringent regulations. Most organizations try to do this through capital campaigns and cash as opposed to using debt.

> Many of our health centers are in older facilities and have older medical equipment. As the number of uninsured has risen, the demand for services has grown. Many have outgrown their space.

In 2001, the Colorado Community Health Network conducted a Capital Needs Assessment Survey of Colorado health centers. All of the survey respondents expressed a need for capital development projects within the next five years.[11] The most urgent need identified was for the purchase of land and buildings. Additionally, all of the survey respondents plan to undertake some category of capital project in the next five years. Like other subsectors of the nonprofit community, these health centers have predevelopment technical assistance needs, the top three being lending commitments, financing alternatives and business plan development.

Arts and Culture - By and large, key informants told us that arts and cultural organizations require specialized facilities to fulfill their missions. The majority of the larger cultural institutions who participated in the focus groups have significant facilities projects underway. Because of the way in which many of these facilities projects were financed - with bonds, SCFD money, etc. – they have a close funding and financing relationship with the City and its agenda for community facilities. Typically, these organizations have more sophisticated staff, have worked with outside consultants, are planning or are implementing capital campaigns and would be, if asked, a resource for their colleagues.

This group of large organizations is located in Denver; Boulder-based arts groups are somewhat smaller, but the group participating in the Boulder focus group was no less sophisticated about facilities and financing than their bigger colleagues. Many examples of creative financing, fundraising and collaboration for facilities projects were cited.

What is true across the board, we were told, is that the funding environment for arts and culture within Colorado is not well developed and that this has led arts organizations (beyond the largest) to find alternatives to simply fundraising.

> Cultural institutions of all sizes in this state are under extraordinary stress. As a state, we do not have strong public support for the arts, which translates to leveraging private support. I hear that businesses don't seem to be giving their fair share. We just don't have the support infrastructure.

Arts organizations, we were also told, are relatively young compared with national profiles and "are still building audiences and community relations." "We haven't matured as a cultural community," TDC heard. Several of the organizations with which we spoke both in Denver and Boulder receive funding from the Science and Cultural Facilities District. Key informant interviews suggest that even with this support many arts organizations are still experiencing deficits. Many report that yearly attendance is down at performances across Colorado, which means less revenue from ticket sales.

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[11] Colorado Health Centers Capital Needs Assessment Survey Report, April 2001. Prepared by Capital Link in collaboration with the Colorado Community Health Network.

> I was surprised that 8 of 21 qualifying 'Tier 2' Science and Cultural Facilities District (SCFD) organizations were presenting deficits. What worries me is that they are receiving money through the SCFD and they are still having problems. The City is providing them subsidized rental facilities – still struggling. People would rather be outdoors or going to football games. We haven't matured as a cultural community.

Finally, there are the smallest arts organizations: "Many arts and cultural organizations are operating so hand to mouth, they are wondering how to pay the rent."

Human Services – One director described the facilities situation of many human service providers by saying, "Our experience with facilities parallels the fortunes of the people we serve." These organizations tend to serve the most destitute residents within a city such as the homeless, abused, the mentally ill and the disenfranchised disabled, and it is crucial that they be located near these populations.

> We serve kids who are dealing with sexual assault. We are renting. We need to be downtown. The search for space has been nightmarish. Location is critical. Our lease term is a year at a time. But we're too young to take on a capital campaign.

Many organizations feel cramped in their current facilities due to higher client demand. In addition, these organizations need special features for their facilities, such as parking, "access for trucks because of handicapped" or "a warehouse-type facility because we have mailing services in the building". It is often difficult for organizations to find these particular spaces, and many feel they "have to be in position to control properties and get there before a developer".

However, many of these same human services organizations have very limited knowledge of acquiring and owning buildings or managing capital campaigns. Indeed, many do not have a significant portion of their annual operations supported by individual fundraising and, therefore, do not have the donor base that is a precondition for entering into a capital campaign. Several organizations report being turned down for funding to support facilities projects because of poor financial health or what was perceived to be poor financial planning.

A small number of human services nonprofits are beginning to use affordable financing options to acquire facilities, but this is not the norm. "We provide treatment for abused children. We redeveloped 5 years ago. We did it with a combination of a capital campaign and CHFA bonds. These are tax-exempt bonds at 4 ¾ %. The pay off has not been onerous." In general, human services organizations struggle with the issue of facilities.

B. Foundation-related Findings

The nonprofit community is acutely aware of the paucity of capital funders in the Denver/Boulder area. On the corporate side, there are few headquarters in the area, banks are consolidating, and corporations tend to prefer funding programs as opposed to capital or operations. On the foundation side, there are only seven major funders of capital in the Denver/Boulder region. Nonprofits feel that "the foundation community actually tends to focus on particular types of projects. If that particular project fits within projected goals, then a nonprofit can be successful in getting 75% of what it wants". In addition, nonprofits sense that funders are less willing to support operations, because "most foundations don't want to sustain, they want to create."

