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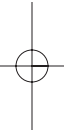
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What's in a Goal?

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Does Your Organization Cope Well with Risk?

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# CHAPTER 1

## Understanding the Capital Campaign

**IF YOU HAVE NEVER** been through a capital campaign, this chapter will give you a quick overview and get you ready for the exercises in the following chapters.

### What Is a Capital Campaign?

A capital campaign seeks “to raise a specified sum of money within a defined time period to meet the varied asset-building needs of the organization” (Rosso, 1991, p. 80). A campaign draws on all of an organization’s strengths in pursuit of a fund raising goal. Driving the campaign are enthusiastic leaders, both volunteer and executive. The leaders inspire an established, loyal donor base to make exceptional gifts. The prospect base contains a sufficient number of people both able and willing to make the gifts you will need. A typical campaign endeavors to obtain commitments for a sum that can be from four to ten times the level of annual receipts. Put another way, if you were to spread all campaign commitments across the years of soliciting and collecting, you would need to be doubling or tripling your usual annual intake every year for five or six years. Campaigns are not for the faint of heart! But with proper preparation and leadership, you can indeed succeed.

### Forms of Capital Campaigns

Four different campaign models are in common use, each having evolved to respond to differing types of organizations and circumstances. (For a fuller discussion of the models presented here, see Dove, 2000, pp. 16–19.)

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1. *Historical campaign*—meets the organization’s capital needs. You could seek funds for
  - Building only
  - Endowment only
  - Combined building and endowment (popular for ensuring maintenance support for expanded space or programs)
2. *Comprehensive campaign*—combines under one, big umbrella current operations, one-time goals, and endowment objectives.
3. *Single-purpose campaign*—seeks funds for a specific purpose, usually with appeal to a special-interest constituency. This form is widely used in large, administratively complex organizations.
4. *Continuing major gifts program*—multiyear, staff-led subcampaigns that are smoothly integrated into the ongoing development program. This form of “perpetual campaigning” works well to further the clearly defined institutional goals.

## Examples of Capital Projects

Here are examples of capital projects around which campaigns may be organized:

### *Building*

- New construction
- Rehabilitation of old buildings
- Land purchase
- Landscaping

### *Renovation*

- Moving and space adaptation
- Roof replacement

### *Endowment*

- Permanent fund (general or special purpose funds)
- Endowed chairs or positions

### *Start-up funds for program expansion*

- Scholarship fund
- Equipment purchase fund

## The Stages of a Campaign

Generally, successful campaigns track the following five phases:

1. *Assessment and preparation* (one to four or more years)
2. *Organization and planning* (six months to one year)
3. *Quiet phase*—portion of the campaign that seeks first-tier (lead) gifts, second-tier (major) gifts, and third-tier (special) gifts (one to two or more years)
4. *Public phase*—balance of the campaign, seeking lower-level (general) gifts as well as all higher-level gifts (one to two years)
5. *Conclusion and pledge pay-out*—formal end of the campaign, continuation of solicitations of cultivated prospects, and collection of pledges (up to three more years)

A campaign could be as short as three years to prepare and complete or as long as ten.

## Do You Really Need a Capital Campaign?

You know you have pressing needs on behalf of the people you serve, but is a capital campaign really the right fund raising vehicle for you?

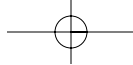


### Assess Your Needs (Part A)

If you feel compelled to answer yes to *any* of the questions in the following lists, read further. If your responses are not resoundingly positive, you might consider designing another approach, such as using a single-purpose fund within the context of your major-gift fund raising for ongoing operations and programs.

Do you truly *need* any of the following? That is, does your mission depend on it? Will your organization soar because of it? Check the appropriate box:

|  | Yes                      | Not Urgent               |
|--|--------------------------|--------------------------|
| A new building or buildings                                | <input type="checkbox"/> | <input type="checkbox"/> |
| Renovations to a new building or buildings                 | <input type="checkbox"/> | <input type="checkbox"/> |
| Purchase of land or improvement of a building or buildings | <input type="checkbox"/> | <input type="checkbox"/> |
| A renovation or enlargement of your current site           | <input type="checkbox"/> | <input type="checkbox"/> |
| A site furnished and equipped for programs                 | <input type="checkbox"/> | <input type="checkbox"/> |
| An endowment fund or additions to an endowment fund        | <input type="checkbox"/> | <input type="checkbox"/> |
| Any other compelling need                                  | <input type="checkbox"/> | <input type="checkbox"/> |



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Next, assess your real opportunities. Has an extraordinary opportunity come your way?

