

**TDC/Smith & St. John
Benchmarking Study
Munroe Center for the Arts
04/05/2007**

In December 2006, the Munroe Center for the Arts (MCA) embarked on a research project to better understand the different options it could pursue in creating a more formal arrangement with the town of Lexington regarding the use of the Munroe School Building, the municipally owned structure in which MCA currently operates. In contracting with Smith + St. John Inc. and TDC to perform various research tasks, the MCA Board of Trustees agreed to three primary lines of questioning on which the research should focus. These areas of research include:

- Benchmarking: What examples are there of other independent arts organizations occupying town-owned space? What fees do they pay and what sort of contract have they implemented? What precedents are there for running for-profit enterprises out of town-owned buildings for which no rent or reduced rent is paid?
- Value of Munroe: What is the intrinsic value of Munroe and the service it provides to the community? Can a case be made to justify special treatment by the town?
- Market Costs: If space in this building were to be leased in the marketplace, what would be a reasonable competitive rent?

This report presents findings from this research.

I. Benchmarking

In December of 2006, TDC compiled a list of five arts organizations operating in town-owned space all of which had similarities to Munroe in terms of programming and operating environment. These five organizations were selected through a series of conversations with individuals at the Massachusetts Cultural Council, a few Massachusetts community foundations, city officials, and arts advocates. All selected organizations offer either artist studios or community arts education programming. Three of the five organizations - ArtSpace - Maynard, Emerson Umbrella Center for the Arts, and the Arlington Center for the Arts - have both. TDC was able to speak by phone to the Executive Director at each of the five arts organizations identified.

While the experiences of these five arts organization differ it is possible to distinguish trends that run throughout the information TDC gathered. The findings appear in three general categories including: structure of lease agreements, tenant policy and practice, and public funding for facilities. The findings in each area are described below.

A. Structure of the Lease Agreements

While all benchmarked organizations did enter into a lease with the town, two distinct models for structuring lease agreements exist: minimal rent with full maintenance responsibility and moderate rent with minimal maintenance responsibility. The most common model for municipal leases among benchmarked organizations was to pay essentially zero rent – typically \$1 per year – but assume full responsibility for all of the maintenance of the building. This type of lease agreement was in place at ArtSpace – Maynard, Brookline Arts Center, Emerson Umbrella Center for the Arts and Northampton Community Music Center. Given the range of dates when each of these programs entered their respective facilities, this appears to be a model that has been in place for decades and proven itself beneficial to municipalities and arts centers alike. Executive Directors at these art centers often noted that given the age of the buildings they occupied, maintenance expense was typically substantial, and so assuming this financial burden was seen by the municipalities as somewhat commensurate to paying rent.

The second model, which appears to be less common, requires that the tenant arts center pay rent to the town for the use of the building, but in return the town takes on the annual maintenance expense associated with the building. The Arlington Center for the Arts was the only art center in the benchmark to employ this model. It should be noted that in this case, where the arts center does pay rent back to the town, the rate per square foot is well below the market rate; Arlington Center for the Arts pays \$3 per square foot and recent work by the Board estimates that the market rate might be as high as be \$18-\$20.

	Building Entry Date	Type of Contract	Square Feet (Usable) ¹	Rent	Annual Maintenance Expense
Arlington Center for the Arts	mid-1990s	Lease	12,602	\$3/sf/year	Minimal
ArtSpace - Maynard	2001	Lease	60,000	\$1/year	Not available
Brookline Arts Center	1960s	Lease	5,500	\$4/year	\$20,000
Emerson Umbrella Center for the Arts ²	1982	Lease	43,000	\$1/year	\$100,000
Northampton Community Music Center	1997	Lease	8,500	\$1/year	\$60,000 (including payments on loan from capital renovation)

1. Square footage for the Arlington Center for the Arts is the square footage included in their lease and not for the total facility which they share. Square footage from ArtSpace - Maynard is total square footage. Specific usable square footage was not available for this site.
2. Information does not include data for the Highland School Building in Carlisle, which is owned by the town of Carlisle and managed by Emerson Umbrella to house additional artist studios.

