Too Good to be True?
The Opportunity and Cost of the $1 Building

Commissioned by The Kresge Foundation

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Introduction

Nonprofit arts and cultural organizations have taken advantage of opportunities to acquire free and low-cost facilities – "$1 buildings" – for decades. These projects occur in communities across the country and reflect a range of facilities and deal structures. While $1 buildings have not been studied comprehensively, anecdotal experience indicates that outcomes vary greatly.

The Kresge Foundation's Arts and Culture Program has participated in and observed $1 building deals through its work related to capitalization and financial sustainability, as well as community revitalization and creative placemaking. Given the recurrence of these projects, the Foundation commissioned TDC[1] to undertake a study of $1 buildings with the goal of improving the sector's understanding of these deals.

For arts organizations, the appeal of space is strong. Facilities are central to fulfilling their missions and often to their identities. Buildings serve as functional spaces to create, exhibit, and perform art, and as gathering places for audiences to engage in cultural experiences. Facilities with impressive acoustics or rich natural lighting can enhance audiences' listening or viewing experiences, while historic or innovative buildings can lend new dimensions to the art. Over time facilities can come to symbolize their inhabitants' art and missions, and assume important roles in surrounding communities. Some leaders also view buildings as markers of legitimacy and staying power.

One way in which arts organizations have acquired space of their own is by taking advantage of $1 buildings. For the purposes of this report, $1 buildings include facilities that were given to arts organizations for free, sold for $1 or significantly under market-rate, or leased for $1/year.

Many $1 buildings share essential characteristics. They are often former public spaces that are no longer used for their original purposes. While these facilities are rarely viable properties in the marketplace, they often have rich histories and are valued as community assets. As the original owners divest, they often explore creative strategies to revive the buildings and invest in local communities. By nature, these projects are highly visible and involve an array of stakeholders with ambitious and diverse goals.

This report reflects on 17 arts organizations' experiences with $1 buildings. It shares their lessons about how best to assess, prepare for, and structure these opportunities in order to achieve positive outcomes for arts and cultural organizations, funders, and communities. At the highest level, this report asks:

- How are $1 buildings different from other cultural facilities projects?
- How do the original building owners, funders, and arts organizations' motivations for these deals differ, and how do their expectations change over time? What roles do these stakeholders play in acquisition?
- For organizations that acquire $1 buildings, what are the true costs and how are those costs funded?
- What are the short- and long-term impacts of $1 building acquisition on organizations' missions, financial health, and the surrounding communities?

Three striking findings emerged from this research. First, the stakeholders in these $1 building deals had different motivations for involvement. Original building owners, public and private funders, and community stakeholders were motivated by community impact. In contrast, arts organizations were swayed by the appeal of "a great bargain" and the opportunity to accelerate their art. Stakeholders rarely discussed their motivations upfront, and ultimately community impact was not a top priority for most arts organizations.

Second, this report debunks of the myth of the $1 building. For the arts and cultural organizations in this study, the short- and long-term costs of acquiring $1 buildings were significant, and often much larger than expected. In fact, these $1 buildings resembled more traditional facilities projects – they were expensive propositions that required rigorous upfront evaluation and planning. Yet these projects were often undertaken without significant planning. As a result, organizations acquired $1 buildings without a clear understanding of their financial needs or a constellation of supporters in place to fund those needs over the long-term. For these organizations, the $1 building has proved to be a conundrum. Organizations experienced many of the benefits associated with facility acquisition, but at incredible cost. Several decades after acquisition, many are still working to attain financial sustainability.

[1] TDC is one of the nation's oldest nonprofit management consulting and research firms. TDC works exclusively with nonprofit, governmental, educational and philanthropic organizations, providing them with the business and management tools critical to achieving mission success.

Third, these projects sparked significant organizational change. As these arts groups took on the responsibility of facilities, they shifted away from operating models dependent on sweat equity and professionalized. These shifts not only had financial implications, but also impacted organizations' cultures and, in some cases, art and audiences.

This report reinforces prior research on cultural facilities. This study found that $1 building acquisition requires rigorous upfront planning, and that arts organizations acquiring $1 buildings do not tend to follow planning processes recommended for market-rate facilities projects, despite the need to do so. Prior research work has detailed recommendations on planning for cultural facilities, including the Nonprofit Finance Fund's (NFF) Nonprofit Cultural Facilities Study[2] and the Cultural Policy Center at the University of Chicago's Set in Stone report.[3]

This study of $1 buildings comes at an opportune moment in light of the continued occurrence of these projects, and public and private funders' focus on creative placemaking in communities of need. The Kresge Foundation and TDC hope that this report will provide guidance to all stakeholders involved in these deals and inspire more rigorous assessment of $1 building opportunities. We expect a potential outcome of increased assessment and planning to be fewer and stronger $1 building deals.

A note of thanks

This study was made possible by the generosity of the nonprofit leaders and funders TDC interviewed, who shared their stories and the lessons they learned from their experiences with $1 buildings. The findings presented throughout this report summarize these leaders' accounts and insights, all of which were imparted with the goal of providing thoughtful guidance to the field at large. All findings are reflected anonymously throughout the report.

[2] NFF's work examines arts facilities broadly, pointing out the opportunities and chronic pitfalls of these arrangements, and highlighting ways in which organizations and funders can reduce risk in order to capitalize on opportunities. Vincent, Christine, Jennifer R. Graves, Thomas B. Harris, Cheryl Kartes, Clara Miller, and Mark Weinheimer. "Nonprofit Cultural Facilities Study." New York: Nonprofit Finance Fund, 1994. Accessed April 1, 2015. http://www.scribd.com/doc/69171445/NFF-Cultural-Facilities-Study-1994.

[3] The *Set in Stone* report documents the rise of cultural facilities projects nation-wide, and observes that these arrangements are complex and highly specific to the organizations and communities involved. Woronkowicz, Joanna, Carroll Joynes, Peter Frumkin, Anastasia Kolendo, Bruce Seaman, Robert Gertner, and Norman Bradburn. "Set in Stone: Building America's New Generation of Arts Facilities, 1994-2008." Chicago: University of Chicago, 2012. Accessed April 1, 2015. culturalpolicy.uchicago.edu/setinstone.

The following summary outlines the key findings for each section of this report.

Part I of this report – **The Singularity of the $1 Building** – examines what distinguishes $1 buildings from their market-rate counterparts, including the motivations that drove original building owners, private and public funders, and arts organizations to become involved.

- The $1 buildings tended to be old, large, public spaces built for specific purposes and located in low-income neighborhoods.
- The buildings typically required large-scale renovation work to ensure they were functional.
- Communities had strong attachments to these spaces and their histories, and were invested in their futures.
- The primary stakeholders had different motivations for involvement in $1 building deals. The tension between these different motivations is present in the deals explored in this study.
- Original building owners, and private and public funders, were driven by goals for community-level impact. In contrast, arts organizations acted opportunistically when presented with offers so good "[they] couldn't say no." Their excitement was driven by the potential to increase organizational impact and accelerate their art, and not by the prospect of community-level impact.

Part II – **The Acquisition Decision** – examines common characteristics of arts organizations' decisions to acquire $1 buildings, and organizations' and funders' reflections on these processes.

- Arts organizations rarely conducted upfront evaluation and planning before acquiring $1 buildings. In many cases this led to surprises regarding buildings' conditions and the long-term costs of ownership.
- Excitement and opportunism inhibited organizations from conducting due diligence. Rapid acquisition timelines, internal capacity challenges, and lack of expertise and financial resources acted as further barriers to planning.
- $1 building deal structures were highly situational and often complex.
- Original owners rarely invested in the facilities before turning them over to arts organizations.
- Original owners frequently determined the deal terms.