This situation leaves nonprofits constrained and confused by numerous restrictions on giving, and competing with each other over limited funds for capital. Because of these circumstances, organizations say they are less likely to collaborate with each other and more likely to get caught up in the "politics" of the nonprofit community. Nonprofits would like to see the foundation community work together to have a more "holistic" perspective on nonprofits and act in a "smarter", more collaborative way to meet the program, operational and capital needs of the nonprofit community. From a facilities perspective, one suggestion from the nonprofit community to foundations was to help fund more TA and the planning phases of facilities projects. Others asked that foundations take the lead in the development of common or shared space.

Many nonprofits acknowledge Rose Community Foundation and Daniels Fund as leaders in the foundation community. They laud Rose's endowment program and Daniels' commitment to capital issues, though some nonprofits would like these foundations to clarify their grant objectives and specifications. All participants were extremely grateful for the chance to voice their views and to listen to other organizations' "lessons learned" in the focus group forum. Many individuals communicated that they would like to continue these kinds of collaborative events in the future and maintain an ongoing nonprofit dialogue.

C. Technical Assistance Findings

During the market assessment process, TDC was able to speak with several technical assistance providers and other key informants regarding the state of technical assistance in the Denver/Boulder area. TDC would like to thank the key TA providers for their time and candor on multiple occasions, via telephone and in-person. Their insight has been crucial in formulating the larger picture of nonprofit needs and the resources available to meet those needs. Understanding that a comprehensive analysis of technical assistance was not part of the market assessment laid out by the foundations, we provide a more cursory overview of findings below.

Most individuals in the nonprofit community are aware of four major TA providers in the Denver/Boulder region, along with some individual consultants and small "shops" affiliated with other organizations. The "Big Four" are the Colorado Association of Nonprofit Organizations (CANPO), the Community Resource Center (CRC), Metro Volunteers and the Colorado Nonprofit Development Center (CNDC). According to interviewees, each of these organizations has a slightly different focus and approach, a summary of which follows:

CANPO is a membership organization that provides a range of services for nonprofits, including: a member help desk, advocacy, an affiliated insurance company for nonprofits, a bookstore and other reference materials, group purchasing and other education efforts. Their expertise lies in material distribution and acting as an information hub, while their management assistance is mostly comprised of printed materials.

CRC operates in three areas: community organizing, leadership program for nonprofit managers and workshops. Their workshops focus on varied topics from building an effective board to fundraising to how to start a nonprofit. They provide services statewide, and culturally, they are seen as a more grassroots organization.

Metro Volunteers is the volunteer center for metro Denver and they also do a set of training classes. The training is geared towards more established groups, but focuses on topics similar to CRC workshops, such as financial planning and organizational development. The organization has a smaller staff as it relies on volunteers, and has a pool of consultants that help with training. Their perceived strength is in organizational development training.

CNDC works only with start-up groups that do not yet have a 501c3 designation. These groups become "programs" of the CNDC, which are then spun off as they become stable enough to support themselves. CNDC provides legal, corporate service and back-office services to these groups. While they do provide hands-on, ad hoc TA, they contract most training with the CRC and Metro Volunteers.

In addition to the four mentioned above, there are numerous individual consultants and small groups within universities, foundations and for-profit institutions that focus on nonprofit training or assistance. Much of the "TA" available in the Denver/Boulder area seems to be training for up-and-coming nonprofits on issues such as financial management and organizational development. Interviewees felt that the TA market is very fragmented, and it takes "a lot of legwork*"* to find the right provider at the right price, if at all. Many nonprofits end up "looking elsewhere*"* for assistance, as they cannot find what they need at the local level. This has engendered a general level of dissatisfaction with the array of TA currently available.

While most interviewees feel that existing providers do a good job with the tools they have, they admit that the community could benefit from more sophisticated and more specific assistance around facilities, financing and other pressing issues. Some key informants said TA providers are having difficulty retaining the experts that are necessary to take their offerings to the next level. In addition, there is a perception that the funder community does not focus enough on the TA side. As one interviewee said, "there needs to be more buy-in on TA in the funding community."

When presented with the possibility of bringing in expertise from outside the Denver/Boulder community, existing providers say they would welcome a new player provided that they could collaborate with them. One interviewee said, "TA providers are struggling to meet their operating needs", and if another provider "stormed in and scooped up operating costs from foundations, that would not be perceived well." Nonprofits also suggested that a new TA provider partner with local organizations for endorsement purposes in the Denver/Boulder region.

D. Financial Institution Findings

Feedback from financial institutions in the Denver/Boulder area complements observations made by key informants in the nonprofit community. Interviewees represented different perspectives or departments within banks, including corporate giving, CRA and small-business lending. Most interviewees acknowledged the large number of capital campaigns in the area, but expect that this trend will slow down in the near future. They also realize that the real estate market has been difficult for nonprofits, especially those serving low-income neighborhoods, as many of these organizations have been displaced by widespread gentrification. One interviewee mentioned that some nonprofits "need to be in the real estate business and some don't", meaning that some nonprofits depend on their facilities to run programs (e.g. the Humane Society), while others simply need rental office space. Since September, interviewees noted that home and commercial real estate prices have been softening along with the economic downturn, and some financial institutions are starting to "feel the crunch" in their corporate giving departments or foundations.

