Nonprofit Finance Fund

Cultural Facilities Study Summary

"How has this project changed us? Well, the executive director left and half the board resigned while it was going on...The only way we can possibly hope to continue is if the artistic director does nothing but raise money full-time for the next eight months. That knocks out the first part of our season that he's supposed to direct. We realized this last week and we've already announced the season with his plays..."

Facilities dominate arts operations to an extent rarely seen in any sector. Arts organizations are three times as asset-intensive as the American steel industry, requiring $2.70 in assets to generate a dollar in annual revenues. Their facilities are technically complex, expensive and time-consuming to build and maintain.

While appropriate facilities are intrinsic to the health of arts organizations, we treat them as if they were peripheral. This denial means that we spend millions annually--intentionally or not--to build and maintain an enormous asset base without acknowledging or providing for it. We tend to ignore the demands facilities place on artists and arts organizations and their impact over time. The results are costly.

The National Cultural Facilities Study was based on conversations with artists, arts organizations, arts funders, government agencies and others, as well as on an analysis of financial information from individual organizations. We found that while weaknesses exist in the way arts facilities are developed and managed, some of the arts community's strengths--fundraising ability; entrepreneurial skill; resiliency and significant earned revenues (to name a few) augur well for improvement. We found a great deal of demand for help among arts managers and others in the arts community. We present below a summary of our findings.

FACILITIES ARE CENTRAL TO THE ARTS

Arts programs are economically inseparable from the facilities that house them. This is because arts organizations are highly dependent on revenues from audiences or users (typically, about half of annual revenues are earned). Arts program managers must constantly balance the cost of their facilities with the revenue they can generate.

The interaction of growth needs, economics of scale, operating cost escalations, the construction process and artistic programming is very complex, whether the organization in question is large or small. In every case, facility and program intertwine. Facility risk is program risk, and dollars for program invariably support the facility. We found countless cases where improperly planned, financed and managed facilities harmed the program, as well as a few examples of the inverse.

MOST FACILITIES INVESTMENT IS MADE WITHOUT ADEQUATE PLANNING

Arts organizations and their supporters make significant investments in facilities--over $630 million was committed to the ninety-three projects we examined during this study--without adequate forethought or planning. We found weaknesses in three areas, virtually all of which are related to lack of experience in facilities projects by funders and arts organizations alike.

Lack of broad-based planning

As noted above, arts organizations are highly market sensitive. Accordingly, we found that the most successful projects were driven by their resident organizations' strong sense of their artistic mission, institutional capacity and market.

Typical planning and feasibility studies do not address these factors. They focus too narrowly, addressing the characteristics of a particular site or sites. Consequently, a real estate "opportunity" rather than the organization's mission and capacity usually drives projects, with poor results.

Most arts organizations get all their facilities advice from architects, capital campaign consultants and board members. While each makes a valuable contribution, none addresses the primary issues noted above.

Architects, often the first force shaping a project, focus on the building, not the market. Fundraisers focus on how much can be raised in a one-time campaign, not on the ability of the organization to support the building over time. Pro-bono real estate, legal or financial professionals are seldom experienced with nonprofit arts organizations and their market. The process therefore concentrates attention on building characteristics, project glamour, an architect's reputation, board fundraising ability and project profile as central ingredients for success. Our study found that they are secondary.

In typical studies, the peripheral question, "what do we need to do to make this project happen?" replaces the more complex cardinal question, "what kind of facility do we need (and can we support) over the next 10 years?" This occurs with no questioning of the unstated assumption that the project itself is optimal. Unfortunately, this often leads to the fallacious conclusion that if the project is feasible, it should go forward.

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Underestimation of time and sophistication needed

Whatever the size of an arts organization, its facility project usually outstrips its capacities--both human and financial--by a sizable margin. Projects typically require that funds totaling several times annual revenues be assembled while annual operating fundraising is ongoing. The projects take a long time, four years being average among those we studied.

Mismatch of project and organizational capacity

Most arts organizations develop their facilities projects with in-house staff. Staff serves as developer while maintaining its regular duties and rarely is experienced with real estate. While staff developers often do a remarkable job, their reach frequently exceeds their grasp. This creates stress, burnout and frequent crises. It almost invariably interrupts artistic programming.

RESOURCES ARE MISTIMED AND MISMATCHED TO FACILITIES DEVELOPMENT

We were a little surprised by our finding that lack of money does not appear to be the primary cause of problems, although it is most frequently cited as the issue when things go wrong. In fact, funds are more likely to be mismatched to need, ill-timed or difficult to access.

One of the root causes of the mismatch is that artists and contractors operate in very different worlds. Management control is essential in successful construction projects. Developers need an ordered flow of funds and timely decisions to operate successfully in an exacting, complex, highly regulated business. Mistakes are costly as are any changes of plan.