Check the appropriate box:

|   | Yes                      | Possibly                 |
|---|--------------------------|--------------------------|
| Do you think your organization could advance to a new level?  | <input type="checkbox"/> | <input type="checkbox"/> |
| Could a fund raising drive now ultimately yield a higher level of giving to your ongoing needs?           | <input type="checkbox"/> | <input type="checkbox"/> |
| Is your organization a start-up looking to the community for facilities and significant start-up capital? | <input type="checkbox"/> | <input type="checkbox"/> |



### Assess Your Funding Sources (Part B)

If you had any yes responses, it is time to make a quick assessment of your funding sources.

Do you have donors or funders who could and might make an early gift to a campaign of 10 to 20 percent of a proposed goal? Yes\_\_\_\_\_ No\_\_\_\_\_

Can you list three?

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At 5 percent of a proposed goal? Yes\_\_\_\_\_ No\_\_\_\_\_

Can you list five?

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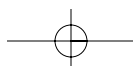
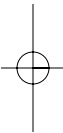
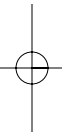
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Do you have known prospects for major gifts to a campaign who are not donors now? (Foundations may fall into this category. Could your project be funded entirely by foundation or public funds? If so, you do not need a campaign; you need a lot of good, old-fashioned proposal development and follow-through.)

Yes \_\_\_\_\_ No \_\_\_\_\_

Can you list five?

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### Assessing Whether to Investigate a Capital Campaign (Part C)

If you had at least one yes answer from Part A and at least two names for each question in Part B, by all means continue to investigate a capital campaign.

If you were stumped by the questions in Part B, you should probably shift your focus to building up a major gifts program first.

## When Should Your Organization Undertake a Capital Campaign?

The best answer is this: when you are ready. In the real world, however, timing sometimes compels a campaign before all the elements are in place, particularly when a hurricane, flood, or earthquake threatens or has already done its worst. By working through this book, you will learn where you fall short and where to put your focus to catch up or minimize your weaknesses and still be ready enough for success.

Organizations sometimes undertake a campaign “because we have no choice. We must do this now.” Or the need appears so pressing that “we are doing this no matter what anybody says.” Just be aware of the risks. Inadequately prepared campaigns launched with the imperative of great urgency—even with their inherent appeal—can stall, and stall soon.

Good judgment, born of experience, can help you decide whether you are “ready enough.” That is one of the key roles played by consultants. The

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hard truth of the matter is that unless you have an angel on your shoulder, there are no shortcuts. The outsized nature of a campaign brings great new stresses on an organization. Granted, the very exercises for getting ready can be stressful, but the good news is that they condition the entire organization's strength and ability to chart a future.

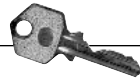
A decision on timing your campaign undertaking—deciding when to launch—must take into consideration your organization's preparedness concerning a large number of variables. Ultimately, the decision to move ahead must proceed from the good judgment of your trustees, your executive staff, and your consultant, should you engage one.

There are three levels to readiness. We'll walk through each one.

1. *Institutional readiness.* You have a strong, clear rationale for your programs. You have a strong history of accomplishment and a good reputation. You have well-developed giving programs. Planning is well managed; you have developed a thorough strategic plan. Other plans you need are in hand or under way. (See "Preparing Your Institutional Plan" in Chapter Two for descriptions.) You have capable, committed leadership; volunteer leadership is in place, experienced, and knowledgeable about fund raising. Staff executive leadership is in place, experienced, and knowledgeable about fund raising as well as management. Your organization is staffed with people who do their jobs well.

2. *Project readiness.* You have done your homework on your choices and what the best options will require. The solution you have chosen is defensible and compelling.

3. *Market readiness.* You have evidence that a sufficient number of your leading donor prospects like the vision and the project and stand ready to assist.