Part III – **The Costs of Acquisition** – debunks the myth of the $1 building by laying out the true costs associated with facility acquisition for these arts organizations. This section also summarizes organizations' strategies to fund these costs.

- As noted earlier, the short- and long-term costs of acquiring $1 buildings were significant, and often much larger than organizations expected.
- Facilities required significant upfront investments to address accumulated maintenance needs and align organizations' programs and spaces.
- Acquisition also compelled growth in budget size, driven by new facility-related expenses and investments in staff, programs, and infrastructure.
- As organizations took on the responsibility of facilities, they shifted away from operating models dependent on sweat equity and incurred costs associated with professionalization.
- These shifts away from sweat equity also impacted organizations' cultures and, in some cases, the art itself.
- How to fund these costs remains an open question for organizations. Most organizations did not begin these projects with networks of supporters invested in the long-term financial outcomes. Organizations pursued many different sources of funding, but were "walking a tightrope" of financial health.

Part IV – **The Outcomes of Acquisition** – summarizes the mission-based and financial results of acquisition, and these deals' impacts on communities.

- $1 building deals resulted in a diversity of outcomes.
- Organizations experienced tangible and intangible mission-based outcomes that are often associated with facilities projects, some of which were challenging to quantify. These included increased scale of impact, added programs and services, enhanced artistic quality, and increased visibility.
- Community-based outcomes were difficult to quantify and often not organizations' first priorities. However, some organizations noted progress that aligned with original owners' and funders' goals for community-level impact.
- These outcomes came at a high cost. Only four of the 17 organizations participating in this study exhibited strong financial health. In general, the elevated costs associated with facility acquisition stressed organizations' business models, causing anxiety about the future.
- Three factors appear to differentiate the organizations with more positive outcomes. Organizations with strong financial health and networks of support prior to acquisition were more likely to experience positive outcomes. Those that addressed deferred maintenance in a timely manner were also more likely to achieve positive results.

In light of the many challenges associated with $1 buildings, this report concludes with lessons for organizations, funders, and community stakeholders to assess, prepare for, and structure $1 building opportunities.

Research Methodology

TDC studied a group of 17 nonprofit arts organizations with $1 buildings. Figure 1 shows the breakdown of study participants by the characteristics of their $1 building funding arrangements.[4]

Figure 1. Study participants by funding arrangement

Funding arrangement	Cost of facility	Original owner	Orgs	%
Nonprofit owns	$1	City	5	29%
	$1	Corporation	2	12%
	Low-cost	Private owners	2	12%
Nonprofit leases	$1/year	City	7	41%
	$1/year	State	1	6%

The 17 organizations included in this study were recommended by private and public funders across the country, and vetted by TDC to ensure they met the study's criteria. Study participants represent a range of disciplines, geographic regions, and dates of facility acquisition (Figures 2-4).[5] The sample is weighted towards small and mid-sized institutions, reflecting how smaller organizations often take on these projects (Figure 5).

Arts organizations: interviews and financial research

In total, TDC interviewed 27 leaders from these nonprofit organizations. Participants included current staff leadership at each organization, and in some cases the board members, founders, artistic staff, and funders involved in these facility transactions.

To augment the interview findings, TDC analyzed five years (FY 2009-2013) of audited financials or Form 990s to assess organizations' current financial health and facility-related costs.

Public and private funder interviews

TDC also interviewed 20 private and public funders from across the country to gather their insights and recommendations for the field. Interviewees included:

- Public funders directly involved in $1 building transactions (in many cases these were the buildings' original owners)
- Consultants to $1 building transactions
- Private foundation funders with general knowledge of $1 building deals

As this report highlights, the deals examined in this study varied greatly in structure and outcome. Facility projects were contingent on nonprofits' organizational characteristics and financial health, deal structures, neighborhoods, funding markets, and the facilities themselves. Given this complexity and the size of the sample, this study aims to capture individual organizations' unique stories while also identifying the larger lessons that staff, board leadership, and funders can apply to these opportunities in the future.

Figure 2. Discipline of study participants

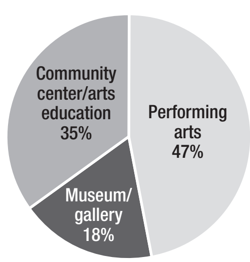


Figure 4. Geographic location of study participants

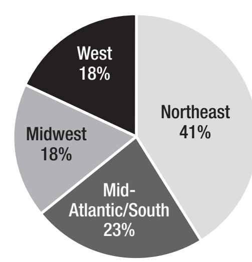


Figure 3. $1 building acquisition date for study participants

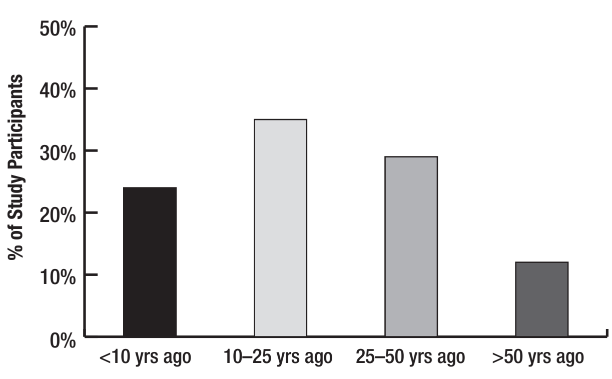
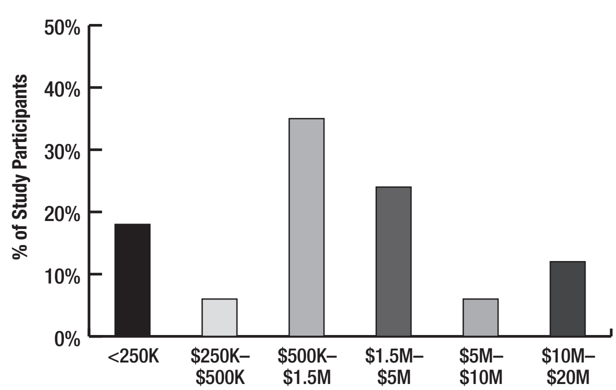


Figure 5. Budget size for study participants in FY13



[4] Two study participants noted that they acquired buildings for significantly under market-rate from private owners but no longer have records of the transactions.

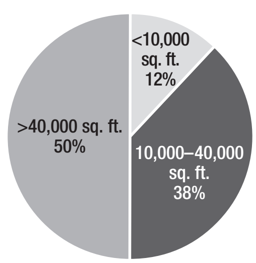
[5] Figures 2 through 6 are based on 17 study participants.

Part I summarizes the tangible and intangible ways in which $1 buildings differ from their market-rate counterparts. This section begins by describing the facilities themselves, including their physical characteristics, histories, and roles in surrounding communities. It next examines the elements that motivated buildings' original owners to initiate these deals, and funders and arts organizations to become involved.

Characteristics of the $1 building

The $1 buildings acquired by study participants varied in their histories and physical characteristics, but also shared attributes that shaped the nature of these opportunities. Three quarters were old municipal buildings, including schools, performing arts facilities, a museum, and a firehouse. The remainder, all privately-owned buildings, included a theatre, a church, a factory, and a former YWCA. The majority of these buildings were old: eight were constructed more than a century ago and only two were built within the last 25 years. The facilities ranged in size from small 5,000 square foot spaces to massive buildings upwards of 90,000 square feet; half of the study participants acquired facilities larger than 40,000 square feet (Figure 6). Three quarters of these buildings were located in low-income neighborhoods, some of which more recently experienced gentrification.