Every interviewee commented on the wide spectrum of sophistication in the nonprofit community. Distinctions were made between the "more stable, older reliable nonprofits", or the "larger, higher profile" organizations that have better planning capacity and in-house expertise, as compared with the smaller, less sophisticated nonprofits. One interviewee described sophistication as the difference between having staff who are "business managers" versus "program people" stating, "If you look at the 50th percentile, 60-70% of the people are there", meaning they have incorporated business practices into their organization.

While most of the more sophisticated nonprofits have borrowed from banks for a variety of purposes, the smaller organizations, in general, have not. Financial institutions tend to provide mostly working capital loans and short-term lines of credit, which are secured by endowments or other assets, or funds from the Scientific and Cultural Facilities District in some cases. Fewer interviewees had direct experience with facilities loans, but those who had said these kinds of deals are typically secured by the real estate. Many interviewees noted the difficulty of raising the totality of facilities project money through grants, and suggested that many need loans to reach their targets. However, loans to nonprofits need to have flexibility on rates and terms, which banks can do to a certain degree.

Some financial institutions were still somewhat uncertain about lending even to the more sophisticated nonprofits, citing examples of financing deals gone awry, or unwanted longer-term effects of taking on debt; they circled back to the question of whether nonprofits can pay off debt. One interviewee mentioned Ocean's Journey, saying they had been turned down for funding, were looking at reducing their bond interest, and had basically "mortgaged their future". Ocean's Journey presents a conundrum since it could not support the debt it took on even though it is a large, sophisticated nonprofit with a well-connected, high profile board made up of "pillars of the community." This interviewee went on to note that many of the SCFD recipients were still presenting deficits, and that a few were in "very severe trouble…How did this come about?"

Situations like these lead most financial institutions to support the idea of making comprehensive assistance more readily available to nonprofits on facilities and borrowing issues. Most banks do not provide technical assistance with their loans, but will refer their clients to others or help make introductions. Banks see a potential conflict of interest between their current loan business and a potential technical assistance program, preferring to keep themselves at "arm's length" from the borrower. However, interviewees would support training or assistance on facilities and loan issues, and would even send their staff to participate in order to gain perspective on the nonprofit community. Most individuals working in the financial sector are only familiar with nonprofits via trusts and investments, not financing, and would need to determine the appropriate metrics for successful lending.

As stated earlier, banks are not willing to assume too much risk in nonprofit deals. One interviewee believed that "10-20% of nonprofits are credit quality and are not going to have issues with lending", and it seems this percentage correlates with the number of organizations on the more sophisticated end of the spectrum. Conversely, this would imply that 80-90% of nonprofits are not ready to take on debt. The same interviewee suggested that one way to reach these higher risk nonprofits would be to partner with an organization that would be willing to mitigate the risk involved for the traditional financial institution.

Overall, it seems that most banks are willing to work with the more sophisticated group of nonprofits that are more likely to have in-house expertise (requiring less assistance) and the ability to pay back the loan. Most of this business, however, is working capital. These interviewees looked very favorably upon providing more assistance and training to nonprofits on financing and facilities issues, and would be willing to work with such a provider in some capacity to better educate the nonprofit community.

E. Realtor Findings

Price and Availability of Rental Space

As a part of this market assessment, TDC tracked the trends in the real estate market over the past year to the present date. Survey results, focus group discussions and interviews in Denver and Boulder make clear the difficulties that nonprofits have experienced in finding and acquiring appropriate office and program space over the past several years. Recent 2001 real estate data and conversations with realtors suggest, however, that the pressures of availability and price, particularly in the rental market, have eased significantly. Indeed, the average rent for office space in the Denver area dropped four consecutive quarters for the first time in more that ten years.[12] These trends parallel those at the national level where in the second quarter of 2001, the office vacancy rate rose to its highest point in four years, and has spread beyond communities with high concentrations of technology-related companies.

The survey and focus group data suggest that the majority of nonprofits that have been searching for space would be satisfied with rental space in the $10 - $15 per square foot range. In the greater Denver area, that translates to Class B and C quality buildings. Since early this year, prices of these types of facilities have dramatically decreased, down about 20%. For Class B buildings, this means a price of about $15 per square foot, and C buildings would average $12 – 13 per square foot. These buildings are not typically located

[12] The Denver Post. Business Section, August 26, 2001

in the central business district, but are more likely to be located at the perimeter of the district. A year ago, these spaces were being "snapped up" according to realtors at Cushman Wakefield and Frederick Ross Realtors. Today, this space is once again becoming available.

Additionally, TDC was told, there is a significant amount of sublease space available in the Denver/Boulder area, some being let with furniture in place. "Currently, over 4.3 million square feet of sublease space is being offered throughout the metropolitan area."[13] Buildings that were getting $25 – 28 per square foot a year ago are now in the $18 range, though this is still higher than the rate most nonprofits indicated an ability to pay. Specifically, the corridor that runs from Denver to Boulder where most of the new office space development occurred now has a very high vacancy rate as technology companies are putting space back onto the market. Unfortunately, this space, while available, is not ideally located for the majority of nonprofits with whom TDC spoke.

