



Dynamic Adaptability: Arts and Culture Puget Sound Capitalization Tools and Strategies for Cultural Organizations in a Changing Economy

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Capitalization Conference Goals



Equip you to incorporate your organization's business dynamics and financial condition in planning and decision making

Provide you with financial tools & strategies to map out your resource needs and manage in a changing environment

Improve your understanding of full-enterprise funding: the revenue and capital requirements for organizational health and artistic success

Operating Within A Flawed System



The Realities and Challenges of Nonprofit Finance

- 1. The Subsidy Business**
- 2. Covering the Full Cost**
- 3. Fundraising Hierarchy**
- 4. Reliable Revenue**

Why It Matters



In order for your organization to:

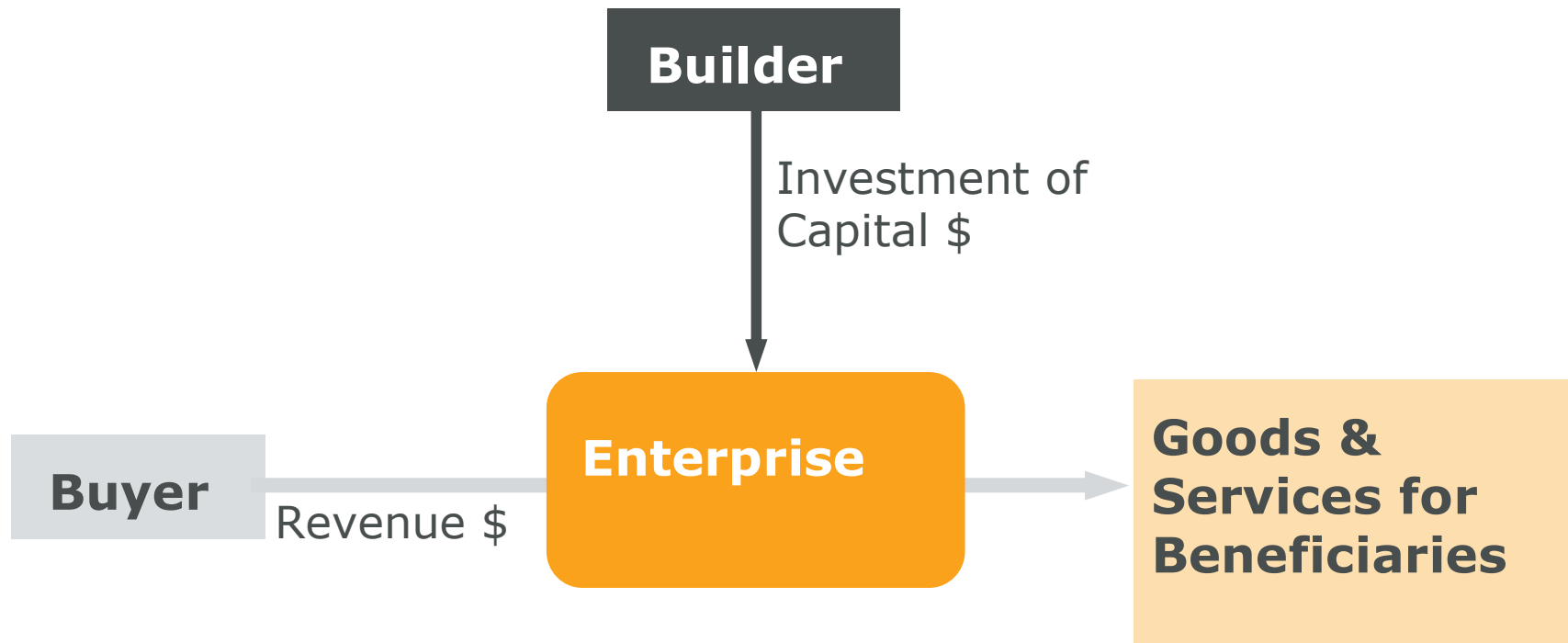
- Respond to increased demand,
- Adapt to a changing environment,
- Innovate, or
- Handle Risk. . .

. . . it needs a healthy balance sheet.

**Your organization's capital structure directly impacts its
adaptive capacity.**

Risk – Cash = Crisis

Change Requires "Builders" Staying in Business Requires "Buyers"



A New Concept for the Field



Buy Money (Revenue)

Funds to do what you already do

Money received in exchange for or to support regular operations: Ticket sales, annual giving, and memberships are examples

Pays for full costs of business through a combination of:

- Earned income
- Project support
- General operating support (GOS)

A New Concept for the Field



Build Money (Capital)

Funds to change what you do

- Growth
- Buying/renovating space
- Significant investment in IT, HR, fiscal, etc.
- Improving the subsidy business
- Retrenchment/downsizing/merger

Sizeable periodic investments that can pay for:

- Non-recurring expenditures
- Temporary coverage of deficits (support of general expenses or relief of revenue shortfalls)
- Unaddressed existing capital needs
- Future perceived capital needs

How Does Capital Differ from Revenue at the Enterprise Level?



