

Fund-raising for capital: the road to immortality

Capital campaigns, which are usually a programmatic method to raise funds for physical improvements, are often seen as the transitional period in which an organization becomes an institution. Of course, a minor campaign for computer or furniture upgrades will not have such a lasting impression, but still begs the question: Why should an arts organization expend human and financial resources in order to acquire capital?

After all, most performing arts companies can easily adapt to a variety of stages and many museums are important because of their collections, not the walls upon which they hang. There is certainly a value to having a venue inextricably linked to the art inside — the art, although probably mobile, becomes a cultural destination at its location. The organization's identity becomes about the venue and the art, an identity that expresses the permanence of an institution. The ideals or activities of directors or performers, once the lifeblood of the organization, become passing memories or markers of the institution's evolution. And thus, a founder's vision is immortalized.

However, capital campaigns can, and often do, lead to demise and bankruptcy rather than everlasting life. It can be argued that an organization's fate is only accelerated, rather than determined, by an ambitious campaign. Either way, deciding when to pursue a major infrastructural investment is as important as how the campaign is executed.

No matter how carefully executed the strategy and budgeting, a capital campaign will utilize significant resources normally dedicated to programming. Typical campaign expenses, such as postage and additional fund-raising, should be cautiously tracked and budgeted, but some resources will be more difficult to follow. For example, staff time or press coverage that is normally dedicated to programming will inevitably be replaced with efforts to the campaign. An organization must have a pattern of strong operations and fiduciary responsibility in order to successfully take on the challenge of a capital campaign.

A formally documented strategic plan — which must have the input of the organization's executives, board of directors, and an expert consultant — is perhaps the most important investment in the project. This document will inform prospective funders of the organization's preparedness and will serve as a guide when difficult decisions must be made. The strategic plan should be firm in direction, yet with the ability to adapt to unforeseen circumstances, like construction delays, economic considerations, or other influences. In these situations, the plan can be adapted to maintain relevance and approved by the governing body.

Each organization that executes a capital campaign will have its own, unique combination of funding sources. Some campaigns are mostly funded by public funds and some purposefully seek no public funding. However, it is generally advised to diversify funding sources to some extent. Charts detailing how many gifts at various levels of funding (\$1,000-\$4,999; \$5,000-\$9,999) and how many gifts from different funding types (individual donors; board members; foundations; corporations) will provide concrete goals for fund raising staff. Again, each campaign is different, but an easy rule is to estimate two prospects for every gift needed at each level.

The beginning of the campaign is a challenge, but the donors to approach first are those that have already been supporting programming and operations. They will likely provide "leadership gifts" that will show other prospects that those who know the organization best believe that the project is important. Capital campaigns are usually "silent" until half the total campaign goal is reached, after which they are "public". Milestones along the way should be announced and promoted, but not so much that new donors feel that their contributions aren't needed. For this reason, the last quarter of the campaign is the most difficult.

To finish the campaign, depending on the time lapsed since the leadership gifts, some successful

campaigns approach early supporters and ask for “closing gifts” or upgrades to giving levels. Many individual donors like to have a tangible return for their gift, such as their name engraved on a brick, a plaque on a chair, or otherwise publicly visible. Larger “naming rights,” such as a stage or dressing room, are desirable to high-profile individuals, foundations or corporations.

There are many fund-raising strategies that can be implemented in a capital campaign, but none should sacrifice the dignity or mission of an organization. The names on the seats, bricks, and lobbies will be permanently engraved on the institution and all of them should be positive reflections of the organization’s accomplishment, rather than desperate attempts to secure funds.

Exhibit A

The Kresge Foundation is a philanthropic organization in the U.S. with assets of more than \$3 billion (1). For decades, Kresge has been known for awarding “challenge grants” to capital campaigns. These grants are highly desired for many reasons.

First, the challenge grants have been very large. Second, the application and review process is very rigorous and securing an award from The Kresge Foundation is commonly referred to as the “ultimate stamp of approval” for a capital campaign. The grant provides credibility to the organization. Third, the “challenge” aspect provides motivation and a deadline to other prospective funders. Generally, The Kresge Foundation will award a grant of a certain amount on the condition that the capital campaign raise a predetermined amount of funds from other sources before a deadline. For example, in February 2010 The Kresge Foundation awarded a challenge grant of \$900,000 to the Kansas City Ballet (2), on condition that the organization raise \$3 million from other sources within 18 months.

However, the legendary Kresge challenge grant has come to an end. In April of this year, the foundation announced that it would focus future infrastructural support for Arts and Culture organizations in “renovation and repair projects.”(3) The capital support program for arts organizations is now retitled as “Institutional Capitalization.”(4) Presumably, even the thorough analysis of this respected institution, paired with a sizable grant, could not predict the success of capital campaigns.