The model for the lease as well as the specifics of the contract are linked to several other aspects of operating the facility including the commitment to capital improvements, further requests for public funding and requirements regarding building code compliance. Findings about the derivative effects of the structure of the lease include:

- **Within the context of these lease agreements, towns have taken different approaches to buildings that do not comply with building codes, in some cases recognizing the financial constraints of the arts organization.** For example, whereas the Northampton Community Music Center was able to raise

funds to renovate its building at the time the organization moved in and bring the building up to code, the Emerson Umbrella Center for the Arts did not have access to these funds and consequently has been allowed to occupy the space despite its noncompliance. Similarly, the building that the town of Carlisle asked Emerson Umbrella to take on and convert into artist studios was and remains noncompliant. It is not clear what the extent of the code violations may be in these buildings, but it is reasonable to assume that they are not life-safety related. Buildings with significant life-safety code violations pose a potential danger to its occupants in the event of an emergency and the threat of significant liability to its owners and tenants. Both towns have allowed Emerson Umbrella to keep these buildings open and the arts center is currently raising money to renovate the Concord building to bring it up to code. Conversely, the Arlington Center for the Arts, the only center that pays rent to the town, is inspected on a schedule as local public schools and the town of Arlington takes responsibility for building compliance.

- **While lease terms vary, they closely relate to the expectations for and commitment to capital improvements.** The longer the lease term, the more comfortable arts centers become with committing funds for capital improvements. For example, when Brookline Arts Center first signed a lease to operate their facility it was on a month-to-month basis. It was only after securing a 30-year lease that they performed a major renovation to install the ceramics studio, jewelry studio, finish the second floor gallery space, and put in handicap access. Similarly, Northampton Community Music Center completed a \$700,000 renovation at the time they received their 20-year lease. In the most striking case, Emerson Umbrella is in the process of fundraising for a \$400,000 renovation for their Concord site which is under a 10-year lease, but will not commit to improving the Carlisle site, which is even further behind code, due to the short duration of the 3-year lease.

	Lease Term	Capital Improvements
Arlington Center for the Arts	10 years	▪ City is responsible for general building upkeep but does minimal capital improvements
ArtSpace - Maynard	10 years	▪ \$100,000 to upgrade heating system.
Brookline Arts Center	30 years	▪ \$40,000 in the last few years with a more substantial renovation at the time of move-in
Emerson Umbrella Center for the Arts ²	10 years	▪ Raising \$200,000 for building upgrades not including additional public support
Northampton Community Music Center	20 years	▪ \$50,000 over last 3 years ▪ \$700,000 capital improvements the time of move-in

² Information for Concord site only.

It should be noted that it is often only possible for arts centers to complete these major renovations because of their minimal rent payments, which allow them to take on debt, which they then pay off as an equivalent of rent expense. For example, both ArtSpace - Maynard and Northampton Community Music Center took on debt to complete their renovations. They are able to regularly pay down this debt because they pay virtually no rent expense to the towns from which they lease their facilities. Arlington Center for the Arts, which does pay more substantial rent to the town of Arlington, has not made any significant capital improvements to their facility despite the 10-year lease term.

- **Once the lease terms are determined, if the arts center is paying essentially zero rent, it does not go back to the town for additional support related to the facility.** ArtSpace – Maynard, the Brookline Arts Center, and the Northampton Community Music Center stressed the importance of this point, noting that if the town was able to provide the center with a facility at no expense, the art center was under an obligation to demonstrate the benefit to the community that the building could produce while fully supporting any maintenance and capital needs. As one executive director summarized: “Whenever I have gotten involved with projects like this we have always made it clear that it is a self sustaining building and we are not looking for tax payers and the town to provide financial support in construction or operating costs. Politically this has been key, especially in tight budget times.”
- **There is consensus that the more detail that can be provided through the lease agreement the more beneficial to the nonprofit.** Several of the executive directors included in the benchmark indicated that any strain on their relationships with the towns typically resulted from a lack of clarity in sections of the lease. For example, the Northampton Community Music Center has struggled with the town over problems with a retaining wall between their facility and the adjacent town property because the lease is not clear about who should take responsibility for items outside the Music Center’s facility. All executive directors stressed that to the extent the lease could be as clear and detailed as possible it would be to the nonprofit’s advantage.