Figure 6. Study participants by square footage of $1 building



Given their original purposes and often distinguished histories, the majority of these buildings had stature in surrounding communities. Most had high-profile pasts as institutions that served the general public, and were recognized and valued as community assets by neighborhood residents. More than half of study participants described their spaces as historically significant, citing their buildings' architectural features, famous architects, or notable histories. Residents and other stakeholders often had strong emotional ties to these facilities and their stories, and community awareness and expectations tended to be high.

The slant towards older, larger, public spaces located in low-income neighborhoods impacted the opportunities presented to study participants in two primary ways.

- **Facilities had significant maintenance needs.** Given their age and size, most of these buildings were in poor condition when they were acquired by arts organizations. Eight of the 17 were vacant and had been neglected for significant periods of time prior to acquisition. As a result, these spaces required substantial work to ensure they were functional, including structural repairs, replacement of old systems, and the addition of basic functional features such as climate control, plumbing, and handicap accessibility.
- **Buildings were not purpose-built to meet arts organizations' needs.** The buildings in this sample were often designed for alternate purposes and therefore not equipped to meet organizations' artistic and programmatic needs. In three cases theatre companies acquired old theatre spaces, but even these buildings required extensive work to meet modern production requirements. Although renovations to align organizations' programs and facilities could often be carried out in tandem with basic building repairs, they required additional expertise to design and execute.

Motivations for involvement

The three major players partnering in these deals – original building owners, private and public funders, and arts organizations – approached these arrangements with different motivations and goals for the future.

Original owners were often concerned about upholding buildings' legacies. In most cases the facilities in question were no longer used to fulfill their original purposes, prompting their original owners to consider divestment options. The reasons for obsolescence varied – school districts consolidated or closed schools, theatres shut down, corporate headquarters moved, and cities constructed new state-of-the-art facilities to replace older buildings. In a few cases involving private owners, changes in surrounding neighborhoods contributed to decisions to vacate. As Figure 1 shows, 12 of these buildings were originally owned by city governments, one by a state government, two by corporations, and two by private owners.

These facilities' profiles made them difficult to sell at market-rate. Their lack of market viability prompted three owners to initiate plans for demolition. The remainder either left their buildings vacant or sought new inhabitants.

While the majority of original building owners had financial incentives to divest these spaces, they were also motivated by broader interests in reanimating these historically significant facilities and upholding their legacies of community impact. Public owners especially had civic goals for these buildings' futures. In four cases government agencies focused on neighborhood revitalization helped building owners find new tenants that would add cultural vibrancy to low-income communities. One corporate owner made revitalization a priority after purchasing a full block for its offices.

Public and private funders' involvement was driven by interest in community-level impacts. In the case of buildings originally owned by city or state governments, the owners often became funders of the deals as well. Many of these funders articulated desires to encourage economic development, revitalize communities, and promote cultural vitality, observing that communities "will benefit from the presence of vibrant arts organizations." A public funder encouraged peers not to lose sight of these wider impacts: "there is often the imperative to maximize city revenue from vacant properties, but there is tremendous value in a site becoming an arts nonprofit for both economic drivers and community impact." Funders' secondary goals also had broader civic implications, including promoting high quality arts and culture, encouraging cultural equity, and saving historic buildings.

Most arts organizations were not looking for space, but the offers were so good "[they] couldn't say no." The majority of study participants were not actively looking for facilities when they learned about these $1 building opportunities. Instead, arts leaders reported that they were approached by the original property owners or had happened upon opportunities. In five cases building owners (in most cases city funders) issued RFPs inviting nonprofits to submit plans detailing how they would use these spaces. In another four cases leaders first got word of these opportunities through stakeholders' social and professional networks. In two cases the vacant buildings themselves attracted leaders' attention, prompting them to seek out owners. The few groups that were actively looking for space noted aspirations to grow their scale and impact, improve their art, secure homes, and acquire spaces in specific neighborhoods.

Leaders repeatedly described the opportunities to acquire discounted space as "great bargain[s]," noting that mindsets of "idealism," "wild optimism," "opportunism," and "excitement" pushed staff and board leaders to see buildings that others did not want as exciting opportunities. The executive director of a small art gallery reflected many leaders' recollections of acquisition: "[it was] all very idealistic and democratic… we were starry-eyed about the potential and didn't think too carefully about the practicalities." Funders connected organizations' excitement to the perception that facility acquisition is "a sign you've made it." Many of the study participants were small organizations, and accustomed to relying on free and discounted goods and services to carry out their work. This culture may have predisposed organizations to view the $1 building offer as yet another opportunity to capitalize on a good deal.

While the specific circumstances of acquisition differed for study participants, arts organizations' decision-making processes shared characteristics that suggest broader lessons for the sector. Part II first describes organizations' decisions to move forward with acquisition and the characteristics of decision-making that may have inhibited upfront due diligence. Next, it profiles the nature of the deals themselves – who was involved and what the $1 building arrangements looked like. The section concludes with organizations' and funders' reflections on these processes.

Planning ahead

Leaders' decisions to acquire $1 buildings were highly specific, set in the context of time, place, and organizational priorities. However, almost all study participants voiced regrets that they did not conduct more rigorous upfront evaluation and planning to inform their decisions. Interviewees described entering these deals without comprehensive knowledge of the buildings themselves, or the short- and long-term financial implications of acquisition. Participants were subsequently surprised by elements of their new spaces and the extent of repair work required. One group realized post-acquisition that its facility did not comply with building codes because it had no sprinkler system; another was shocked to find its space filled with waste and run-down equipment from a prior inhabitant. The executive director of a community arts center reflected on how a lack of planning intensified the staff's sense that "[the building] is a big black hole" for resources, with problems and associated expenses surfacing at every turn.

In their descriptions of the acquisition process, leaders highlighted common characteristics of decision-making that inhibited the rigorous upfront evaluation they recommended in hindsight.

- **Opportunistic mindset.** Study participants described how the excitement and idealism surrounding these deals distracted staff and board leaders from conducting rigorous upfront due diligence. Funders echoed this sentiment, observing that the "immediate response is to take it." Even the few organizations actively seeking space reflected that they were swayed by opportunism when presented with low-cost options. Excited at the prospect of free space, an arts education organization with an $800,000 operating budget moved forward with a $1/year rental agreement on a 40,000 square foot former school building despite the space being "bigger than we needed." Several other participants described how they overlooked the scale of maintenance needs for the same reason, one leader noting in retrospect that without planning "we weren't able to grasp the level of decrepitude" and instead focused on "the building's high potential."
- **Rapid timelines.** Study participants observed that timelines for acquisition were often fast and outside of their control. Three participants acquired buildings slated for demolition, prompting them to move quickly before the buildings were destroyed. Leaders from one of these organizations noted that "our lack of understanding was largely because the deal came together rapidly…the timing didn't allow us to truly visualize the amount of work it would take." Other organizations were beholden to public-funders' timelines for RFP processes.
- **Lack of facility expertise.** Organizations noted that their staff and board members often lacked experience in real estate, construction, law, and business – all areas of expertise critical to overseeing facility-related processes. Study participants described their boards at the time of acquisition as "young and fledgling," and "comprised of artists and students, not bankers and lawyers." Some organizations invested in consultants and other outside experts, but many lacked the funds and/or awareness to do so. In a few instances, private and public funders, many of whom cited lack of expertise as a chronic problem during acquisition, paid for upfront work with architects, contractors, and consultants.
- **Lack of staff capacity.** Five organizations did not have full-time staff at the time of acquisition, and most other participants were stretched thin during this period. At the smallest organizations, boards often drove the decision-making and acquisition processes.
- **Lack of access to financial resources.** Many organizations cited lack of financial resources as a barrier to planning at this initial stage. Rapid timelines and a lack of staff capacity exacerbated the difficulties of fundraising for these added expenses. As noted above, some funders supported planning work, citing it as their responsibility to help prepare organizations for acquisition. Other funders felt differently, one stating "it's not our job to police organizations, they need to take care of their due diligence themselves."