This control-oriented environment is at odds with the arts funding environment. From the grantmakers' point of view, individuality, creative risk-taking and freedom of expression call for hands-off treatment. From the individual supporters' perspective, momentum, the excitement of the project and personal support of the artistic mission overwhelm any inclination to question assumptions.

As a result, support for arts facilities projects tends to be mismatched to the realities of capital construction and fragmented:

> Arts managers must assemble resources from unrelated sources, most of which seldom provide capital funds. The greatest portion of the grant resources committed to facilities projects in the arts comes from funders that do not make capital grants on a consistent basis. Individuals, the largest single source of support, clearly lack the means to influence these projects.
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> All investors--bankers, grantmakers, bonding authorities and individuals--provide funds without knowledge of the full scope of the project they are funding. Grantmakers, in particular, may face

internal rules that limit the scope of their assistance. For example, most sources of capital grants do not fund technical assistance and vice versa.

There are few sources of pre-development funds. The technical assistance and planning funds that exist are general in nature, not administered or guided with a specific understanding of facilities.

FACILITY ACTIVITY IS BOTH CONTINUAL AND CYCLICAL

Many capital campaign contributors believe that capital expenditures are one-time events. In reality, building and maintaining facilities is a continual, costly activity. Facilities changes tend to predict more activity--not end it--particularly among small and mid-sized organizations.

We found that facilities activity proceeds in two simultaneous cycles: first, as ongoing efforts to manage the day-to-day demands of ownership or tenancy (maintenance, code compliance, asbestos removal, accessibility); and second, as large-scale activity that occurs every six to ten years to meet growth-related needs or to address severe deferred maintenance (acquisition, relocation, expansion, major renovation).

ARTS ORGANIZATIONS AND THEIR MANAGERS OFTEN CHOOSE A DIFFICULT PATH

While arts organizations operate under tremendous constraints, they frequently undertake projects in ways that contribute directly to their problems. And despite lessons to be learned from such experiences, the field as a whole lacks a mechanism to do so. Among the prevalent practices:

Arts managers are often entrepreneurial, willing to take risks and most have a flair for drama. They seldom approach facility projects with the idea of incremental growth as a guiding principle.

Arts managers work in a highly competitive environment. They undertake their projects in isolation and lack (or avoid) advisors who question assumptions, challenge myths or share information learned from other projects.

Arts managers lack "early money," so they tend to commit to a project prematurely in order to spur fundraising. The process is turned around: it not only skips planning, but also makes it difficult or impossible to back down from an early mistake.

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> Because fundraising is fluid and often runs concurrent with construction, decisions about projects are made out of context and in free-fall, spurred by momentary fundraising successes and uncontested by solid planning.
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> Arts organizations believe they cannot afford to use planning or project management services and choose to go without. Few funders require or fund broad-based planning.

WE CAN IMPROVE THE SYSTEM THROUGH A NATIONAL PROGRAM

We see the need to effect a basic change in the way that arts organizations undertake facility projects. Arts organizations and funders together must refocus resources on: (i) planning and pre-development and (ii) project management, to increase control over implementation. The primary change will be that managers will plan arts facilities in light of their missions, needs and capacities; the principal leverage point to accomplish this change is financial.

Although arts organizations need and can use financing and grants designed to help them attract support, they will not be able to use these resources successfully without parallel technical assistance. And while arts organizations need technical assistance to help them plan sound projects, they will not use it unless it is linked to financing and grants.

Our findings suggest that an intermediary with both financial and technical assistance capabilities can work as an agent of positive change. We expect the intermediary to offer the following broad types of assistance:

Project Assistance: support for a broad-based facilities planning process, and guidance using technical assistance for project development;

Financial Assistance: predictable access to specialized, timely funding, including predevelopment funds.

Assistance to the Field: communication, information and training about facility projects; and policy advocacy to improve and generate predictable resources.

This monograph is adapted from the Nonprofit Finance Fund's National Cultural Facilities Study, which was completed in the summer of 1992. The study was directed, researched and written by Christine Vincent with contributions from study team members Thomas B. Harris, Mark Weinheimer, Cheryl Kartes, Jennifer R. Graves and the editor of this monograph, Clara Miller. Advisors to the study team were James Pickman and Mitchell Sviridoff.
The study was funded by The William and Flora Hewlett Foundation, The James Irvine Foundation, The John D. and Catherine T. MacArthur Foundation, the National Endowment for the Arts, the New England Foundation for the Arts, The Pew Charitable Trusts and The San Francisco Foundation.
Based on the findings of this study, the Nonprofit Finance Fund (NFF) led the creation of the Cultural Facilities Fund, a program to address the facilities needs of the nonprofit arts community.

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