What this means for nonprofits that are currently or about to look for rental space is that price and availability are working in their favor for the first time in many years. Further, the current trends of declining rents and increasing vacancies are expected to continue into 2002. For those nonprofits looking to renew or establish new office leases, the market is adjusting in their favor, and the prices are returning closer to the target range.

Unfortunately, these trends do not counter the effects of recent development and gentrification in areas immediately surrounding downtown Denver, or the restrictive land use policies of Boulder, which place limits on the ease with which nonprofits can purchase land or facilities for suitable program space. While development and new construction are expected to slow and even decline in 2002, the effects of the redevelopment boom of the late 1990's are likely to continue to impact the nonprofit market seeking program spaces for some time to come.

Shared Space

Just as we asked nonprofits about their interest in the possibility of locating in shared nonprofit space, we also asked Denver/Boulder realtors about this idea. Those we spoke with believe that it would be possible to make the economics work, but that it would not be an easy transaction. It would need to involve brokers, lawyers, the buyer's agent and people from the nonprofit arena, most of whom would need to be willing to donate all or part of their time. They would need to get involved in such a deal because they cared about the sector. More importantly, they felt it would depend on securing an investor like a foundation or wealthy donor to purchase the building and rent it at below market rents. While conceding that shared nonprofit space makes for an intricate development deal, key informants felt that it was an interesting idea worth consideration.

F. Boulder-specific Findings

While Denver and Boulder are situated only 25 miles apart from each other, their environments and attitudes differ in some very fundamental ways. Key informants in

[13] MarketScope 2Q/2001 Denver, Colorado. Trammel Crow Company

Boulder are adamant that their nonprofit community's unique needs should not be obscured under the umbrella of "the Denver metropolitan region". One focus group participant stated that "Denver consultants don't understand Boulder culture," and another expressed that he wanted "help in Boulder, not in Denver".

Boulder faces two constraints not shared by its southeastern neighbor – strong "slow growth" attitudes and legislation on the part of its pro-environment inhabitants and their municipal and county representatives, and an especially small nonprofit support infrastructure and network of foundations, corporate and individual donors. Another aspect that sets Boulder apart from Denver is its community's fervent support of shared space as a possible solution to nonprofit facility concerns.

The Effects of Slow-Growth Legislation

Situated in the foothills of the Rocky Mountains, Boulder has for many years been a destination for outdoor recreators, artists, college students and others seeking a beautiful setting in which to live, work and play. The City is well known for its environment-friendly population and its successful efforts to stem unnecessary growth and preserve green space to the fullest extent possible. However, these slow-growth initiatives have had some adverse effects on the nonprofit community in the Boulder area.

Prices are high - One interviewee estimated that Boulder has "matured to 90% build-out", and limited space means prices are higher than other surrounding communities. Average rent for office space in Boulder ranges between $22-25 per square foot[14] (some focus group participants cited rental rates as high as $35-45 per square foot) and vacancy rates are around 12%. These prices are out of reach for many nonprofits that, as noted in the survey, can rarely afford rent above $15 per square foot. Similarly, the cost of living in Boulder is high, which means businesses and nonprofits must compensate their employees accordingly.

Availability is higher outside Boulder – Vacancies are higher (some say 30-40%) along the US-36 corridor connecting Denver and Boulder, but this space is primarily former dot-com space and not necessarily suitable for nonprofits. One focus group participant summarized the situation saying, "There is more vacant corporate space at corporate prices, and this space is not suitable for childcare programs". Some nonprofits have chosen to or have been forced to re-locate to neighboring areas such as Broomfield, Lafayette, Longmont and Thornton, but even these cities are facing rising prices as businesses and home-owners look for more affordable space outside Boulder. In fact, the Broomfield area has experienced so much growth in the past ten years that it was incorporated as its own county on November 15, 2001. In addition, many nonprofits are not willing or able to relocate so far from their client population, and must be readily accessible by public transportation.

Landlords can be selective - Some nonprofits feel that landlords have used the space crunch and high demand for property to their advantage by handpicking tenants, thereby uprooting or rejecting nonprofit tenants. Nonprofits that have worked out space agreements with schools or churches are facing rising competition for these facilities; some schools (and

[14] Trammell Crow Company MarketScope report on Denver, Colorado, 2Q/2001.

other landlords) are requiring space users to pay market rates for space that was formerly donated.

<u>Neighborhood advocacy is an obstacle for many nonprofits</u> – In line with the City's strict slow growth policies, many citizens of Boulder are particular about the kinds of development that goes on in and around their neighborhoods. There has been an increase in the number and strength of neighborhood advocacy groups and their opposition to certain kinds of occupants in neighborhood buildings. Opposition is especially strong towards nonprofits serving low-income or indigent populations and nonprofits that require large parking lots and have many car visits per day.

