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# Nonprofit Facilities in the Denver/Boulder Community

## A Market Assessment

February 6, 2002

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Funded by

Daniels Fund and Rose Community Foundation – Denver



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## Goal of Assessment

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



## Methodology

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

## Key Findings

### Most Nonprofits are Small

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

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

(Data derived from IRS 990 forms compiled by Guidestar)

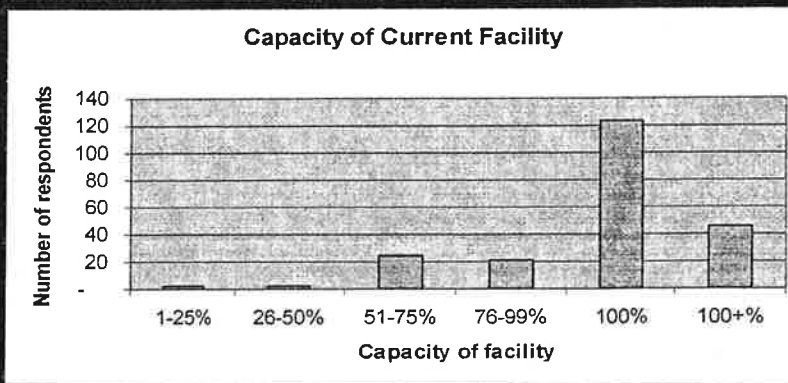
## Rapid Growth in Nonprofit Sector

- ❖ **Statewide** - In the past decade the growth in the nonprofit sector has reached 460%, surging to 13,778 from approximately 3,000 organizations.
- ❖ **Metro Denver** - In the past ten years, metro Denver has grown at a rate of 29.8%, making it one of the fastest growing areas in the country.

*Non profit sector is young and small (\$250K/yr)*

*As these grow... they will run into facilities issues*

## NPOs At Or Over 100% Capacity



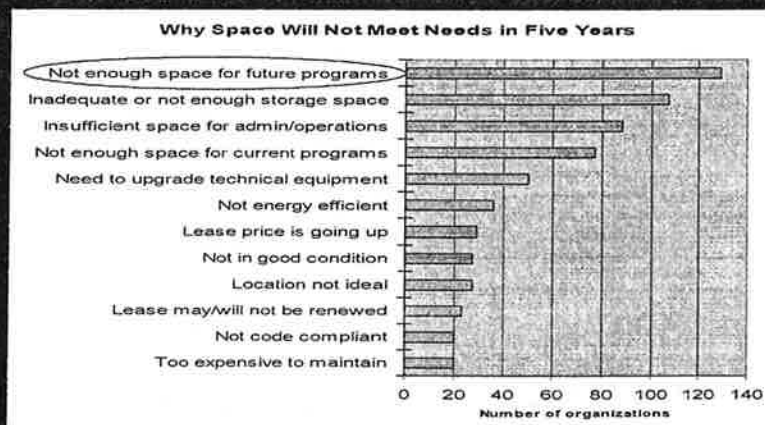
- ❖ 77% of nonprofits are operating at or over space capacity.

*TDC believes this is rep. of larger community (not just sample size)*

## Facilities Needs are Great

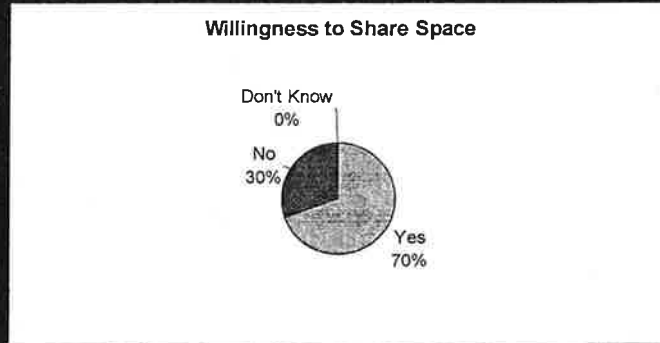
- ❖ 88% of surveyed nonprofits believe their client population will increase in the next five years.
- ❖ 60% of these organizations stated that their facilities would not meet their anticipated needs in five years.
- ❖ 50% of surveyed organizations had looked for new facilities in the last two years,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

## Greatest Need: Future Program Space



- ❖ Nonprofits need more program, storage and admin space.

