

A Primer on the Role of Grants in Capital Campaigns

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GPCI Competency 01: Knowledge of how to research, identify, and match funding resources to meet specific needs

GPCI Competency 08: Knowledge of methods and strategies that cultivate and maintain relationships between fund-seeking and recipient organizations and funders

Abstract

A capital campaign is a significant undertaking for any nonprofit organization. Capital campaigns require thoughtful planning and dedication of organizational resources. They can also raise significant sums of money, bring in new supporters, increase organizational visibility and reputation, and build capacity and momentum for annual giving. There are several key factors to consider when incorporating a grant strategy as part of any capital campaign. This article provides an overview of campaign planning and then explores the role of foundation grants in capital campaigns and how to 1) determine the best grant strategy for a capital project; 2) determine which phase in a campaign should incorporate grantseeking; 3) identify and qualify capital grant prospects; 4) create a communications strategy to engage program officers early in the process; and 5) use the Case statement in grantseeking.

Introduction

A capital campaign is a focused effort to raise funding for a capital project within a determined time period. Most capital campaigns support larger projects, like construction of a new building, expansion of an existing building, or new land acquisitions. Large capital projects are

commonly associated with institutions in the health and higher education sectors, but many nonprofits, large and small, undertake capital projects.

A capital campaign is a significant undertaking for any nonprofit. Capital campaigns require thoughtful planning and allocation of organizational resources. The resources required for a successful campaign—dedicated staff, robust donor database, volunteer talent, engaged and motivated board, and a significant commitment of time from the organization's executive—can be challenging for small and mid-sized organizations to marshal. At the same time, capital campaigns are often transformational for an organization. Capital campaigns can raise significant sums of money, bring in new supporters, forge new partnerships, strengthen organizational culture, increase organizational visibility and reputation, and build capacity and momentum for annual giving.

Grant revenue can be an important source of support for a capital campaign and can be strategically leveraged as challenge and matching grants. For organizations considering a capital campaign, it is important to address the potential role of grant revenue during the planning process.

Launching a Campaign

Capital campaigns are significant undertakings for any organization and require careful planning. To determine an organization's readiness to launch a campaign, it is important to assess specific capacities:

- Leadership commitment and a shared vision among board and key staff.
- Adequate staff with the skill sets to help with campaign planning, coordinate campaign activities, support campaign chair(s) and volunteers, analyze and segment the donor list and manage the donor database, coordinate donor cultivation and stewardship activities, and research grant prospects and prepare grant requests.
- Extent of need for consulting support to ensure campaign success. Some organizations try to run campaigns on their own, especially if they have ample staff capacity and significant volunteer talent. Some do a hybrid approach and bring in consultants to do the feasibility study. Some retain a consultant as campaign counsel for the entire process.
- Organized donor data and adequate technology systems to capture donor data, track donor contacts, and support effective stewardship.
- Gift acceptance policies that spell out what kinds of gifts the organization will and will not accept.

Important activities during the pre-campaign planning period include:

- Assessing organizational readiness;
- Identifying a campaign team;
- Ballparking a working goal for the campaign;
- Identifying prospects for lead gifts;
- Building the gift chart and determining the role of grants in reaching the campaign goal;
- Drafting the case statement, which is a public-facing document that helps convince donor prospects to support the campaign; and
- Engaging top prospects, including grant funders.

The pre-campaign planning period often includes a feasibility study that helps determine if the organization can meet the identified campaign goal by testing the plan and interviewing top donors. Organizations often bring on a capital campaign consultant to conduct the feasibility study. In many cases, the consultant serves as campaign counsel through the campaign planning and execution phases. Not only will a feasibility study help an organization determine a realistic campaign goal, it helps determine organizational readiness to take on the campaign and provides important data for building the gift chart. The gift chart provides the framework for identifying the number of gifts, at different gift levels—including grants—that are needed for a successful campaign. The gift chart is an essential campaign tool because it provides clarity about the campaign goal and can help determine how the organization will be successful in achieving it (Kihlstedt, 2016).

A feasibility study can also reveal who will take on leadership roles during the campaign. Completing the feasibility study may also help position the organization for success with capital grants since it will increase grant funders' confidence in the project plan. It demonstrates that the organization has invested the time and resources to develop an achievable goal and understands the importance of stakeholder engagement in the plan's success.

Smaller organizations with limited cash reserves may find the cost of retaining a capital campaign consultant to conduct the feasibility study prohibitive. This is actually a unique opportunity to approach a grant funder for a technical assistance grant to fund the cost of the study. Grant funders that explicitly do not make capital grants may be open to awarding a one-time technical assistance grant for the feasibility study and/or to pay for the costs of campaign counsel.