The deal

These $1 buildings opportunities resulted in a variety of deal structures. Nine of the 17 study participants currently own their facilities and eight have long-term lease agreements for $1/year (Figure 1). Close to half of these deals have been in place for more than 25 years, many of them government-supported arrangements with goals to enhance municipalities' cultural vibrancy (Figure 3). Four of the participating organizations were first established to inhabit divested spaces – three by city governments eager to fill vacant public facilities, and one by community residents committed to reviving an abandoned city building.

Study participants' accounts of these deals highlighted two common characteristics:

- **Original owners rarely invested in facilities before turning them over to arts organizations.** Only two original building owners overhauled facilities to ensure they were in working condition prior to transferring ownership. As such, the financial burden of renovating these spaces rested almost entirely with arts organizations.
- **Facilities' original owners controlled the deal terms, with little negotiation from arts organizations.** Study participants described how, by and large, original property owners dictated lease and ownership terms. In many cases, board and staff leadership had little to no experience with property transactions and did not negotiate for better terms. Organizations that had not conducted upfront planning were often unprepared for negotiations and unsure what to request. A founding board member of one small organization recalled how, "we were mystified as to why another organization [bidding for the same space] asked for funding in addition to the building…we felt like we were already getting so much." Organizations that were more successful in negotiating funding observed that upfront planning allowed them to leverage documentation of their facility's condition and quantify the financial resources needed for renovations and long-term maintenance.

In hindsight: "Be careful of gift horses"

Study participants' accounts of these $1 building opportunities shed light on the emotion and idealism that often surrounds these transactions. Participants described how staff and board leaders were often caught up in the moment, focused on the "great deal," the building's future potential, and the appeal of a place to call their own.

Leaders acknowledged that aspiration and excitement are critical components of any facility deal; without them organizations would lack the commitment and drive to see these arrangements through to completion. However, both organizations and funders observed that opportunism can be a dangerous mindset. They described how this mentality diverted attention away from upfront evaluation of the business case, and biased leaders towards moving forward. As one funder commented, "we see a lot of leaders making decisions for the wrong reasons."

In hindsight almost all organizations and funders recommended conducting rigorous due diligence upfront to avoid the traps of an opportunistic mindset. Participants reflected on the ways in which conducting planning – specifically facility assessments, strategic business planning, and fundraising feasibility studies – could have informed their board and staff decision-making by helping leaders to:

- Understand organizations' current states – their financial health, networks of support, and overall levels of readiness to take on a facility;
- Assess the needs of the facilities, including accumulated maintenance needs, the renovations required to align their space and programs, and the costs of ongoing upkeep;
- Map the full financial implications of these projects and test whether financial support exists to fund the necessary investments, both initially and over time;
- Educate internal and external stakeholders on the risks and opportunities associated with facility acquisition.

Study participants also advised that organizations carefully select decision-making teams that reflect a variety of perspectives, with key members prepared to play the role of "devil's advocate." In this way organizations can test assumptions and the soundness of all decisions being made.

In Part III, study participants debunk the myth of the $1 building by illuminating the true costs associated with acquiring these facilities. The first section outlines these costs, including the up-front expense of renovation as well as the longer-term costs that accompany shifts in organizations' operating models. The second section reviews the ways in which organizations funded these expenses, and compares organizations' original assumptions for these revenue streams with their actual experiences.

While many of the findings presented in this section apply to facility acquisition at any cost, these conclusions take on new significance in light of the finding that most organizations pursue $1 building deals with little upfront planning.

The cost of the "low-cost" building

As discussed in Part I, organizations in the acquisition phase were swayed by the appeal of the "great opportunity" to secure space to carry out their missions for essentially nothing. Yet in the long-term, these discounted propositions had significant associated costs. These included the upfront costs of renovating facilities to align with programs and address accumulated maintenance, the ongoing annual expense of operating and maintaining buildings, and perhaps most surprisingly the costs of organizational growth and professionalization.

Cost of renovation. As discussed, almost all of the $1 buildings acquired in this study were in poor condition and unequipped to meet organizations' artistic needs prior to acquisition – "if a building's free there's likely something wrong with it," one interviewee noted. With the exception of two participants with city-renovated buildings, every organization had to address substantial accumulated maintenance brought on by years of neglected repairs, referred to as deferred maintenance throughout the remainder of this report. In the cases in which costs were assessed upfront they were staggeringly large, often many times organizations' annual operating budgets.

To fund and execute the renovations necessary to take care of deferred maintenance, study participants took three different approaches:

- **All at once.** Five organizations raised funds to address deferred maintenance and align their spaces and programs in one fell swoop – "there's momentum to a campaign when you raise it all at once," one interviewee noted.
- **Over time.** In contrast, six groups made gradual repairs and updates to their buildings over time. Of this group, two have fully addressed their deferred maintenance and artistic needs; the other four are still working towards their goals.
- **Deferred.** The last group of four organizations has made little to no progress dealing with deferred maintenance or developing artistically suitable spaces, instead responding to facility needs as crises arise.

Budget growth is non-negotiable. Every organization that existed prior to taking on a $1 building grew in budget size following acquisition. In most cases growth was significant; 65% of participants' budgets more than doubled in size over the last 15 years, and six groups more than tripled. Growth for small and mid-sized organizations was especially dramatic. For most organizations this growth was unplanned, beginning organically and becoming increasingly strategic over time. A small theatre reflected: "at first we were just trying to keep up, but now we're thinking about who we want to be and how to get there."

Across the sample, the most significant driver of budget growth was staff investments. The organizations that existed prior to acquisition lacked the human resources to care and fundraise for a facility. Approximately half added development staff to ramp up fundraising to cover the costs of maintenance and renovations. A number also added facility-specific staff, including operations, maintenance, and security personnel. In a few cases investments were made in program staff, most frequently in front-line roles.

In addition to growth in staff, organizations had to cover the expenses of running and maintaining facilities, including the costs of utilities, insurance, and basic maintenance. On average, study participants spent 4% of their operating budgets on annual maintenance between FY09 and FY13. The groups spending the most annually, around 8%-9%, inhabited large buildings (>50,000 square feet). Six participants, all of whom described their organizations as financially weak, explicitly stated that annual maintenance costs were unmanageable. Programming their new spaces also required investment, although these costs were not as significant.

Looking ahead, half of the study participants voiced a desire to continue growing; only three expressed that they were satisfied with their current scale. Those that hoped to grow articulated that they had not yet achieved their ideal size, some implying the assumption "if we could only get to scale, our financial problems would be solved."[6] Participants articulated a number of future goals that would contribute to budget growth, including additional increases to staff, funding for annual maintenance, and investments in programs. Two organizations that scaled up quickly over the last decade are considering acquiring additional space to further expand their programmatic reach.

The unavoidable growth that accompanied $1 building facility acquisition stressed organizations' existing operating models, requiring that they find new and larger sources of revenue. Many study participants "didn't realize how expensive of a proposition it was" and had to deal with the ramifications of costly surprises over time. As a result, interviewees again voiced regret that they had not conducted upfront planning to better prepare them for growth and its implications.

Acquisition "pushes organizations to grow up quickly." Organizations and funders both observed that $1 building acquisition corresponded with professionalization. Pre-building, study participants tended to be highly dependent on volunteer, pro-bono, and low-cost labor and services, referred to throughout this report as sweat equity. Before acquiring a building "we ran on collaboration, volunteers, and in-kind donations…we thought of ourselves as an organization that wasn't represented on the 990," reflected the executive director of a small theatre.