While the organizations selected for the benchmark were included because they hold agreements with towns similar to what is being proposed for the Munroe Center for the Arts, it should be noted that other art centers have benefited from an array of more generous approaches by municipalities which in some respects constitutes a third model. For example, the New Arts Center in Newton was given their building in perpetuity by the town of Newton in return for their commitment to occupy and renovate what had been an abandoned building. In towns such as Northbridge, Holyoke and Lowell, MCC staff report that the towns are actively collaborating with nonprofit arts groups to provide facilities that will house the organizations. These examples, while outside the structure that is being proposed for the Munroe Center for the Arts and consequently not thoroughly explored in the benchmark, do demonstrate the approach taken by towns intent on sustaining arts organizations within their communities.

B. Tenant Policy and Practice

Within the group of benchmark organizations it is not uncommon for arts centers to have lease-holding tenants who operate out of the facility. In fact ArtSpace - Maynard, Emerson Umbrella, and Arlington Center for the Arts all have lease holding tenants at the current time and Northampton Community Music Center explicitly has the option written into its lease. Several of the organizations benchmarked also employed strategies to generate earned income from their facility through facility rentals. While practices for leasing space and renting out the facility vary, a few common themes prevail.

- **Mission alignment is the most common criteria used to assess applications from lease-holding tenants.** For several organizations the mission of the organization is actually captured in the lease agreement with the municipality and acts as a restriction on the use of the building. For example, ArtSpace - Maynard's lease requires that the building be used for purposes related to the arts and as a consequence the building houses artist studios and a community theatre program. Similarly, Emerson Umbrella's lease requires that the building be used for purposes related to education and so the lease holding tenants are three education-oriented nonprofits. As a consequence, the issue about for-profit versus non-profit status typically takes a back seat to the issue of mission alignment.
- **It is uncommon for groups to have for-profit lease holding tenants although the definition of "for-profit" is tenuous.** While none of the organizations benchmarked had for-profit tenants, some admitted that the option was untested and there was not clear indication from the town regarding whether this would be permissible. For example, Arlington Center for the Arts believes they would be allowed to rent space to for-profit tenants as long as they were mission-relevant organizations. Emerson Umbrella was the only organization that explicitly does not allow for-profit organization to become lease holding tenants, although they do allow for these organizations to rent out the facility on an hourly basis. All organizations admitted that often the line between for-profit and non-profit became hazy, particularly when an individual runs a class out of the building on a regular basis or a studio artist would become commercially successful and employs apprentices.
- **There are examples of tenants having for-profit organizations rent space within the facility at an hourly rate with the earned revenue reverting to the arts centers.** The Northampton Community Music Center, the Arlington Center for the Arts and Emerson Umbrella all rent space on a regular basis. For the remaining two organizations, the space itself is the constraint rather than rules imposed by the town. Of the three organizations that do rent space hourly, only the Northampton Community Music Center has a differentiated rate structure for for-profits and non-profits, with the difference being around 50%. Emerson Umbrella imposes a rate based on the facility impact and liability associated with the specific activity.

The overarching theme among the benchmark organizations is that mission alignment is the most important criteria used to make decisions about whether other individuals or organizations will be allowed to occupy the space and under what terms. While for-profit tenants and renters are less common than non-profit tenants and renters, it is rare for a distinction to be made by a municipality within the terms of the lease; most rules and practices are self-imposed by the organizations.

C. Public Funding for Facilities

While it is clear, as discussed in the section on terms of the lease, that organizations in town-

owned facilities who do not pay formal rent often make a point of not requesting public funding for building maintenance and improvements, one important caveat exists: community preservation grants. Throughout the benchmarking work, TDC heard reports that it is becoming more common for arts centers to seek funding for facilities improvements through the Community Preservation Act. Given that the Act states as one intended purpose that funds be diverted to the acquisition and preservation of historic building, arts centers, which often occupy surplus public buildings, are able to demonstrate strong alignment. Among the benchmarked organizations, Emerson Umbrella has recently received \$200,000 to be delivered over a two-year period from the town of Concord through the Community Preservation Act. Friends of the Performing Arts Center in Concord, another arts organization operating in a facility leased from the town, was awarded a similar grant from the Community Preservation Act. Also, it was reported to TDC that the town of Bedford has assigned community preservation funds to refurbish the town hall for the Bedford Arts Center. This source of funding provides an important caveat to the typical practices of arts centers in municipal buildings weaning themselves from public funding.