<u>City and County building regulations are costly and inflexible</u> – The cost of building and zoning permits in Boulder can be 10% or more of total building costs. Also, all buildings are zoned very specifically for use of space, and the nonprofit community feels the City has been excessively rigid in enforcing this practice to the detriment of productive use of the space. For example, a space zoned for "education use" may not be used for "community" purposes. Nonprofits are treated the same as corporations, and must seek special permits for multiple car visits to their sites, and for other uses of the space that do not conform exactly to the zoning permit. Many nonprofits question the equal treatment of businesses and 501(c)3s on this issue. One individual affiliated with the municipality stated that "it is hell on wheels to get through any City or County process here". Nonprofit constituents characterize the situation saying, "the City has let up on nothing", and, "Independence from the City? Not a chance!" One nonprofit director conceded, however, that the zoning plan was open to the public at one point in time, but the nonprofit community did not organize to voice its concerns due to a lack of leadership.

A Small Nonprofit Support Network

Nonprofits in the Boulder area feel it is harder to raise money in their community as many organizations are competing for a limited pool of resources. One key informant said, "Boulder lacks a culture of giving", and many focus group participants cited the discrepancy between per capita wealth and per capita giving. A funder in the Boulder community stated that "per capita giving in Boulder County is lower than in Denver and its surrounding five-county area". Some organizations mentioned that they felt unappreciated in Boulder, and wanted to educate the community about the important role nonprofits play for all citizens.

In addition, there are only three major corporate headquarters in Boulder that provide significant corporate grants; 80-85% of the business sector is small business. While these smaller businesses are more likely to donate in-kind services, they are less likely to contribute dollars, according to one interviewee.

Perhaps in response to the lack of resources for nonprofits, the City of Boulder has responded with the Worthy Cause Tax, which went into effect in January of 2001. This is a three-year sales tax that is expected to raise six to seven million dollars to go to emergency and transitional housing and nonprofit health clinics.

In addition, due to the relatively small pool of qualified board members, many citizens sit on several boards and are very stretched to provide adequate time and money to each organization. One Executive Director mentioned that it is "hard to find the level of commitment and skill set needed at the board level". Though many prominent businesspeople and civic-minded citizens are involved on nonprofit boards, organizations mentioned "board member overlap" as an added challenge for Boulder nonprofits. While one focus group participant said that some Boulder nonprofits "do not know what they are missing on their boards", many organizations do understand that assembling an accomplished and well-connected board is a big advantage in terms of fundraising and planning.

Enthusiasm for Shared Space

The idea of shared space came up in almost every focus group and interview with Boulder residents. Some groups strategized about turning the vacant Crossroads Mall into a communal nonprofit campus, others voiced interest in an incubator building, and still others simply approved of the vague notion of sharing space with other nonprofits. Key informants used words like "hub", "condominiumize", "umbrella organization" and "design your own space" to describe their views of what this shared space might look like. All interested parties cited the advantages of cost-savings through economies of scale as well as the potential creative synergies of housing like-minded individuals and organizations close to one another. While many key informants expressed interest in shared space, they are unsure how to go about creating such a space, or who to turn to for leadership on the issue.

There are a few examples of either successful efforts or failed attempts at creating shared space in the area. One nonprofit looked into making some part of their building available to smaller nonprofits, but the zoning costs of retrofitting the building to meet codes made the project too expensive. In another case, a local foundation provided money to create an umbrella organization that would house an accounting system, a procurement system, medical benefits, etc. for all nonprofits, but the status of this project is unclear. The County of Boulder bought a building in Lafayette and rents the space out at $5 per square foot to nonprofits in the county. This has worked well enough that the County is looking to replicate this concept in Longmont. The Dairy Center for Performing Arts is another example of nonprofits cohabiting in one space. Residents say that the Center receives community-wide support as evidenced by the number of visitors, but that it is still in an "experimental" phase and needs to address the fiscal details of the arrangement.

Boulder Summary

The difficulty finding affordable space and the lack of resources available to organizations comprises a challenging environment for the Boulder nonprofit community. This situation hinders many nonprofits' ability to expand their services to meet client needs, and even reduces the effectiveness of existing programs given over-capacity facilities. Many nonprofits do not have enough space for their volunteers, and others will have to stop certain programs for lack of space. While shared space is an option for many, few are familiar with the steps necessary to find or develop and manage such a facility.

IV. CASE STUDIES

As part of the market study, Rose Community Foundation asked NFF to look in depth at two nonprofit subsectors, organizations serving the aged and organizations serving Jewish people. The purpose was to understand the needs and capabilities of the organizations related to growth and growth-related activities, specifically facilities development. The Foundation was also interested in learning the significant differences or similarities between these subsectors and the overall Denver metropolitan nonprofit community.

Rose Community Foundation selected the organizations serving the aging, and, in conjunction with the American Jewish Federation, selected the Jewish organizations. Organizations received surveys, participated in a site visit (in one case a site visit was not possible and the organization was interviewed over the phone), and in some cases had follow-up phone calls. The scope of the analysis encompassed financial, managerial, governance and facility issues. Seventeen organizations serving the aged received a survey. Thirteen groups responded, of which 12 participated in a site visit and one a phone interview. Eighteen organizations serving Jewish people received a survey; fourteen organizations responded and received site visits.

A. Senior Organizations

Among the thirteen participating organizations that serve the aging, the organizations are diverse in scale and program activity. Organizational size, measured by staff and revenue level, ranges widely. While full-time staff size falls between one and 244 people, most senior organizations have small full-time staffs between one and ten people. Looking to revenues as a measure of size, the senior groups generally have higher levels of annual revenue than the overall nonprofit market. Program activity is also varied, with 12 service areas beyond services for seniors, including education, health services, housing, food, childcare, crime/legal related, employment, and youth development.