The entrenched ethic of 'take anything we can get for free' played a part in organizations' decisions to move forward with $1 building deals. However, many participants professionalized after realizing that their sweat equity dependent models could not be scaled to meet the needs of larger, more complex organizations. Participants described how growth pulled staff members away from their artistic and programmatic work, often forcing them to take on facility-related responsibilities. In many cases the increased responsibility of a building also necessitated higher levels of efficiency and accountability than volunteer workers could offer. As one veteran interviewee explained, "a building is like a large, gluttonous child that increases your level of responsibility very quickly." Acquisition "pushes organizations to grow up quickly, and in a different way than they would have grown up otherwise."

In addition to scaling up staff capacity, professionalization prompted the following organizational changes.

- **Leadership.** The need for new skill sets often prompted transitions in board and staff leadership. As one interviewee noted, "the building becomes its own organization, and the experience [of managing the building] is entirely different from running your existing organization." A handful of participants brought on new staff leaders, often with administrative expertise, after realizing "the founder wasn't the person for the job anymore." Some organizations that were "administratively behind where [they] were artistically" moved towards dual leadership structures (one administrator and one artist) to ensure that there was expertise and focus on both dimensions. At the board level, organizations strategically moved away from boards consisting of friends and family towards carefully selected groups that provided needed expertise and access to resources.
- **Culture.** Shifts away from sweat equity led to an array of internal and external tensions. Some participants required time and mistakes to realize a new approach was needed. A small art gallery with no staff pre-building described how "it took many times of running fast into a wall with our heads down to realize the model we thought was realistic actually wasn't." Staff, board members, and volunteers often had a difficult time moving away from the mindset of 'we do everything ourselves,' especially when it came to facility-related work. In addition, organizations had to reconcile internal and external stakeholders' nostalgia for the "quirky," "grassroots" feel of organizations' pasts with the fact that "today [they're] more businesslike." Leaders from a small community theatre reflected: "we want to keep the organic connection with families, kids, and artists, but become more business-like and have a vision for the long-term rather than short-term future."
- **Art and audience.** Professionalization also impacted the art itself, which in turn induced shifts in audiences. The executive director of a community theatre described how enhancements in artistic quality and professionalization corresponded with less spontaneity and a narrower range of offerings. The same leader explained how the theatre's early audience, which was "young, bohemian, and adventurous," contrasted with its current "older, wealthier" attendees.

For some organizations these shifts happened relatively quickly, over the course of a few years. These study participants capitalized on the forward momentum of $1 building acquisition and raised funds to cover the costs of professionalization – "we made one leap with the building, let's make the next [by building up staff and infrastructure]." For others, professionalization took decades or is still in the works. Regardless of its pace, the transition away from sweat equity required candid conversations about organizations' goals and operating models.

[6] Nelson, Susan, and Juliana Koo. *Capitalization, Scale, and Investment: Does Growth Equal Gain? A Study of Philadelphia's Arts and Culture Sector, 2007 to 2011.* Boston: TDC, 2014.

In many cases participants' reliance on unpaid labor in the initial phase of acquisition was what allowed them to move ahead. However, one executive director reflected that sweat equity had proved both a blessing and a curse. While volunteers and under-paid staff allowed the organization to get its building into working condition and maintain its programs, it also "disguised actual need and obscured the fact that there are many things that cannot be done through sweat equity alone." The embedded costs of running organizations, and now facilities, were not reflected on organizations' financial statements. These costs were difficult to quantify and understand, and therefore to communicate to board, staff, and funders, all of whom make decisions based on their assumptions of organizations' operating models. The same leader observed the dangerous assumption "that [sweat equity] will exist in perpetuity," worrying that, if not demystified, this expectation would continue to impede the organization's ability to raise financial support.

In summary, facility acquisition accelerated organizations' budget growth and professionalization. As the next section describes, organizations then struggled to raise the funds necessary to address these needs. As a result, the majority of study participants still do not have the processes and structures in place to match their levels of responsibility post-acquisition. As one theatre explained, "we have an 80 year legacy, but are like an eight year-old organization."

Funding the "low-cost" building

As organizations grew, changed, and took on facility-related costs, they required new and expanded sources of support to meet their growing financial needs. Because study participants rarely quantified these costs prior to acquisition, most had to determine the level of funds needed and how to generate them on an ad hoc basis. One organization expressed surprise at having to raise money at all – "we thought we'd be rich when we got the building…and didn't understand the building would be a massive shift in how we raise and invest money."

This section examines who paid for the upfront and ongoing costs of the $1 building, and whether organizations found a financial solution.

Public funders

Public funders provided critical support, especially for capital projects, but rarely covered the full costs associated with facilities. Public funders were many study participants' largest financial supporters, providing critical funding upfront as well as support for projects over time. While the levels of public funding varied significantly, this support fell into three broad categories: funds for upfront renovations, ongoing support for annual maintenance and operations, and one-time funding for capital projects.

Public funds for upfront renovations. Ten of the 13 participants with public buildings received upfront funding for renovations, although the scale of support varied significantly. In two cases government funders fully funded comprehensive facility renovations prior to arts organizations taking over the spaces. These overhauls addressed buildings' deferred maintenance needs and aligned facilities with organizations' missions.[7] While one participant was thrilled with the work, the other reflected that "we did a really bad job of asserting our needs and thinking through what we would need to run our programs." This organization has since begun raising money to reconstruct the layout of its space.

In the remaining cases, city and state funders provided some support for upfront renovations as part of their initial deal agreements or in the form of capital campaign contributions. For example, two study participants negotiated with public funders to cover costs associated with specific components of renovation such as the replacement of a boiler system. Given the scale of most participants' deferred maintenance needs, this support covered only a fraction of renovation costs.

Ongoing public support for annual maintenance and operations. Seven study participants (roughly half of those that acquired public buildings) received ongoing public support for annual maintenance and operations. However, with the exception of two groups occupying leased city-owned buildings, ongoing annual support did not cover the full costs of operating and maintaining these facilities. In some cases, leaders voiced concerns that these funds did not cover larger percentages of their facility-related costs. Study participants observed the following about their ongoing support agreements:

- **Funding allocations were not grounded in actual facility costs.** In some instances, funding allocations were not informed by estimates of actual facility costs. In others, ongoing costs were not accurately predicted by organizations, funders, or both parties.
- **Initial agreements did not account for changes over time.** In many cases, lease terms did not account for changes over time in expenses or strategies, or map out schedules for regular revision. In one instance, a city funder agreed to provide a mid-sized theatre occupying a city-owned building with $300,000 a year for maintenance. More than ten years later the organization was still receiving the same dollar amount from the city, significantly less with inflation taken into account.

[7] In a third case the city funded a facility overhaul a decade after the arts organization took over the building.

In many cases, but not all, agreements governing annual support were codified. In other instances lease terms were assumed and not recorded, leading to disagreements over time. One museum, a legacy facility deal established with a charter, has no documentation governing its current relationship with the city. This ambiguity has made it difficult for staff to negotiate with the city and to articulate a compelling value proposition for investment when fundraising. In two other instances, a lack of clarity in terms has led to long-standing disagreements over which party was responsible for the cost of utilities.

One-time public funding for capital projects. In just two cases, public funders assumed full responsibility for participants' capital needs over time. Instead, most organizations took advantage of one-time funding for capital projects that could be accessed through grant application processes. This funding was available to all organizations, regardless of whether the original deal was with a public entity. Fourteen organizations took advantage of one-time support from city funders, and six organizations accessed one-time state support.[8] Study participants leveraged this funding to cover the costs associated with replacing old systems, restoring historic facades, and bringing buildings up to code. Many organizations took advantage of opportunities for capital support more than once, applying for funds to cover a variety of projects.