## IMPORTANT CAMPAIGN SKILLS AND KNOWLEDGE

The following are some of the types of skills and knowledge that your organization will need in order to conduct a successful campaign:

### Verbal and Presentation Skills

- Strong writing skill, to bring out a compelling case for both the institution and its capital needs
- Speaking and group presentation skills

### Analytical and Institutional Skills

- Understanding of strategic analysis
- Knowledge of organizational and tactical planning

### Financial Knowledge

- How to budget and do multiyear forecasting
- How to use borrowing as a strategy
- How to assess an organization's capacity to borrow and carry a loan
- How to work with a lender
- How to investigate bond issues and other types of government subventions

### Fund Raising Skills

- Knowledge of how to develop contributed and grant income resources
- Knowledge of record-keeping systems and procedural skills
- General understanding of planned giving

### Human Resources Knowledge

- Knowledge of how to develop professional human resources
- Knowledge of team management
- An understanding of individual behavior in both volunteer and professional settings
- An understanding of group behavior in both volunteer and professional settings

### Marketing and Communications Skills

- Knowledge of how to develop marketing concepts
- Knowledge of how to communicate various types of information via various types of media to various groups of people

### Project Management Skills

- How to select the right group of people for a facility project team
- How to translate program needs into physical space and facility needs
- How to select an architect
- How to work with an architect and read plans
- How to develop a comprehensive project budget
- How to maintain control of project costs

A development director needs to know the following:

- What motivates people to give major gifts
- How to help the organization always to make the best impression
- How to create and use persuasive tools and techniques
- How to organize and clearly present complex information
- How to tell a compelling story with both narrative and numbers (text and images, budgets and financial projections)
- How to manage proper communications with all donor constituencies
- How to build teams with a wide variety of people
- How to find effective ways to approach problems
- Tact and sensitivity in handling donor interests and personal information
- How to keep spirits up

## What's in a Goal?

It is a common myth that the campaign goal equals the construction costs. In fact, there are up to five distinct classes of costs related to capital projects; construction and fund raising are just two of them. It is extremely important that all five be understood separately and budgeted for accordingly.

### 1. Institutional Planning

The institutional plan has two layers. The *strategic plan* (three to five years) presents an overall rationale and vision (sometimes labeled “goals”). It shows how general goals (sometimes termed “objectives”) will help realize the vision. (For details, see Bryson and Alston, 1995.)

The *tactical and business plans* show specific activities two to three years out, but they project expenses and income figures to one year beyond the completion of your project, when all associated new costs will have been triggered. These plans specify activities that will achieve objectives and goals for program, governance, and revenue generation.

It costs a lot of time, effort, and money to prepare a comprehensive institutional plan. However, since most funders now view planning as an ordinary demonstration of good governance and ongoing management, not a special case, most institutions would be well advised to budget for planning as an annual expense. You may find in your case, however, that it is useful to group these kinds of costs in a capital start-up budget.

### 2. Project Planning

Project planning includes *physical assessment* and *design management*. If your campaign will be for plant and equipment costs, you will need to budget adequate advance funds for space analysis and planning, equipment needs analysis, architectural design, and related tasks.

This plan maps the route through all the concrete steps of assembling groups to determine the exact nature and scope of the project, its site, its requirements, selection of architects and builders, the project's development, its construction management, its financial management, and its proper execution.

### 3. Facilities Planning

A *facilities plan*, when needed, translates agreed-on program needs and objectives from the institutional plan into square footage and physical space arrangements. The facilities plan should also address building systems and telecommunications.

#### 4. Project and Construction Costs

The budget you negotiate with the builder is just one factor in determining your *total costs for construction*. In addition, you will need to tally the expenses you incur on account of the construction. Such items can include loss of attendance and earned revenue, loss of interest income, new interest payments on loans, temporary relocation costs, and long-term storage. (You will be asked to fill in the numbers for such a project budget in Chapter Three).

#### 5. Campaign Costs

*Campaign costs* are the costs directly related to bringing in funds, including executive and support staffing—the greatest expenses—consultants' fees, public relations materials and marketing collateral, communications, office and equipment expenses, pledge attrition (people who pledge but don't pay), and prospect cultivation expenses. According to statistics compiled by the National Society of Fund Raising Executives, most campaign costs average between 5 and 15 percent of the funding goal.