Growth and Planning

Similar to other nonprofit groups, the senior groups overwhelmingly anticipate client growth in the next five years. However, several expressed concern that the industry lacks a forward-looking perspective. There was some discussion of a lack of big picture thinkers in the industry and a collective sense that the geriatric population is changing; and the groups serving seniors lack innovation to meet the changing needs. One group said, "… better educated and more sophisticated future seniors will want more… how will we deliver service and manage costs?"

Despite the expected growth, senior groups' planning activities are limited. While there are examples of significant and comprehensive planning efforts, five of the 13 groups do not operate with a formal long-range plan. Interestingly, these groups vary across age, budget size, organization development, and program activity.

Management

The skills of the executive directors are largely suited to the needs of the organizations, but management depth beyond executive directors is often lacking. Human capacity appears to be particularly limited in the finance arena, with evidence of recruitment and/or retention problems among finance staff. In organizations with complex funding streams and heavy government funding, this is especially challenging. In addition, on the program staffing side, adequate staffing for the high demand of at-home care (excluding specialized respite care) was frequently cited as a constraint for growth.

Financials

The senior groups annual revenues range from $131,000 to over $16 million. The average revenue level is $4.8 million, while the median is $2.1 million, suggesting a few extremely large organizations skewing the average. In contrast, the greater nonprofit sector reflects an abundance of smaller organizations with revenues under $250,000.

The proportion of earned versus contributed income among the senior groups varies based on the nature of programming. A few groups, primarily residential and healthcare groups, earn virtually all revenues, while a few groups fundraise virtually all revenues. In general, senior groups earn proportionately more revenues than the broader nonprofit community. The government plays a significant role for many of the senior groups through contract funding, Medicare/Medicaid, grants, discounted or free rent, and financing.

Senior groups' recent financial performance is generally good and mirrors nonprofit groups' performance. Ten of the 13 groups, or 77%, report an operating surplus, compared to 72% of the nonprofit groups. Areas of specific operating and financial concerns for senior groups revolve around the increased proportion of Medicare clients and the current glut of assisted living units, resulting in high vacancy rates. Because the cost of care for Medicare clients is only partially reimbursed, as more Medicare clients are served and the funding gap grows, organizations require greater subsidies.

Facilities

Senior groups appear to be more facility intensive than the general nonprofit sector. Senior groups tend to have more sites, and are more concerned about space quantity and quality, especially in light of future needs. About one-half of the senior groups operate multiple sites, versus 39% of overall nonprofit groups. Many senior groups are constrained and concerned by their space. While 66% percent of the groups report the primary facility is currently at or over capacity (compared to 77% overall), looking to the future, 75% of senior groups report that their primary site will be insufficient, compared to 59% of the nonprofit groups.

More senior groups own rather than rent their primary site, compared to the larger nonprofit community, which is more equally split between owning and renting. Those renting will also be looking for new space. Relatively more seniors groups (69%) looked for new space in the last two years, compared to nonprofit groups (50%), and on average they were looking for more space.

Although senior groups report having support tools for facility issues, the depth in the tools was lacking as evident from deferred maintenance and fatigued buildings. Many senior groups report having a written facility maintenance plan, staff for facility related issues, and a plant fund. However, the site visits revealed minimal depth in the facility support tools. For example, facility staff often meant janitorial/cleaning staff, and with the exception of bond financed projects that required building reserves, building funds are not easily identified.

Projects

Most senior groups (73%) are currently or have recently engaged in a facilities project. This proportion is much higher than the 49% of nonprofit groups, which report a current or recent facilities project. The interviews reveal that eight of the 13 senior groups are currently in some phase of a facilities project. Stages of project development ranged from project concept development to near construction completion. The defined projects ranged from a $350,000 for a 1,600 square foot expansion to a $50 million housing development.

Looking ahead, 67% of senior groups (versus 46% of nonprofit groups) anticipate mounting capital campaigns for a facilities project in the next five years. Senior groups' capital campaigns tend to be largely supported by institutional funders rather than individual givers.

Based on interviews, a few groups showed warning signals of flawed project planning. Some capital projects are viewed myopically, focused on immediate real estate and financial issues (e.g., securing site and money) rather than on-going financial and operational implications. Some organizations with capital project plans have poor financial health and management, as well as weak facilities management.

Conclusion

Overall the group of organizations serving the aging has similarities – strong directors, reasonably healthy financials, anticipated growth and facility issues. However, it is important not to obscure the differences that arise when considering the various programs that each offers. For example, the facility needs of a residential program are quite different than a Meals on Wheels program. The financial challenges of operating a fee for service program (private or government) are distinct from the challenges faced by an organization that relies primarily on contributions. These differences place the organizations on very different foundations when considering expansion and facilities issues. Lastly, like most subsectors, the level of financial infrastructure and understanding is driven more by size than by subsector. The larger organizations have more developed systems (financial, planning, etc) and deeper management structures that make expansion easier to undertake.