While study participants were thankful to have access to funding for capital projects, they also reflected on the challenges associated with the timelines in place for securing this support. Grant deadlines and reimbursement policies for renovations rarely aligned with internal operating cycles and plans for construction, and organizations struggled to plan far enough in advance to take these timelines into consideration. Two participants noted that they took on debt to avoid cash flow challenges while they waited for public support to come through.

In their reflections on both one-time and ongoing public support, study participants frequently observed that revenue from public sources was tied to factors outside of their control that often prompted unexpected changes. Some organizations connected shifts in public support to changes in political administrations, which influenced public funders' priorities and led to changes in city and state personnel. Others observed connections between shifts in public support and the health of the economy that affected funding available for the arts.

Few organizations had goals to increase public support. However, many of the study participants that had acquired public buildings expressed confidence that public funders would bail them out of future crises if necessary. This confidence stemmed in part from organizations' beliefs that city/state funders have vested interests in seeing the arts organizations inhabiting divested public buildings succeed. One large civic institution stated that "the city has to be invested in our well-being or we will fail and the city will get the keys [to the building] back." And indeed, public funders provided critical support in at least a few emergencies, twice extending organizations soft loans to avoid cash flow crises and in several cases funding emergency renovations on run-down facilities.

Individual giving

Organizations had high hopes for individual giving, but few achieved their goals. While participants expressed initial optimism about the scale of funding they could raise from individuals, their expectations often waned with time. For most study participants, attracting donations from individuals was "an uphill battle."

Study participants experienced a number of challenges associated with individual giving across the wider nonprofit sector. Organizations often had limited staff and financial resources to put towards donor cultivation and struggled to build boards with members able to provide high levels of financial support. In addition, the market for individual support was competitive.

However, participants also described challenges associated with individual giving that were specific to $1 building acquisition.

- **Donor perceptions of public support.** Organizations with lease agreements struggled to raise money for their facilities. Those with city-owned buildings in particular ran up against public perceptions that "the city takes care of us."
- **Facility-related funding.** Participants noted that it was more difficult to raise funding for their facilities than for programs.
- **Location/audience.** A number of study participants own facilities in and serve communities with low-income populations. These organizations had to search further afield for major donors.
- **Lack of vision.** Organizations that didn't plan how to use their spaces upfront had difficulty articulating their needs and visions for the future to donors. These study participants acknowledged that they often struggled to make compelling cases for investment.

Despite these challenges, participants continue to invest in growing individual support. Many plan to add numbers and expertise to their development staff, with the goal of increasing donor cultivation efforts. Organizations also articulated a focus

[8] Five of the six participants that took advantage of state funding for capital projects also received support from city funders.

on board growth and development, in the hopes that recruiting wealthy, connected board members will open doors to new networks of support.

Earned revenue

Earned revenue grew for some, but wasn't enough on its own. Approximately half of the 17 study participants expressed initial optimism about potential earned revenue gains. Performing arts organizations hoped to grow revenue from ticket sales; education organizations from class tuition; and community arts centers from a combination of tuition, events, and studio rentals. Leaders across disciplines had aggressive goals around space rentals.

However, participants noted that earned revenue rarely met their optimistic expectations, instead generating incremental gains that did not provide a scale of return commensurate with budget growth. Two thirds of study participants generated more income, but only five measurably increased the percentage of their budgets coming from earned sources over the last five years. Some participants noted that they had been overly optimistic in their rental projections – "[they] were much too high because we didn't consider what limited time we would have to use the space for rentals." Others overestimated revenue from ticket sales. Organizations also raised the question of return on investment given the staff time and resources it often took them to generate additional earned income.

Several participants noted tension between their earned revenue and artistic goals. The executive director of a small theatre expressed concern about reliance on earned revenue, worrying that "it veers us towards making more commercial decisions in artistic programming than we would like and compromises goals around accessibility for audiences."

Private foundations

Private foundations were not major players in the deals examined for this study. While foundations provided organizations with a range of funding, there were only two cases in which private funders provided the same foundational levels of support for facility projects as their public counterparts. In both cases more than one funder was involved, combining resources to meet organizations' goals to renovate and add capacity.

Foundations' investments in facility projects most often came in the form of significant one-time gifts. In four cases funders contributed to long-term capitalization by establishing facility reserves to fund maintenance. Several funders supported one-time evaluation and planning work, and others gave significant capital campaign gifts. While most organizations received smaller (often project-specific) grants annually, this support was not as significant and rarely facility-related.

Study participants did not express ambitions to grow foundation dollars relative to other opportunities. Some participants failed to mention foundations or did so only in passing, while others cited competitive funding markets and a lack of local foundations as barriers to accessing this support. A few participants expressed concern that foundation support was often short-term and could not be relied on over time.

Study participants voiced clear hopes that the availability of unrestricted support from foundations would increase. The executive director of a performing arts center described how the organization had to "pretzel itself" to be considered for foundation support. Others raised concerns about foundations' focus on new programs and growth even when "we're struggling to provide basic things like electricity."

Debt

Organizations expressed different philosophies on debt, and few used it. Six study participants took on significant debt to help cover facility-related costs. Only two of these organizations exhibited strong financial health post-acquisition.

Of this group, four described debt as a tool that helped them to renovate and maintain their facilities. These organizations took advantage of traditional bank loans and New Market Tax Credit opportunities to "get [their buildings] up to minimally functional level[s]," cover construction costs that were later reimbursed, and fund comprehensive renovations to align their spaces with their missions. The leaders who used tax credits noted that these debt structures were precarious and complex. They explicitly cautioned peers against trying to replicate their approaches, one describing how "fully understanding [the debt structure] was very difficult…we had a team of nonprofit finance experts that worked really hard to understand and explain [to everyone else] how it works."

A number of leaders who ran debt-free organizations expressed that they were uncomfortable with the idea. The executive director of a small arts center stated: "one thing we are not doing is using debt…debt service would be a big thing for an organization our size to carry."

In conclusion, although the $1 buildings themselves were free, participants recognized in retrospect that $1 building acquisition required significant upfront investment and elevated the long-term costs of operations. For the many small and mid-sized organizations in this study the increases in scale were especially dramatic, often leading to mismatches in levels of responsibility and resources. Organizations employed a variety of strategies to cover these costs and capitalize for future success. However, they uncovered no clear solution, instead describing an array of challenges connected to each of these funding strategies.

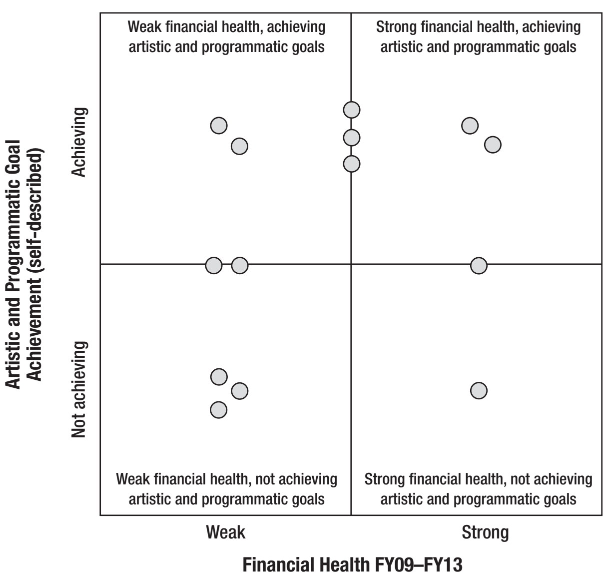
Part IV: The Outcomes of Acquisition

Organizations' varied experiences funding the costs of $1 buildings prompt the fundamental question – was it worth it? Part IV sheds light on the diverse outcomes organizations experienced after taking on $1 buildings. This section examines the impacts of facility acquisition on study participants' missions, surrounding communities, and organizations' financial health. It concludes with a summary of characteristics that set building recipients up for success.