While the findings captured above represent the themes that emerged during TDC's research, the overarching tenor of benchmarking conversations indicated that the relationships with municipalities governing the use of town-owned space requires careful cultivation. The consistent sentiment from art center executive directors was that **preparing the conversation about lease renewal typically begins five-years before the current lease ends** due to the political issues and public opinion that must be intensely shaped and planned for. While the strategies used to communicate, educate and expose town officials differs between organizations – from comprehensive strategic planning to targeted community engagement – arts centers consistently emphasize the complexity of these relationships and the time they take to nurture.

II. Value of the Munroe Center for the Arts

In 2006, the Munroe Center for the Arts submitted the “Munroe Center for the Arts Usage Study and Information” to the town, a report which contained data on the size of the various programs housed in the Munroe School Building as well as descriptions of these programs and the tenant “schools” that offer them. This information was comprehensive and presented a picture of the size and scope of the Munroe Center activities with regard to the specific mission of arts education. While the information presented in the usage study describes the size of the Munroe Center and its tenant organizations as well as the scope of activities run out of the building, a second round of data collection has helped to expand an understanding of what value the Munroe Center brings to the town of Lexington.

It should be understood that all data contained in this report was self reported by the programs currently located within the Munroe School building. During this self-report process, several programs were forced to estimate specific data points because information systems did not allow them to produce data that could be aggregated with that from other programs. TDC could not recertify data reported by the Munroe Center programs as this task was beyond the scope of work outlined for TDC.

A. Contact with Lexington Residents

While the usage study captured the magnitude of the Lexington population enrolled in Munroe Center Programs, it did not explicitly indicate how substantial this number is within the context of the Lexington population. In an update of the usage statistics, Munroe Center programs reported that just over 1,800 Lexington residents participate in Munroe Center programs annually, representing approximately 6% of the total Lexington population. **Within the target population that Munroe Center programs seek to serve, defined as youth ages 3 to 17, in 2005 the Munroe Center and the tenant schools served an estimated 1,604 Lexington students, representing 23% of the total Lexington population within this age group.**¹ While TDC could not determine to what extent participation data includes duplicated enrollments (i.e. the same participant enrolled in multiple programs), this high level of market penetration speaks to the extensive presence that the Munroe Center has among youth in Lexington.

Beyond actual enrollment, the Munroe Center programs connect with an even larger population when the size of annual audiences for the programs' productions is taken into account. While the usage study focused on enrollment numbers, audience participation also represents a key metric that speaks to the value of the Munroe Center within the Lexington community. **In 2006, the Munroe Center programs reported putting on over 140 events, productions, workshops, and open houses with audience sizes ranging from 12 to 800. Data suggest that the cumulative audience for these events was over 13,700.** While it was not possible to identify where audience members reside, this audience size is equivalent to 45% of the total Lexington population. Considering the audience that the Munroe Center attracts in conjunction with program enrollment creates a more comprehensive picture of the scope of the Center's engagement with the community.

B. Impact within the Lexington Arts and Culture Landscape

The economic impact of arts organizations is often overlooked as a result of their nonprofit status, but in the case of the Munroe Center for the Arts, the organization plays a critical role as a driver within Lexington's arts and culture landscape. With annual expenses of \$333,000 in 2006, in recent years the Munroe Center for the Arts, including the ArtSpan program and the artist studio spaces, has been the second largest arts and culture nonprofit within Lexington surpassed only by the National Heritage Museum in terms of annual spending. On an annual basis, **the Munroe Center for the Arts represents approximately 6% of total spending by arts and culture nonprofits in Lexington and approximately 22% of all spending among Lexington arts and culture nonprofits excluding the National**

¹ Data for The Dance Inn, the Lexington School of Ballet, and Chung Do Kwan represent current enrollment numbers rather than 2005 numbers, which were the only data made available to TDC. For The Dance Inn and Children's Arts Corner, Lexington enrollment is estimated based on a percentage of total enrollment as per the Director's recommendations. All population data in this report is taken from Census 2000, Summary File 3 for the town of Lexington.