Other observations include:

- Growth by organizations that currently operate with Medicaid funding gaps will only increase those gaps by expanding services, and will require additional fundraising to cover expenses.

- Government is a large funder in this market and organizations have been able to access government funding and subsidies for their facilities, which is not the case in all nonprofit subsectors.
- Like many social and human service agencies these organizations have limited individual donor bases and therefore rely heavily on institutional support during capital campaigns.
- Lack of consistent financial staffing will likely be a challenge in developing and implementing growth plans which often increase financial pressure on an organization.
- Most organizations are suffering from deferred maintenance, which should be addressed systematically.

B. Jewish Organizations

Among the fourteen participating organizations that serve the Jewish community, the similarities were based more on their primary service than on the common thread of a Jewish constituency. For instance, the capitalization and facility needs of schools (whether Jewish or not) are more closely aligned than those of a Jewish school and a Jewish congregation.

The majority of the organizations surveyed provide a variety of services. The majority of the organizations consider their primary focus to be religion, followed by programs in sectors such as advocacy, arts and culture, education, health services, senior housing, and community development.

These organizations were larger than the overall nonprofit market. Many of the organizations (64%) had revenues over $1 million, with the largest at $11.9 million; the remainder were below $1 million, with the smallest at $120,000. The overall nonprofit sector contains 37% large organizations and 63% small organizations. The number of full time staff ranged from one to 186. The largest segment of the Jewish organizations (33%) fell in the 11-20 person range. The remainder was evenly distributed among other staffing levels.

Growth and Planning

Approximately 80% of Jewish groups surveyed anticipate an increase in their client base over the next five years. The same is true of organizations surveyed in the general nonprofit sector, in which 88% projected growth in clients served.

Eight of the fourteen participating organizations have a long-range or strategic plan. The sophistication of the plans varied according to the resources of the organization. Surprisingly, several of the larger organizations with substantial human, financial and facility resources did not have a plan in place, relying instead on senior management and board members to guide the organization. The bulk of the plans reviewed by NFF did not include in-depth financial projections reflecting staffing, programmatic and facility needs, but instead were limited to qualitative program planning.

Management/Governance

Key management seems highly qualified, with many having advanced degrees in addition to significant professional experience. Retention rates amongst executive directors and key management varied. Five of the organizations, all with budgets over $1 million, had executive directors who had served in that capacity for five years or more; much of their senior management had even higher retention rates and had been promoted from within the organization.

Six of the organizations have CFOs or directors of finance and fairly sophisticated financial management in place. The remainder use management or board members to manage and report finances with very mixed results. Of this group several were sufficiently sizeable to warrant stronger financial management.

Overall, boards are strong with members tending to be influential. Their involvement with fundraising, facility projects and governance is active, but does vary. Over a third of the surveyed groups express a need for further board development and more training in fundraising. In addition, benefactors, whether serving as board members or not, play a prominent role. At least five organizations enjoyed significant and long-term financial support from a benefactor/board member; however, this is not necessarily favorable for the long-term sustainability of all these organizations.

Financials

Sophistication of financial management is directly linked to budget and staff size. Those groups with budgets over $3 million tend to have systems and staffing in place which allow for better financial management and reporting. Organizations serving the elderly, community centers and foundations, and health services groups were better equipped for financial planning. Many of the smaller groups and schools were somewhat weak with regard to financial reporting systems.

Approximately 36% of the respondents relied on contributed income for at least 81% of revenue. Contributed income was derived primarily from foundations, individuals and special events, with minimal corporate giving. The breakdown of contributed income was similar to the overall nonprofit sector, in which 32% of respondents relied on contributed income for 81-100% of operating revenue. The overall nonprofit community was more reliant on government and corporate giving, and less so on individual giving.

All but two of the respondents generated earned income, with roughly 29% deriving at least 81% of revenue from admissions, fees for services, contracts and rental activities. This is higher than the overall sector in which only 15% of respondents generated above 80% of operating revenue through earned income.

Operating results for the sub-sector were divided, with approximately 54% generating surpluses and 46% operating at a deficit. By comparison, the entire sector's results were significantly better, with 72% of the respondents generating surpluses. Several of the Jewish groups operated with deficits in each of the years examined.

Balance sheet capitalization varied based on size and type of service being provided; the size ranged from $509,000 to $30 million. Fixed assets were primarily funded through a combination of capital campaign funds and financing, although smaller groups preferred not to incur any debt. Most groups were not highly leveraged with debt/net asset positions of less than 1.0x. Highly leveraged groups tend to be asset intensive, such as housing and community centers.

Facilities

Five groups (36%) utilize more than one site for their programs, similar to the 39% in the entire sector that operated from numerous locations. Most Jewish groups own their primary site. Of the fourteen sub-sector respondents 80% own their primary facility, as compared to only 42% in the larger non-profit sector. Mortgages exist for 75% of these owned facilities. Surprisingly, several of the Jewish organizations with no full time staff and small budgets had acquired real property in which to house their programs.