Organizations experienced a diversity of outcomes. To understand the impacts of acquisition on study participants, TDC examined their health along two dimensions: financial health and achievement of artistic and programmatic goals. Participants' financial health outcomes were based on their months of operating cash and months of unrestricted net assets in the fiscal years 2009-2013.[9] Assessments of artistic and programmatic goal achievement are based on organizations' explanations of their own goals and the self-described impacts of their work.

Figure 7 captures these outcomes, showing the significant range of financial and mission-related results participants experienced.[10] During the years represented only two of the 17 organizations were in strong positions of financial health and fully achieving their mission-based goals; only three exhibited weak financial health and were not achieving their artistic and programmatic goals. TDC anecdotally observes a similar range of outcomes throughout the wider sector.

Figure 7. Organizational outcomes



Organizations described an array of tangible and intangible mission-related benefits connected to $1 building acquisition. When asked to outline the artistic and programmatic impacts of their facilities, participants described the following achievements. Some of these outcomes can be concretely measured. Others, especially those related to quality and community-level impacts, are more subjective and anecdotal.

- **Increased scale of impact.** Performing arts organizations self-reported that they grew the size of their audiences by increasing the numbers of productions and performances offered, and expanding their seating capacity. Moving into larger facilities allowed arts education organizations to serve more students on a daily basis.
- **New offerings.** Organizations described many ways in which they added to their existing offerings. For most organizations, these additions were driven by a mix of strategic and opportunistic motivations – "the facility dictated what we were able to do with programs just as much as programs dictated how we would alter the facility." In some cases, organizations strategically added programs to expand the variety of their offerings; for instance, an education organization added performing arts classes to its visual arts offerings. Other participants cited extraordinarily creative uses of space, most of which were inspired by the opportunities and limitations of their facilities. A theatre covered the seats in its auditorium with a temporary floor, turning the space into a dance club – an exercise in "not letting the natural configuration pose limits."
- **Enhanced artistic quality.** Many of the performing arts organizations in this sample spoke with excitement about perceived improvements in artistic quality – "[the space] brought our art to the next level," "we now have a space that is productive in terms of what we want to use it for," "the facility allowed for better artistic quality and better amenities for production." In a few cases participants expressed frustrations about the limitations of their facilities, connecting struggles to achieve their missions to space constraints.
- **Improved outside perceptions.** In some cases, buildings helped to change external perceptions of organizations' work. Staff described how facilities came to embody their

[9] The indicators TDC uses to gauge overall financial health assess organizations' liquidity and flexibility – their abilities to maintain operations, cover short- and long-term obligations, weather downturns, and take advantage of opportunities to innovate. Study participants exhibiting 'weak' financial health had negative unrestricted net assets (URNA) and <.5 months of operating cash in FY09-FY13. Organizations with 'strong' financial health had >3 months of URNA and >3 months of operating cash in the same years.

[10] Three study participants are not included in this chart. Two organizations acquired their buildings within the last two years, making assessment of impacts over time difficult. The third, a performing arts center, is subsidized by the community development corporation (CDC) of which it is part.

organizations – "our facility became an expression of the art we produce," "[it] came to represent the values the organization stands for." One museum director commented how recent renovations to its facility "completely changed the look, feel, attitude, and tone" of the space, and subsequently the institution.

- **Increased visibility.** Leaders described how $1 building facilities gave their organizations visible presences in surrounding communities. One executive director observed that acquiring and renovating the organization's facility "metaphorically and physically turned the light on and allowed people to look in."

Some organizations reported community-level impacts, although they were difficult to quantify. By nature of their missions, some organizations more easily moved into visible community roles, taking advantage of their new positions to increase impact at the neighborhood level. These study participants offered community programs, events, and free/discounted spaces for neighborhood use, and reported upticks in local engagement. In contrast, participants with less community-oriented missions often struggled to take on larger presences and to build excitement around their missions with local stakeholders.

While study participants tended to prioritize their own organizational goals to improve art and scale up programmatic impact, some noted progress towards the community-level goals that motivated original building owners and funders. A few participants believed that their organizations had roles in revitalizing communities. The executive director of a community theatre commented that "as the theatre grew it drew wealthier, older audiences, prompting high-end restaurants to spring up nearby." Some leaders described their organizations as civic anchors – "we're now the headquarters for creativity in the neighborhood." Other organizations recounted how $1 building projects united communities by "rallying and focusing people on an idea about how to create something of value for the community." The leader of a small community arts center described how individuals and businesses across the community pitched in with free goods and pro-bono services, and kept abreast of progress through local media and community events. While these outcomes were difficult to measure and at times unintended, they align with funders' goals for arts facilities to drive economic development and community revitalization.

Financial health varied across the sample, but organizations share anxiety about the future. Organizations exhibited a range of financial health outcomes, dispelling the occasionally voiced preconception that facilities are panaceas. Approximately half of study participants met TDC's criteria for weak financial health. These organizations had little to no operating cash, insufficient unrestricted net assets to support operations, and no or limited reserves. They also struggled to fully fund depreciation. In the worst cases, a few organizations had self-described structural deficits and broken business models. On the other side of the spectrum, four organizations with adequate operating cash and unrestricted net assets to support operations met TDC's criteria for strong financial health. Had more organizations taken on facility-related debt, financial health outcomes may have been worse.

Almost all participants, regardless of financial health, expressed anxiety about their long-term sustainability. Organizations' concerns stemmed from recognition of their diminished flexibility post-acquisition and the awareness that "when things go downhill you're stuck with the extra weight of a building." Even well capitalized organizations expressed concerns about what lay ahead, acknowledging that changes in funding environments and unexpected facility emergencies could have significant impacts on their future health. At the same time, study participants voiced strong commitments to tap their $1 buildings' full potential despite the financial challenges.

Organizations with strong financial health and networks of support prior to acquisition were better set up for success. This research did not uncover a silver bullet solution for how organizations acquiring $1 buildings can achieve mission-based goals and financial stability. Organizations worked hard to fund their expanded footprints, and encountered both success and failure along the way. However, study participants' experiences suggest that exhibiting the following characteristics prior to acquisition increases organizations' chances of achieving long-term financial health and mission-based success.

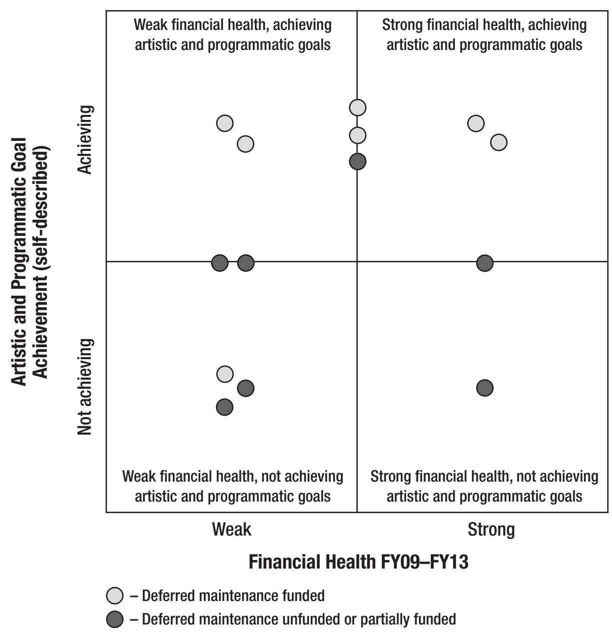
- **Strong financial health.** Looking back, organizations and funders cautioned groups that do not meet a basic threshold of financial health – "If you can't post surpluses consistently, you should question whether you want to move forward." Organizations that self-reported solid financial health prior to acquisition were better prepared to take risks, invest in their futures, and absorb the impacts of failed risks on the other side. Those with reserve funds in place – facilities reserves to fund maintenance and renovations, operating reserves to help organizations weather rainy days, and risk and innovation reserves to implement and test new ideas – had clear sources of funding for maintenance, buffers to mitigate risk, and capital to invest in innovation. As one interviewee reflected, "there are always costs you don't expect, so any cushion helps."