## Many NPOs Willing to Share Space



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

*more interest in shared space in Boulder (Non-Profit Center)*

## Multitude of Capital Campaigns

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

*57 organizations over 200*

## Barriers to Facilities are Significant

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

*most part  
fundations  
something →*

*New B space  
K's @ a lower  
level.  
(12-15/01)*

## Small Pool of Funds for Capital

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

*5 or 6  
foundations*

## Facilities Projects Done In-house

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

Size matters:

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

*Round tables  
get mad to peeps.  
It would be nice  
to have objective  
advice/analysis.*

## Expertise Depends on Subsector

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

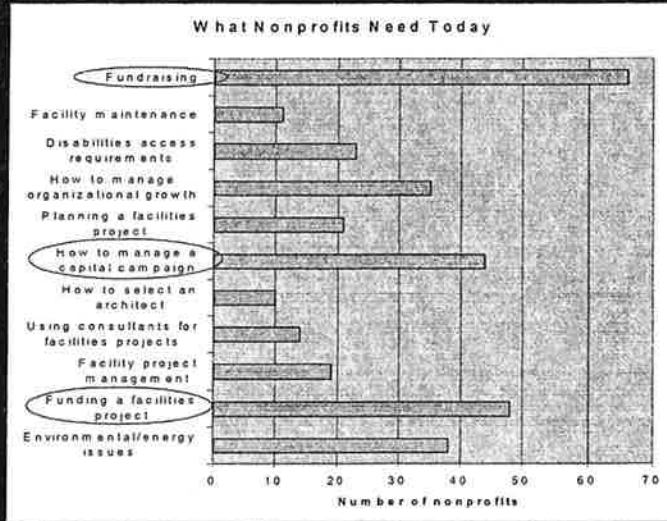
More Expertise



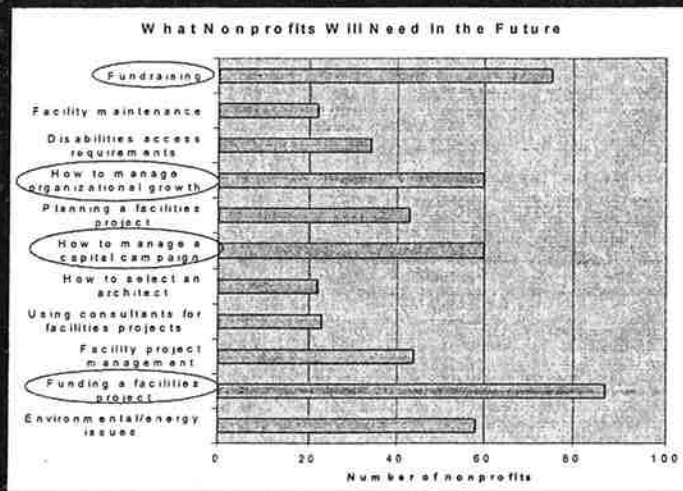
Limited Expertise

*SPECIALIZED  
NEEDS  
Space is specialist*

# Current Facilities Help Wanted



# Future Facilities Help Wanted



## Sub-optimal Facilities Expertise

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

*Would start here but pretty sure they don't need spec. advice*

*Training about quite cut it. Need to not someone to integrate learnings into specifications for programming*

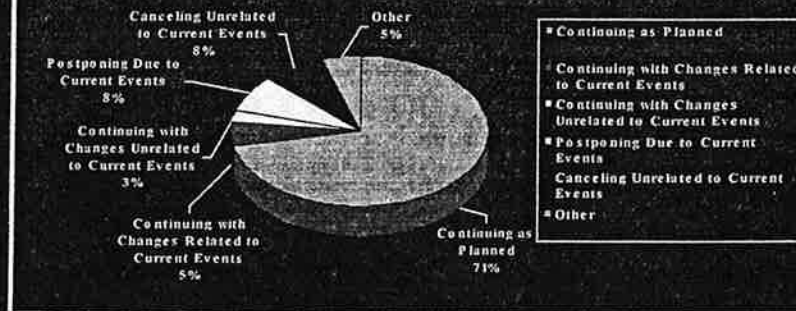
## Effects of the Economy

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

*Again space is specialized*

## Since September 11th

### The Effects of Current Events on the Capital Campaign Plans of Denver-Boulder Nonprofits



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

## Key Opportunities

## Convene and Learn

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

*when is debt reasonable*



## Educate Community About Debt

- ❖ Used correctly, debt can be an effective tool to solve a facilities problem for a nonprofit organization.
- OR
- ❖ Debt can lead an organization down a “slippery slope” to its possible demise.
  - The community needs to recognize the differences between effective and ineffective uses of debt, as well as what good financial and facilities planning looks like in these different circumstances.

## Ineffective Use of Debt – Case Example

### Organization #1

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

### Project

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

## Outcomes

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

## Why Debt Didn't Work

### Lessons From Organization #1

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

## Effective Use of Debt – Case Example

### Organization #2

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

### Facilities Project

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



## Why Debt Worked

### Lessons from Organization #2

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



## Assess TA Infrastructure

- ❖ Nonprofits have clearly expressed a need for facilities expertise in the near future.
- ❖ Does the Denver/Boulder community have the right resources to respond to this need?
- ❖ If not, how might the management services organizations, nonprofit community and foundations strategize to fill this gap?

## Investigate Best Practices

Some examples:

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

## Convene Nonprofit Community

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