Heritage Museum.² These numbers suggest that the Munroe Center plays a critical role in Lexington's creative economy.

The impact of the Munroe Center for the Arts is even more profound when data includes the investments in arts education made by all the schools that are currently using space within the Munroe School. **Collectively the programs operating out of the Munroe School building are spending over \$700,000 annually and employing around 100 Lexington residents on a part-time or full-time basis.**³ While a definition of total nonprofit and for-profit arts and culture spending in Lexington was beyond the scope of this assessment making it impossible to size the Center's activities within this universe, it is clear that the Munroe Center is a preeminent contributor to the arts environment of Lexington.

C. Comparable Arts Programming in Lexington

TDC's assessment also considered the availability of similar programs within Lexington to determine whether comparable options would be available to residents should the Munroe Center not be able to remain in its current facility. While several organizations such as the Lexington Arts and Crafts Society, the Lexington Youth Theatre, and the Meru Education Foundation offer some arts education programming, these programs are typically in different subject areas or for different audiences than the Munroe Center programs. Additionally, these alternative arts education programs appear to be smaller in scale and might be challenged to support the enrollment that the Munroe Center currently includes.

TDC could not find an obvious Lexington organization of a similar size with similar offerings that would have the capacity to take on a large proportion of Munroe Center students if the Munroe Center were to lose their facility. Both interview conversations and the review of other arts and culture organizations indicate that, while some program participants might seek out the very limited offering of small arts programs scattered across the town, most would probably venture to an adjacent town for arts education programs should the Munroe Center be unable to offer its current programs.

D. Other Community Support and Involvement

² Percentages are based on 2004 data, the latest year for which data submitted through 990 tax returns was consistently available for Lexington arts and culture nonprofits. The universe of arts and culture nonprofit organizations is defined as all nonprofit organizations with a Lexington address reported for tax purposes that are classified as Arts, Culture, and Humanities organizations under the National Taxonomies of Exempt Entities Classification System developed by The National Center for Charitable Statistics. The Guidestar.org database search was conducted on December 29, 2006. Eight nonprofit organizations listed with Lexington addresses were excluded because 990 tax return data was unavailable, most likely because the organization's income was under \$25,000. For two organizations, the Journal of Interdisciplinary History and the Scottish Rite Masonic Museum & Library, Inc., 2003 data was used because 2004 data was not available.

³ The budget level of \$700,000 is not inclusive of all schools; both the Lexington School of Ballet and the Children's Arts Corner, asked that their financial information not be included. The Lexington School of Music did not provide a formal budget, but only an estimate indicating that it was impossible to capture the activities of the several instructors who use space in the building.

Even beyond direct engagement and economic impact, two other indicators speak to Munroe's presence within the community and engagement with local residents: the outreach presence and level of volunteer support.

The Munroe Center's presence within Lexington extends beyond the confines of the Munroe School building through participation in a number of annual outreach events. **Combined, the Munroe Center and the tenant schools report participating in approximately 20 different recurring annual outreach events both in Lexington and beyond.** In addition to these of annual events, several Munroe Center programs will participate in additional one-time outreach events, such as the World's Largest Book Event at Cary Library or monthly arts exhibitions at the Brookline Savings Bank in Lexington. From nursing home performances to the Patriot's Day Parade, the programs housed at the Munroe School have become an essential contributor to Lexington life as captured through annual events and contributions to one-time festivals or programs that enrich the quality of life for Lexington residents.

Just as the Munroe Center engages the community in various ways, community support for the Munroe Center programs, as indicated through the volunteer base, is also substantial. **On an annual basis, the Munroe Center programs and the tenant schools report attracting over 160 volunteers who collectively contribute between 5,400 and 5,500 hours of support for the various programs.** The volunteer hours represent a contribution with monetary value of about \$120,000 annually, indicating substantial community support for the Munroe Center.⁴ This high level of volunteer engagement underscores the commitment of a core population of community supporters.