Both Jewish groups and those in the entire sector stated a need for more space currently as well as in the future; however, Jewish groups appear to have a higher percentage of larger facilities than that of the entire sector. Fifty three percent of respondents had looked for space in the last two years; however, only one of the groups was able to find space that met their needs within their price range.

Sixty percent of the sub-sector respondents had facility maintenance plans and/or replacement schedules in place, as compared to 36% from the entire sector. However, only four of the Jewish organizations have comprehensive plans covering routine, preventive and corrective maintenance. Surprisingly, an additional four organizations with significant fixed assets operate their facilities without a maintenance plan. The survey indicates 93% of Jewish organizations have an assigned employee handling facility issues. However, this person was frequently not a dedicated facility maintenance manager, rather a manager who also oversees facility matters.

Deferred maintenance came up as a concern for almost all of the organizations; however, only a few had an accurate idea of what capital expenditures were needed. Although 67% of respondents had building reserves, they were not linked to a schedule of capital replacements. Most were very small and were to be used for emergency purposes, as mandated by the Board, not for routine replacement of major equipment and repairs.

Projects

Each of the Jewish organizations had either recently completed or was currently undertaking a facility project ranging in size from approximately $1 million to $11.8 million. We observed that organizations with poor financial results and financial management, as well as a weak history of property management, were planning large capital projects involving renovation, acquisition or new construction.

Project planning often did not seem to be comprehensive. In all of NFF's meetings the need for additional space was mentioned; however, very few groups had conducted in-depth needs assessments to determine the quantity and type of space required to house their programs. We found that very few organizations had created detailed financial projections with varying revenue assumptions, cost structures, etc.

Capital and Endowment Campaigns

Sixty percent of the sub-sector respondents anticipated a major capital campaign in the next five years for facility related projects and approximately 44% of these campaigns will be for new space. By comparison, 46% of the entire sector anticipates a major capital campaign in the next five years and 54% will be for new space.

The methodology for creating and implementing a capital campaign varied. A few of the larger groups had conducted feasibility studies using the expertise of outside consultants and firms. In general, using fundraising consultants to lead a campaign was not popular with groups, who cited the lack of established relationships as a primary reason.

Conclusion

It is important to keep in mind that an organization's capacity to successfully undertake a facility project is often driven more by a combination of size and the service provided than by the classification of the client group (in this case the Jewish population). A synagogue and a Jewish senior residence will not necessarily have much in common – financially or managerially. Organizational depth and financial infrastructure are two key components of successful project implementation. Some observations about the Jewish organizations include:

- The organizations are fairly fixed-asset intensive, with many owning buildings and owning larger buildings than the average nonprofit.
- Many of the organizations rely heavily on individual contributions to support operations and facility expansion. Facility expansion will require that donors continue to provide operating support while participating in a capital campaign.
- All of the groups were planning on undertaking a project in the next five years and will be seeking capital funding. This will put pressure on management to provide ongoing services and undertake project planning and implementation.
- Most of the organizations did not have strong facility management practices and were suffering from deferred maintenance. Expansion of facilities does not solve these problems, but either exacerbates them or starts the cycle again (in the case of new construction).

V. CONCLUSION

Rose Community Foundation and the Daniels Fund recognize the crucial role that facilities play for so many nonprofits. In the past year, the negative effects of the economy coupled with the proliferation of nonprofits have sharply focused attention on the facilities issue in the nonprofit arena. Nonprofits are acutely aware of the constraints on their organizations in terms of space, and were actively engaged in this market assessment in hopes of helping to ameliorate the situation. The Denver/Boulder nonprofit community as a whole realizes that in order to achieve their missions more effectively, they must address and resolve their facilities issues.

It is clear that there has been an explosion in the number of nonprofits in Colorado over the last ten years, from 3000 organizations to over 13,000. The vast majority of these nonprofits are organizations with small budgets, little space, limited and often inexperienced staffs and little to no experience with facilities and managing a capital campaign. As many of these less sophisticated organizations begin to grow, they cross a threshold at which point they feel that they should or could have bigger or better facilities and begin to make preparations to secure such facilities.

Experiences related in interviews and focus groups suggests that many of these organizations undertake facilities projects with a narrow focus on the building or space itself rather than looking at how such a project might impact the organization as a whole over the long term. Board or staff members can become very committed to and immersed in securing a particular space and might push the facilities agenda while failing to consider obvious red flags within the organization, such as:

- Inability to maintain existing buildings.
- Absence of dedicated staff person for facilities.
- Inability to retain senior management.
- Lack of comprehensive financial planning.
- Failure to optimize use of existing space.

Moreover, not only do many local nonprofits lack the skills and expertise internally that are needed to make a facilities project successful, but many fail to engage external sources of this knowledge as well. Some nonprofits in the Denver/Boulder area have taken on relatively large facilities projects with budgets two to ten times the size of the organization's annual revenues. Securing outside expertise is critical if Denver/Boulder nonprofits are to address their facilities concerns in a manner that is sustainable and does not jeopardize the long-term health of their organizations. Long-term organization-wide planning for facilities would also make debt a more palatable tool for capital campaigns as the payback schedule would be incorporated into the business plan at the outset. By thinking through the operational implications of projects, organizations would be better able to define go/no go decision points prior to groundbreaking.