It should not surprise you to learn that the percentage of costs per dollar raised tends to decrease as the goal increases. Staffing costs per gift solicited are fairly constant, so the ability to attract larger gifts and greater numbers of effective volunteer solicitors drops the cost per gift. (See the Resources section for more detail.)

Generally speaking, the smaller campaigns (up to \$5 million) may cost at least 15 percent of the goal. Larger campaigns (\$25 million and up) could cost under 10 percent of the goal.

### Does Your Organization Cope Well with Risk?

Any major undertaking into uncharted territory carries risk, and campaigns are certainly no exception. The good news is that most of the risks can be anticipated and prepared for. But scarcely any campaign escapes without at least one unexpected turn or even roadblock.

How risk-friendly is your organization? If you believe your board or staff could not weather the common experiences listed next, it may be the wiser course to delay a campaign.

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### Risk-Assessment Quiz

Try ranking each of these potential scenarios on a risk-friendly scale of 1 to 5. A rank of 1 means "Entirely too scary; we would not move ahead." A rank of 5 means "We would plunge in anyway!"

Code: 1 = Turn back; 5 = Bring it on!

- \_\_\_\_\_ The annual fund could dip 10 percent or more when some donors prefer to designate all their giving to the campaign.
- \_\_\_\_\_ Campaign leadership could be too slow to come together, stalling the campaign before it gets started.
- \_\_\_\_\_ The campaign chair(s) might suddenly step down.
- \_\_\_\_\_ The CEO or executive director might leave mid-campaign.
- \_\_\_\_\_ The development director might leave mid-campaign.
- \_\_\_\_\_ The economic climate for giving could take a tumble, throwing all the forecasts off.
- \_\_\_\_\_ A mainstay source of funds to the annual budget could begin to shrink or become unreliable.
- \_\_\_\_\_ Primary funders or donors with whom you have been negotiating all along might change or get new mandates or need to delay matters.
- \_\_\_\_\_ Your Total Score

If you scored less than 25, your organization may need further preparation. Excessive fear can foster early burnout and damaging turnover. A score of 25 or higher indicates that your organization could likely weather the occasional turbulence in a campaign and persevere. So if you're game, let's get ready!



### THE FIVE MOST COMMON MYTHS ABOUT A CAPITAL CAMPAIGN

The Nonprofit Finance Fund provides capital loans to nonprofit groups, along with excellent technical workshops on how to plan for capital projects and their associated campaigns. They often begin their workshops by debunking these all-too-common myths:

- Fund raising can be delegated to the staff.
- Fund raising can be delegated to the board.
- Fund raising can be delegated to a consultant.
- Capital campaigns come to an end. (Actually, prospects keep surfacing, and the process of converting them to donors is a lengthy one; needs and opportunities keep appearing.)
- The campaign goal equals the construction costs. Many types of costs will need to be covered. See "Cost Categories for the Bricks-and-Mortar Capital Campaign" on pages 71–73 for a list of costs to budget.



## WHY PROPER PLANNING IS CRITICAL TO SUCCESS

Campaigns launched without proper preparation run a serious risk of falling short or stalling.

Failing to meet the goal can place many burdens on you. Here are some of the big ones. You might

- Add an expensive new element to annual financial obligations that seriously debilitate needed program services.
- Demoralize leadership; important volunteers may leave the organization, along with their financial commitments.
- Damage credibility in the community, making fund raising for ongoing operations all the more difficult and new volunteers all the more difficult to recruit.
- Contribute to a higher level of staff turnover, further impeding the delivery of high-quality services.

Stalling must also be taken seriously. A long stall can damage an institution. Here are few reasons why:

- Funds may stop arriving while costs continue.
- Campaign volunteer leadership may leave.
- Key staff may leave.
- Conditions affecting the campaign may change so much during the lull that you may need to fund many preparation and start-up costs all over again.
- You may lose credibility, which would affect everything from annual fund raising to board recruitment to staff recruitment, to say nothing of your ability to attract major, campaign-level gifts.
- Your costs may outrun your estimates to such an extent that you are unable to complete the work. You risk either disappointing donors or having grants rescinded or both.