What makes money “capital” is not what it is used for. True capital can be used for **any purpose**. What the money *achieves is* the focal point.

True capital can be used to do things that make change in the enterprise, most commonly to attract or retain **reliable revenue**, or to restructure operations for greater efficiency (and lower cost).

A Rational Approach to Financing Mission Success



All nonprofits require revenue and capital to survive and thrive

As cultural nonprofits, you would fully articulate your capital and revenue needs

Funders would be clear about what they are willing to provide

You would base your decision on whether/how to move forward on the availability of capital and revenue

Your Questions



- 1. What percentage of operating budget should an organization have in "Change Capital"?**
- 2. How are "equity capital" and "building the enterprise" different from "capacity building"?**
- 3. How likely are funders to buy into this concept?**
- 4. What can a nonprofit do to help change the paradigm for npo's and funders?**
- 5. Do you have any suggestions for how to educate our Boards about the build/buy and capitalization concepts?**

Others?

Defining the Need



A revenue, capital and expense strategy needs to address the following distinct but complementary issues:

- covering the full cost of business every year
- recapitalizing the balance sheet
- building infrastructure for future change or growth

Buy

Build

Build

Surplus Size Matters: Understanding “Full Costs”



It's easy to forget that organizations must absorb the 'full cost' of delivering programs

- Full costs > Operating Expenses

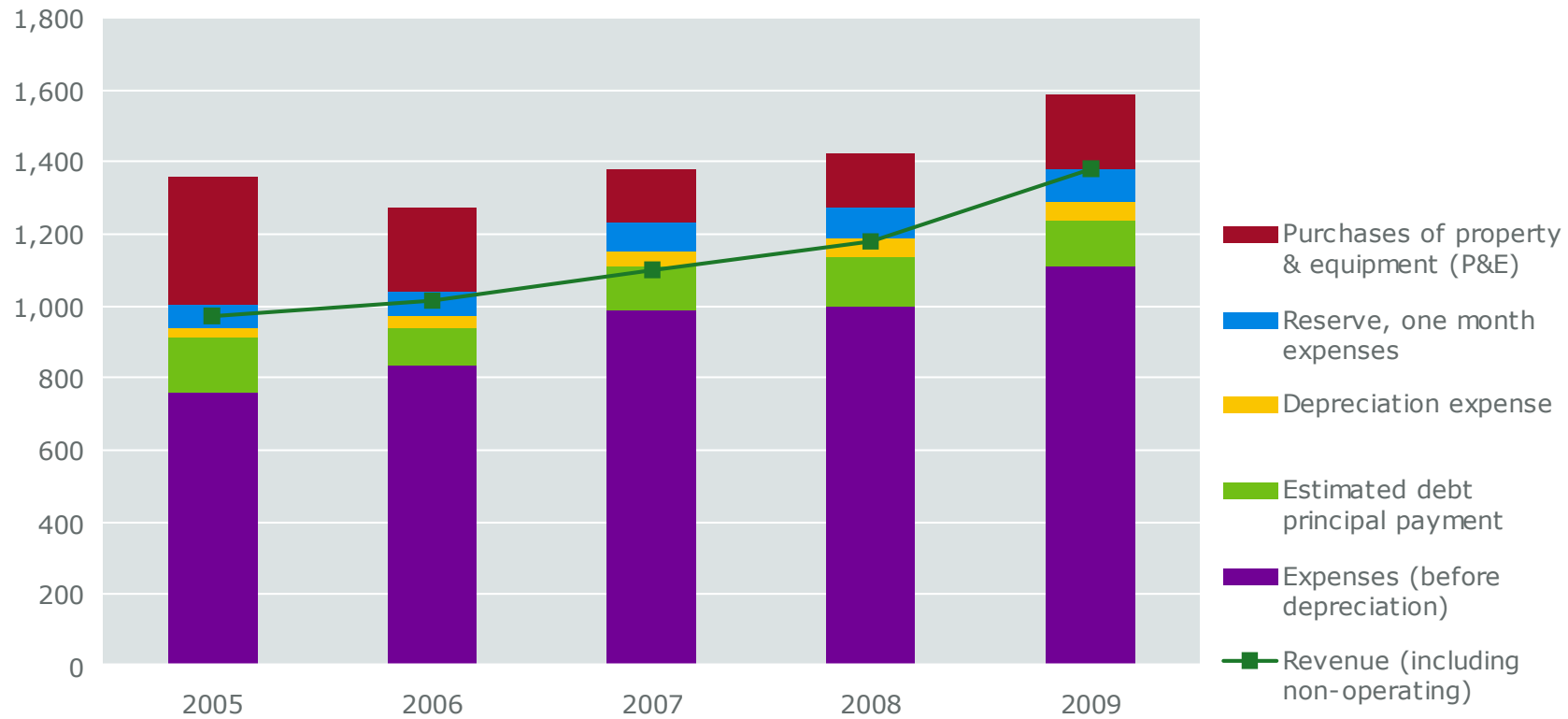
Full costs include:

- Total operating expenses
- Depreciation allocation
- New capital investments
- Debt
- Savings for the future

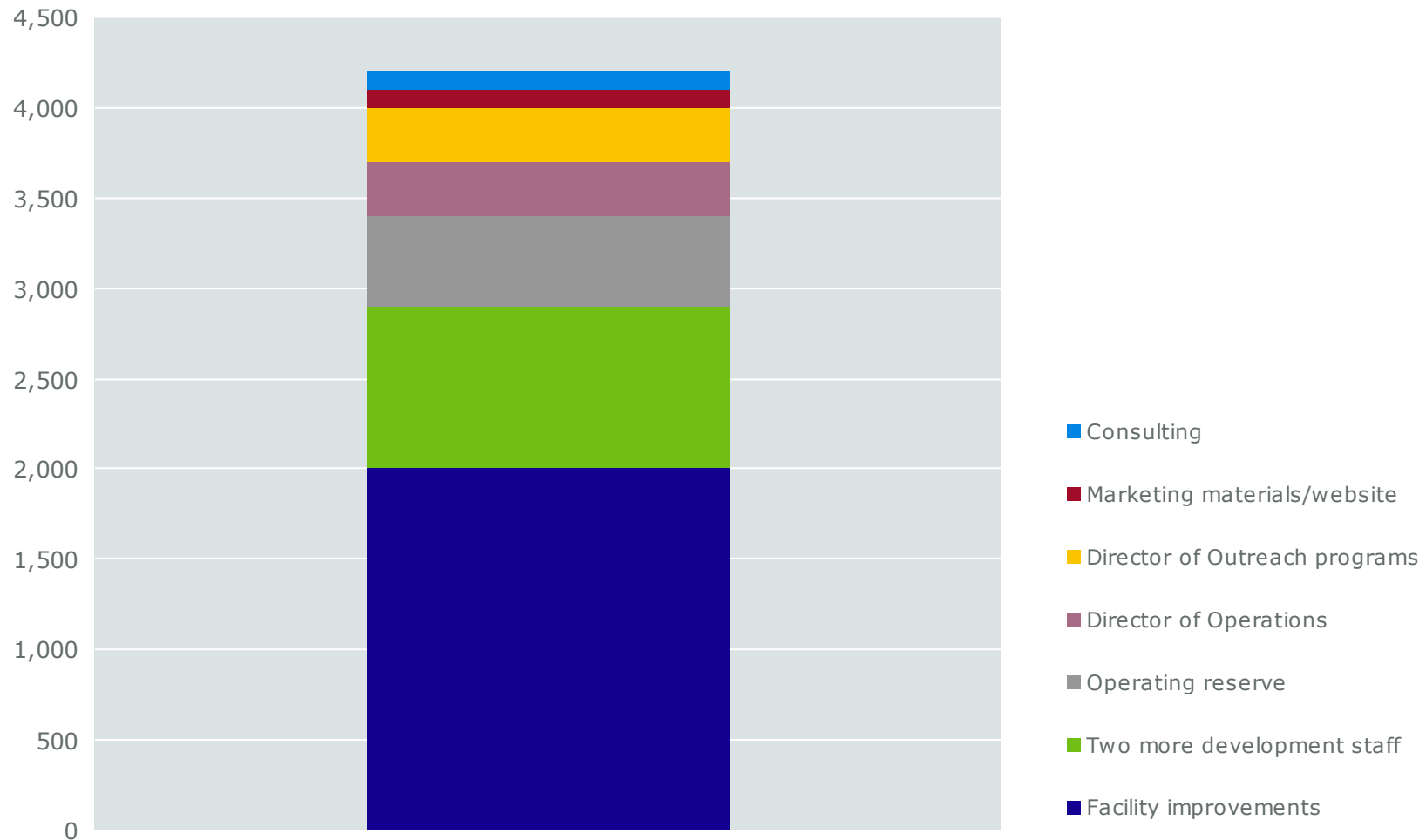
Communicating Annual Full Costs



**Total Cost of All Business Activity
(\$ in thousands)**



Communicating Episodic Build Costs



Making the Case for Capital Support



How will you define success?

How will your business need to change to realize success?

What will it cost your organization to get from here to there—to deliver on future goals consistently?

How will you establish or maintain your ability to generate sufficient recurring revenue?

What financial and programmatic metrics will you track to monitor your progress against plan?

Questions for You



What techniques/strategies have you used, if any, to raise revenue that covers full costs?

Have you had any success raising capital for balance-sheet building items?

How are you making the case for “change capital”?

What obstacles remain in making your case?

The “right” money is recurring, reliable, and flexible

It covers full costs (revenue) and meets full enterprise (capital) needs

A healthy capital structure is critical to long-term artistic vibrancy and financial viability.

- Accept that not all revenue and capital opportunities are worthy of pursuit
- Manage costs in the context of revenue and capital realities

Thank you

**To learn more about NFF,
visit us at www.nonprofitfinancefund.org**

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