- **Networks of support.** Arts leaders and funders also suggested connections between organizations' financial health and the networks of support they had in place prior to acquisition. Older organizations, which tended to have more established donor networks, had slightly better financial outcomes than their younger counterparts. These groups were more likely to have established relationships with loyal donors and funders, thereby decreasing their dependence on one revenue source and better preparing them to cover the elevated costs associated with facility acquisition.

Organizations that funded deferred maintenance in a timely manner experienced better mission-based and financial outcomes. As Figure 8 shows, study participants that addressed deferred maintenance were more likely to achieve their artistic and programmatic goals,[11] and to a lesser degree exhibit strong financial health. Participants noted that completing renovation work helped to align their spaces with their programmatic needs, contributing to mission-based successes: "we finally had a good space for programming and performances…the renovations gave us the technical capabilities to become a more efficient and workable theatre space." Facilities in good condition also required less investment in annual maintenance: "after the renovation everything became more manageable and easier to maintain." Lastly, taking care of lingering facility concerns meant that organizations could put more funding towards programs, infrastructure, and reserves. Study participants that were able to fund deferred maintenance expressed relief, one stating "it's so comforting to know that the building is in good shape now – we can finally put our money elsewhere."

In contrast, those that struggled to fund deferred maintenance in a timely manner were often forced into undesirable situations. Their inability to address annual needs led to vicious cycles of built-up deferred maintenance, increasing the likelihood of facility-related emergencies and redirecting funds and attention from programs and infrastructure. A small theatre reflected: "for years after acquisition we were trying to find money for the facility rather than for operations and programs." Emergency repairs on run-down buildings led to cash flow challenges and/or forced organizations to take on debt, and these ad hoc repairs were often hasty and underfunded. The artistic director of a mid-sized theatre with an old boiler system recalled how "we put a Band-Aid on it and did a quick low-cost fix" only to have the entire system break a few months later.

Figure 8. Organizational outcomes by ability to fund deferred maintenance



[11] Accumulated deferred maintenance can also be an indicator of poor financial health, demonstrating that organizations are unable to invest in capital projects. As a private funder noted, "when an organization is financially struggling, maintenance is often the first thing to go unfunded."

While study participants voiced their strong and continued commitment to making these deals work, arts leaders also expressed anxiety about their organizations' futures. Facility acquisition compelled significant growth and new costs associated with professionalization, led to shifts in art and audiences, and created funding challenges that span multiple generations of leadership. Two thirds of study participants have their second or third executive director since acquisition, and continue to struggle with questions of how to support their facilities and larger footprints. The initial opportunism that motivated acquisition has been muted by leaders' recognition that "we are walking a tightrope all the time." In addition, it is unclear whether funders' and original building owners' goals for broader community impact were achieved.

In light of the many challenges associated with $1 buildings, this report asks: how can organizations, funders, and other stakeholders assess, prepare for, and structure facility opportunities to achieve positive outcomes for arts and cultural organizations, funders, and communities?

First and foremost, study participants' stories demonstrate that there is no single formula for success. Organizations employed an array of strategies that resulted in a range of outcomes. This diversity reaffirms that organizations' needs are specific to time and place and dependent on a variety of factors, and that the strategies that set them up for success must be placed in greater context. At the same time, these 17 organizations' experiences highlight clear lessons for the many stakeholders involved in $1 building deals.

Nonprofit arts and cultural organizations

The first set of recommendations emerged as considerations for board and staff leadership assessing $1 building opportunities.

- **Plan for the full financial and mission implications of the $1 building.** For the arts and cultural organizations in this study, acquiring $1 buildings resembled more traditional facilities projects – they were expensive propositions that needed rigorous upfront evaluation and planning. Study participants also experienced changes in art, audiences, community expectations, donor bases, and organizational cultures.

  Understanding the full costs associated with these deals requires organizations to conduct facility assessments, business planning, and feasibility studies. Facility assessments help organizations determine the extent of deferred maintenance present, and to scale the costs of upfront renovations as well as annual maintenance and operations. They also help organizations determine how to use their facilities, ensuring that form follows function. Business planning helps organizations to evaluate the costs associated with growth and professionalization, develop sustainable long-term revenue streams, and plan for long-term sustainability. Paired with business planning, feasibility studies help organizations to better understand the potential for support. In combination, this work provides staff and board leadership with a platform to have candid conversations about the short- and long-term implications of acquisition. It also facilitates conversations between organizations and funders about their individual and shared goals, and who pays for what.

  The challenges of executing planning are that $1 building deals are often on quick timelines, and that this work can be costly in its own right. In light of the study findings, this report posits that the long-term return on investment in upfront planning is high.
- **Evaluate readiness.** Organizations and funders both noted the importance of gauging organizations' financial health, existing networks for support, and readiness to take on facilities.
- **Structure decision-making to balance opportunistic mindsets.** Study participants advised organizations to carefully select decision-making teams to reflect a variety of perspectives, with key members prepared to play the role of "devil's advocate."

For organizations that decide to move forward with acquisition, study participants highlighted the following lessons.

- **During the acquisition process, anticipate and plan for changes over time.** Organizations recommended that, wherever possible, it is in organizations' best interests to control as many of the variables associated with acquisition as possible. Both organizations and funders recommended that arrangements be clarified and codified upfront, and that lease agreements be revisited over time to ensure they support organizations' changing needs in the context of shifting operating environments.
- **Build and maintain lasting relationships with key partners.** Building and maintaining relationships with private and public funders, leaseholders, city leaders, and other partners is a critical component of success.

Community stakeholders

The expectation and potential for broader community impact differentiates $1 building projects from other facilities projects. In retrospect, study participants recommended that organizations, funders, original building owners, and community stakeholders engage in transparent discussions about their goals for impact and future roles early in the acquisition process. In this way, stakeholders can ensure that they share ambitions for community-level impact, set realistic expectations for different parties' involvement and investment, and begin to develop joint strategies to fund and fulfill these goals over time. Early conversations can also help lay the groundwork for productive long-term relationships and build broad bases of support for these projects.

Funders

Study participants' experiences suggest the need for funders to apply their approaches to traditional facility projects to $1 building deals. In doing so, funders can strengthen the nonprofit organizations inhabiting these valued spaces and thereby their potential for community impact. In addition to partaking in the discussions about community-based goals described above, the following recommendations emerged for funders' support of $1 buildings.

- **Fund upfront evaluation and planning.** Providing support for planning fills expertise gaps, and helps staff and board leaders to make informed decisions and adequately prepare for the changes that come with acquisition.
- **Structure deal timelines that align with organizations' planning needs.** Funders can help organizations to execute critical planning and renovation work by creating application and RFP timelines that reflect organizations' needs.
- **Support capital projects.** Providing capital support ensures that organizations can take on large-scale renovation work in a timely manner.
- **Provide long-term support for facilities.** Establishing facility reserves helps organizations to cover the costs of maintenance and renovations over time.

The Kresge Foundation and TDC foresee adoption of these recommendations resulting in two potential outcomes. First, increased planning will likely lead to fewer decisions to acquire $1 buildings. And second, it will also likely lead to stronger deals that more fully achieve stakeholders' desired impacts. As arts organizations and funders continue to explore $1 building opportunities, it is our hope that stakeholders will use this report as a starting point when considering $1 building deals to ensure that these opportunities achieve the important goals they set out to fulfill.

TDC VISION TO MOMENTUM

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