

Massachusetts Cultural Facilities Fund

- 25 years of advocacy
- 2006 Economic Stimulus Bill
- Capital & Planning Grants
 - average age 100 yrs
 - 75% deferred maintenance
- Panel Review Process
- \$37 M in grants—215 grants
- Your Facility?

Capital Work: Two Tracks

- Maintenance—Replacement

Mindset: Schedules & Reserves planning

- Increasing square footage—Expansion

Mindset: Business Planning

.....before planning a larger lens is looked through

Guiding Principles for All Capital Projects

1. Alignment with *mission and programs*
2. Commensurate to *organizational capacity*
3. Appropriate *capital structure*

Any opportunity should align with *mission and programs*

- Space expansion/reconfiguration: Determine if proposed new programming aligns with mission
- Do facility opportunities complement the programming?
- Mission drives program design; programming drives building design
- Financial opportunities can create mission creep

Reality Check: Commensurate Organizational Capacity?

- Is the capacity in house to deliver the recommendations/programming?
- Do you have the capacity to plan, build and operate the facility?
- Do you have the capacity to meet the added ongoing impacts to the organization?

Appropriate Capital Structure

- Project size in relation to organization size
- Are you developing an appropriate structure for each business?
- How will a capital structure go out of balance or improve as a result of growth? (less liquid>risks)
- Funders can drive undercapitalization

New Construction/Expansion

Mind set: Business Planning

- Operating Models
- Market / Demand Analysis
- Financial pro-forma

Growth is inherently destabilizing

*Align business plan with Programs/Capacity/
Capital Structure*

Case Study: New Construction

- Seasonal performing arts festival buys property expands to year-round programming and operations, and facility ownership.

What to consider for building maintenance

- Prioritizing the work
 - Is in the context of a larger a capital needs/ replacement assessment?
 - Is incorporated into a comprehensive maintenance schedule?
 - Have you set up capital reserves?

Systems Replacement Plan:

An assessment of the 20-year repair and replacement needs and costs :

- Provides a comprehensive facilities analysis by a specialist engineer, architect or construction consultant
- Forecasts the necessary replacement of systems and equipment, presuming routine maintenance
- Identifies opportunities for improving a building's energy efficiency and reducing operating costs
- Details a year-by-year breakdown of proposed costs

Why Consider a Systems Replacement Plan?

- Avoid facility emergencies, avoid program interruption:
 - Get an in-depth understanding of the state of your facility
 - Learn how much you need to save to meet capital repairs and replacement needs
- Improve operating efficiency, thereby freeing up funds for mission purposes (rule of fives)
- Demonstrate that “rainy day” funds are a necessity, not a luxury

Systems Replacement Plan: What Gets Assessed?

- Building envelope (roof, walls, and entry systems)
- Mechanical systems (heating, cooling, ventilation and plumbing)
- Certain types of flooring with limited usable life expectancy
- Electrical systems
- Life safety systems (fire alarm, sprinklers, lighting)

SRP SAMPLE: INPUT SPREADSHEET

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How long systems have been operating

How long systems should last

Schedule of Capital Replacements

Survey date: April 2007

Inflation rate: 3.00%

	Age	Life	Quantity	Cost per Unit	Total Cost	Comments
Architectural						
Roof	13	14	1	\$ 2,000	\$ 2,000	Re-roof area with leak
Windows	15	20	1	\$ 19,100	\$ 19,100	Windows should be replaced
Building Exterior	15	18	1	\$ 5,000	\$ 5,000	Stucco needs repair and roof should be added above basement door
Building Exterior/ Playground surface	20	20	1	\$ 20,600	\$ 20,600	Replace
Building Exterior/ Playground surface					\$ -	
Building Exterior/ Playground equip.	20	20	1	\$ 10,000	\$ 10,000	Needs replacement
Building Interior	15	19	1	\$ 32,100	\$ 32,100	Replace carpet
Mechanical						
Plumbing / Kitchen	15	20	1	\$ 300	\$ 300	Replace faucet
Plumbing/Basement	10	20	1	\$ 5,000	\$ 5,000	Bathroom estimate
Receptionist/Cooling	15	20	1	\$ 700	\$ 700	Remove unit and replace when it fails
Bathroom/1st floor	20	20	5	\$ 300	\$ 1,500	Replace exhaust fan
Bathroom	20	20	1	\$ 500	\$ 500	Replace lavatory
Heating / 1st floor sleeping area	20	20	1	\$ 2,790	\$ 2,790	Replace heating/ cooling unit
Heating / 1st floor far end	20	20	1	\$ 2,790	\$ 2,790	Replace heating/ cooling unit
Lighting	12	20	1	\$ 11,000	\$ 11,000	Replace fluorescent fixtures with new
Lighting/Daycare	15	20	1	\$ 2,000	\$ 2,000	Paint walls in daycare with bright color to illuminate room