Phases of a Capital Campaign

Since a capital campaign can often span at least a couple of years, it is crucial to establish a general framework for how it will occur. This will ensure that all nonprofit team members are on the same page. Figure 1 lays out the four standard phases of a capital campaign.

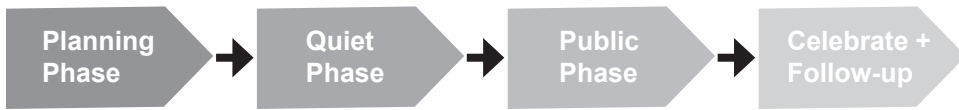


Figure 1: Phases of a Capital Campaign

Planning Phase

The feasibility study is usually followed by intensive campaign planning, which often includes identifying campaign chairs, forming a campaign committee, determining staff and consultant roles, refining the case statement, completing the gift chart (including grant projections), and designing a communications plan to get the ball rolling. During this planning period, organizations confirm the campaign goal, develop a project budget, and establish a timeline for campaign activities, starting with the Quiet Phase. For building projects, renderings of the new or renovated building may be procured from contract architects at this time. These renderings can be included in the case statement and presentations about the project. Renderings can also be included in capital grant requests. Since capital campaigns rely heavily on major gift donors, prospect screening is also often done during this time.

Quiet Phase

The Quiet Phase of a capital campaign is the period of time during which lead and major donors are approached to raise 50–70% of the campaign goal. The Quiet Phase of the campaign involves training key staff and volunteers to solicit gifts from the organization’s board of directors, lead donors, and donors who have been qualified as top prospects. Qualifying donor prospects is another activity that campaign counsel can assist with and usually involves analyzing and segmenting the organization’s donor list and using a wealth screening service to identify gift potential. Many grant funders require at least half of the campaign goal be met before submitting a grant application, making it unlikely that an organization will be submitting grant requests during the Quiet Phase. However, this time can be used for outreach and communications with grant funders about the project plan.

Public Phase

Once 50–70% or more of the project budget goal has been committed and the organization is confident in the plan to secure the remaining funds needed, it is time to plan the kick-off for the Public Phase of the campaign.

Table 1. Sample Gift Chart (goal of \$3.5M)

# of Gifts	Gift level (\$)	Total amount at this level (\$)	Cumulative amount (\$)	% of total goal	Prospect multiplier	# Prospects needed
1	1,000,000	1,000,000	1,000,000	29%	x1	1
1	500,000	500,000	1,500,000	43%	x2	2
2	250,000	500,000	2,000,000	57%	x2	4
5	100,000	500,000	2,500,000	71%	x3	15
7	50,000	350,000	2,850,000	81%	x3	21
12	25,000	300,000	3,150,000	90%	x3	36
20	5,000	100,000	3,250,000	93%	x3	60
25	2,500	62,500	3,312,500	95%	x3	75
35	1,000	35,000	3,347,500	96%	x3	105
Many	<1,000	152,500	3,500,000	100%	many	many

During the Public Phase, lead gifts and major gifts are announced and celebrated and a broader swath of supporters are invited to join the effort and help the organization reach its goal, including grant funders.

Follow-Up

Once the campaign goal is achieved and the capital project is completed, it's important for an organization to include all supporters in celebrating the project's success. This includes recognition displays, announcements, and final reports. Grant funders should be featured in all of these communications and any celebratory events.

The Role of Grants in Capital Campaigns

After the feasibility study has been completed and an organization begins campaign planning, it is important to keep a few things in mind when incorporating grant revenue into the gift chart. There are no industry standards or formulas for determining how much can be raised for a capital project from grant revenue because it depends on multiple factors. Most importantly, the nature of the capital project will determine whether certain funders will consider it. For example, a capital project to build a homeless shelter may be of interest to funders wanting to see fewer people sleeping outside. Similarly, a capital campaign to build affordable housing units may be of interest to funders who want to prevent homelessness. These same funders may not be interested in a capital project to add a wing to an art museum.

Some capital projects are designed to build organizational capacity or increase operating efficiency, for example a new administrative office space. Capital projects that do not have a direct mission impact may be more challenging to attract grant support. When researching capital grant prospects, it is important to keep in mind what the funder's grantmaking interests and priorities are, as well as their capacity and history in making capital grants.

Another important factor to consider when determining the grant strategy for a capital project is the relationship history with a particular grant funder. An applicant is significantly more likely to secure a capital grant from a foundation if there is a history of funding from that source for programming and delivery of mission. There may be exceptions to this, of course. For projects that will benefit a priority population—say people experiencing homelessness—the capital project may be a great way to introduce the organization's work to a new funder who cares about this issue.