While the various indicators describing the value of the Munroe Center to the Lexington community attempt to paint a picture, through standard numeric metrics, of the level of interaction between Lexington residents and the Munroe Center programs, it is important to recognize that these metrics cannot provide a full description of the role that the Munroe Center plays within Lexington. While these numbers and findings help to define the scope of activities and frame it within the local context, they leave out many of the more subtle contributions that are part of everyday activities at the Munroe Center for the Arts. For example, these numbers do not capture the number of scholarships and gratis sessions provided by the programs, they do not capture the number of rehearsals by groups like Chorus Boston that take place in the building, and they do not capture the extent to which the facility is used by other community groups such as the Special Needs Art Program's Board of Directors. As one interviewee described, "You don't know what you will miss until it is gone... If you look at the components that make a community livable and you look at meeting places, this is the kind of service the Munroe Center provides."

C. Market Costs

⁴ The monetary value of volunteer hours is derived using the *Dollar Value of a Volunteer Hour, by State: 2004*, an index produced by Independent Sector. The Massachusetts rate used in this calculation was \$22.07, the 2004 rate which is the latest year for which state-by-state numbers are available.

A. Overview

Overall, the real estate market in the greater Boston area has improved over the past year. Vacancy rates have declined and rents have edged upward. The strongest performance has been in the most popular markets among the most popular properties. The financial district in Boston, for example, was particularly strong whereas portions of the I-495 submarket suffered. Furthermore, class A office space continues to outperform the less desirable class B and C buildings.

Vacancy rates for office space in the Route 128 West submarket, which includes Lexington, are at about 16%. Rents increased 20% over an 18-month period ending December 31, 2006. Asking rents for Class B office space currently range from \$23.00 to \$28.00 per square foot. These rents will typically include a contribution toward a Tenant Improvement Allowance, ranging from \$5.00 to \$20.00 per square foot. Class A space commands much higher rents, ranging from \$30.00 to \$38.00.

B. Munroe School Building

The Munroe School building presents some specific challenges as a marketable property. It is typical of school buildings in suburban communities like Lexington in that it presents multiple compromises for potential tenants. These buildings are often not handicapped accessible, they have older bathrooms and worn finishes and usually have asbestos or lead paint. Furthermore, these buildings typically don't convert well on a lease to offices because most are not air conditioned.

Rents for school buildings like Munroe, on an as is basis along the Route 128 suburban belt, will range from a low of \$7.50 per square foot, triple net⁵, to a high of maybe \$13.00 or \$14.00 per square foot, triple net. The Archdiocese, which owns many such buildings, frequently will put a \$10.00 triple net number on their school buildings and then negotiate off of that. They typically don't like to put tenant improvements into the buildings because they don't have the money so they sometimes will use the vehicle of free rent to get tenants to do their own work.

Given the above, a \$10.00 to \$12.00 per square foot rent for the Munroe School building is compatible with the market. In addition, with this rent the tenant would be expected to pay all taxes, insurance and maintenance costs and the landlord would not be expected to offer any tenant improvement allowance. Assuming 13,000 square feet of rentable space in the Munroe School building, a \$10.00 per square foot rental obligation to the town would cost MCA \$130,000 per year, a huge jump in annual facilities costs. MCA tenants, in turn, currently pay rents to MCA ranging from \$9.00 per square foot to \$14.00. These rents are clearly within market expectations if they are triple net. If not, there may be some opportunity for MCA to migrate toward a triple net approach as leases turn over, though this would of course be tempered by the ability of the MCA tenants to absorb additional costs. After all, a mission of organizations like MCA is to provide space to organizations

⁵ A triple net lease is defined as a lease obligation in which the lessee pays rent plus taxes, insurance and maintenance.

that typically cannot pay market rates.

*Smith + St. John
104 Main Street
Topsfield, MA 01983*

*TDC
31 Milk Street
Boston, MA 02109*