SRP SAMPLE: REPLACEMENT SCHEDULE

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Yearly Total Replacements (assuming 3% inflation)

	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
Architectural	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Roof	-	2,060	-	-	-	-	-	-	-	-	-	-	-	-	-	3,116	-	-	-	-
Windows	-	-	-	-	-	22,142	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Building Exterior	-	-	-	5,464	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Building Exterior/ Playground surface	20,600	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Building Exterior/ Playground surface	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Building Exterior/ Playground equip.	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Building Interior	-	-	-	-	36,129	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mechanical	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Plumbing / Kitchen	-	-	-	-	-	348	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Plumbing/Basement	-	-	-	-	-	-	-	-	-	-	6,720	-	-	-	-	-	-	-	-	-
Receptionist/Cooling	-	-	-	-	-	811	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bathroom/1st floor	1,500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bathroom	500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Heating / 1st floor sleeping area	2,790	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Heating / 1st floor far end	2,790	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Lighting	-	-	-	-	-	-	-	-	13,934	-	-	-	-	-	-	-	-	-	-	-
Lighting/Daycare	-	-	-	-	-	2,319	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Yearly Total:	\$38,180	\$2,060	\$0	\$5,464	\$36,129	\$25,620	\$0	\$0	\$13,934	\$0	\$6,720	\$0	\$0	\$0	\$0	\$3,116	\$0	\$0	\$0	\$0

SRP SAMPLE: YEARLY CONTRIBUTION

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Yearly total needed to cover future and current costs

Scenario I
Equal nominal payments on each item

INFLATION RATE: 3.00%
INTEREST RATE: 0.00%

	2007 Year 1	2008 Year 2	2009 Year 3	2010 Year 4	2011 Year 5	2012 Year 6	2013 Year 7	2014 Year 8	2015 Year 9	2016 Year 10
Building reserve contribution, annual	54,426	16,246	15,216	15,216	13,850	6,624	2,354	2,354	2,354	806
Replacements made	38,180	2,060	-	5,464	36,129	25,620	-	-	13,934	-
Beginning Reserve Acct Balance	-	16,246	30,431	45,647	55,399	33,119	14,123	16,477	18,831	7,251
Interest earned on Acct Balance	-	-	-	-	-	-	-	-	-	-
Ending Reserve Acct Balance	16,246	30,431	45,647	55,399	33,119	14,123	16,477	18,831	7,251	8,056

	2017 Year 11	2018 Year 12	2019 Year 13	2020 Year 14	2021 Year 15	2022 Year 16	2023 Year 17	2024 Year 18	2025 Year 19	2026 Year 20
Building reserve contribution, annual	806	195	195	195	195	195	-	-	-	-
Replacements made	6,720	-	-	-	-	3,116	-	-	-	-
Beginning Reserve Acct Balance	8,056	2,142	2,337	2,532	2,726	2,921	-	-	-	-
Interest earned on Acct Balance	-	-	-	-	-	-	-	-	-	-
Ending Reserve Acct Balance	2,142	2,337	2,532	2,726	2,921	-	-	-	-	-

Case Study:

Adaptive re-use of former church into a cultural performing arts center.

- Deferred Maintenance:
- Ad Hoc repairs
- Not funding depreciation
- No prioritization
- Discouraged renters
- Downward spiral—revenue decrease, difficult to invest in building

Capital Reserves: Depreciation

- Every fixed asset you purchase will be depreciated over its useful life
- Reflects the concept that fixed assets lose value (usefulness) over time and will need to be replaced
- Arguably an approximation of how much cash an organization should set aside each year for future fixed asset replacements

If you set aside cash = annual depreciation expense, you “theoretically” will have sufficient funds available to replace all fixed assets when they exceed their useful life

Depreciation: Beyond Accounting Standards

- An engineering analysis of future maintenance and replacement needs
- Its own informed assessment of how best to obtain money to maintain facilities

Financial & Technical Resources

- MassDevelopment
<http://www.massdevelopment.com/>
- Nonprofit Finance Fund
<http://www.nonprofitfinancefund.org/>
- Massachusetts Preservation Project Fund
<http://www.sec.state.ma.us/mhc/mhcmppf/mppfidx.htm>
- Community Preservation Act
 - Historic Preservation
 - <http://www.communitypreservation.org/index.cfm>

THANK YOU

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