Many foundations have declared policies that they either will or will not fund capital projects. If they do not, this information is often clearly stated in their funding guidelines or descriptions of eligible projects. However, this is not always the case and contacting the foundation to confirm policy about capital funding is an advisable practice. Spending resources on composing a proposal, only to find out it was not aligned with foundational policy, is disappointing and inefficient. It is also worth noting that third party information sources, such as the Foundation Directory Online (5), may not have the most updated or accurate information. In fact, some funders, like the Ralph M. Parsons Foundation, changed their policy to exclude capital funding in response to recent economic recession, and may or may not resume funding capital as their assets recover. The best source of knowledge is the funder itself.

Exhibit B

One theatre in California is currently pursuing a capital campaign and has weathered the economic circumstances remarkably well. Out of respect of their ongoing efforts, it shall carry the pseudonym SP Theatre for the purposes of this article.

SP Theatre began its capital campaign in 2005, although efforts related to finding a permanent home for the organization reach back much farther. In fact, a certain amount of money was raised before the location was finalized. The theatre’s future home is the result of a collaborative public-private effort. A real estate developer and the City Mayor made an arrangement that would allow the developer to create apartment housing on the site and donate part of an existing historic structure to SP Theatre.

SP Theatre has been producing classical theatre, such as two Shakespeare plays each year, since 1991. The organization has occupied a former Masonic Temple in all but one of these years, the exception being a short-lived attempt to become the resident theatre company of a local college. The organization has been creative in their use of the facility, as the theatre space has no backstage or overhead area in which to store scenery or set pieces. This seems to be particularly problematic, as SP Theatre produces three

plays each season in rotating repertory, changing the set at least once per week. The theatre space also lacks heating or air conditioning.

SP Theatre has earned a favorable reputation for their works and has a loyal following. It is not surprising that their capital campaign started off very well, with a \$2 million grant from a foundation, a land and building donation worth approximately \$2 million, and other leadership gifts from foundations and board members. These were raised in the first of three phases in SP Theatre's strategic plan, the Quiet Phase. As is customary, the capital campaign "went public" when half of the total goal amount was raised, which was \$8 million toward a \$16 million goal. The second phase began by publicly announcing SP Theatre's capital campaign and soliciting large gifts from individual patrons, while continuing to raise funds from foundations.

The economic recession began in 2009, just as SP Theatre's capital campaign crossed the \$9 million mark. It is at this point that SP Theatre exhibited ingenuity and responsibility, when others may have collapsed. The construction market changed drastically with the recession and SP Theatre's directors realized an opportunity. They renegotiated contracts for construction labor and goods for better prices. They also began analyzing the construction plans for elements that were not necessary and elements that could be added later. These methods, along with eliminating the proposed basement level, took approximately \$3 million off of the cost.

With a new goal of \$13 million, SP Theatre's development staff examined the fund-raising plan and began soliciting gifts of all levels. This was originally part of Phase Three. The theatre also had an internal fund-raising goal of reaching \$10 million before starting construction. At \$9.3 million, SP Theatre's Chairman of the Board of Directors proposed a strategy for reaching the next milestone. He challenged the other Board members to match \$125,000 that he would donate. The Board did so, and then presented a challenge to the public. They would match every dollar donated to the capital campaign over about two months, up to \$250,000. At the December 31, 2009 deadline, the challenge was extended for another two months. Overall, this method was very successful in reaching the \$10 million mark, gathering approximately \$700,000.

The construction has yet to begin, as the process for obtaining City permits and negotiating the land and building donation agreement has taken much longer than anticipated. Construction and permitting delays are somewhat expected in the United States and SP Theatre has kept its audience well-informed through letters, emails, brief speeches from the Directors before each play begins, and press releases for major events. The theatre's productions have continued to sell very well, providing ticket revenues when the development staff may be more focused on capital funds than operating funds.

Often, the last 20% of a campaign is regarded as the most difficult. Patrons that have not given may think that they are not needed, since the first 80% was raised without them. SP Theatre will continue to solicit donations of every level and will return to early donors to ask for closing gifts or upgrades. The organization has proven to be flexible, has taken advantages of opportunities, and has continued strong operations through the campaign. Surely, the remaining fund raising will be challenging, but successful for SP Theatre.

Notes

(1) The Kresge Foundation Form 990 on Guidestar.org, accessed May 6, 2010;

<http://www.guidestar.org/FinDocuments/2008/381/359/2008-381359217-0574a117-F.pdf>

(2) Philanthropy News Digest, "Kansas City Ballet Receives \$900,000 Challenge Grant From Kresge Foundation" accessed May 6, 2010; <http://foundationcenter.org/pnd/news/story.jhtml?id=284900008>

(3) "Kresge Announces New National Strategy for Arts and Culture Program" accessed May 6, 2010; http://www.kresge.org/index.php/program_updates/article/kresge_announces_new_national_strategy_for_arts_and_culture_program/

(4) *ibid.*

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(5) Foundation Center, <http://fconline.foundationcenter.org/>; accessed May 9, 2010



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