Keep in mind, many grant funders do not support capital projects. Developing a realistic list of capital grant prospects requires thorough research and vetting. This work can ideally happen during the Planning and Quiet Phases of the campaign, so the capital grants calendar is prepared in advance. If a funder indicates, either through their published guidelines or through conversations as part of outreach efforts, that they do not support capital projects, a good strategy is to inform them about operating and programmatic costs associated with the project (and ideally, built into the project budget and case statement), which they may be interested in supporting. For example, a funder may not be interested in the bricks and mortar costs of building a new science wing for a school, but they may be interested in supporting the costs of buying technology and lab equipment or science, technology, engineering, and mathematics (STEM) program supplies.

It takes substantially more time and effort to secure a capital grant than the process for securing a large gift from an individual. The effort, of course, depends on the specific application requirements of the funder. As in the case with program and operating grants, a capital grant request may be a one or two-step process and the decision-making timeline may be longer than the case with individual donor asks. Capital grant requests also differ from major donor asks with regard to the due diligence activities the grant funder undertakes to evaluate the merits of the request. For capital requests, grant funders may require more detailed project budgets and timelines than what is provided in the case statement. Therefore, staffing the grant strategy for a capital project will necessarily look different than staffing the donor cultivation strategy since an experienced grant writer may be necessary to satisfactorily meet the requirements of a grant application.

Grant funders also require more financial data as part of their due diligence, including multi-year financial data to evaluate an organization's

financial position, and use any assessment about an organization's financial vulnerability (e.g. debt burden, liabilities and assets) as part of their decision-making criteria. Some grant funders may request a pro forma budget forecast two or more years out from the anticipated date of project completion, which demonstrates the expected longer-term financial impacts of the project. This will require engaging finance managers/directors to serve on the internal team that develops budget projections to be used in grant applications as well as other campaign materials.

As noted previously, grant funders that support capital projects typically want to see 50% or more of the campaign's budget committed before they will consider a grant application. Some grant funders require less, but grants generally are not the source for lead gifts. As such, most foundation grants are solicited and awarded during the end of the Quiet Phase of a campaign or during the Public Phase. These grant commitments can be counted toward the total campaign goal, but may be paid out over a multi-year period, depending upon the preference of the funder. The payout schedule needs to be factored into the cash flow needs for the project.

Capital Grants as Leverage

Grants can be a great source of revenue for closing the gap in meeting the campaign goal. Grants can also serve as an inspiration to other grant funders and individual donors (as well as an endorsement). Grant funds can be used strategically to build momentum and credibility and incentivize individual giving through challenge grants. Identifying a potential funder to approach regarding a challenge grant takes prospect research, careful planning to set a realistic goal, and a commitment to communicating with the funder regarding campaign progress during the challenge grant period.

If the capital project is heavily funded by government sources, for instance building an emergency shelter or affordable housing units, these public funders may require that the recipient organization match their funding with private grant funding and/or fundraising revenue. The opportunity to make a matching grant can be a significant motivator for a grant funder who's invested in the organization's work and interested in seeing the capital project get completed. As in the case with challenge grants, the grant funder is motivated by how the applicant can leverage their investment.

A Word About Family Foundations

Family foundations are an important vehicle for highly motivated donors to make larger gifts to the causes and charitable organizations they care about. Family foundations are the most common type of private foundation, and they present unique challenges to prospect researchers

and grant seekers. Family foundations may or may not have published grantmaking guidelines and may or may not have formal grantmaking processes. Many do not. In fact, most family foundations do not accept unsolicited requests for support. To complicate matters, many family foundations do not have websites and are not included in searchable foundation databases. This makes it challenging to research a family foundation's history in making capital grants. Regional foundation directories can be helpful here, such as the Oregon Foundation Databook published by C&D Publishing. Chances are the strategy for seeking support from a family foundation will be similar to approaching a major donor, which is based on relationship building and cultivation. Often, the case statement and project budget are the only materials a family foundation will require to consider a capital request.

Successful Capital Grant Strategy

Start With Who You Know

Grant support of capital projects is most likely to come from funders who have a history with the organization. A good place to start is looking at current and recent grant funders and adding them to a list of capital grant prospects to research more in-depth and qualify as a capital prospect. If the capital project involves building capacity to better serve priority populations, such as building affordable housing units for low income households, then it stands a better chance of receiving support from first-time funders. These funders can then be added to the prospect list.

The next step is researching the grantmaking history of each foundation on the capital grant prospect list. There are a variety of free and subscription-based foundation prospect research tools available. Members of Grant Professionals Association have access to GrantStation as a member benefit, which is a useful prospect research tool. The search function allows the researcher to narrow the search criteria to focus on funders that make capital grants in specific focus and geographic areas. For example, a recent search for grantmakers that support social service organizations in Oregon yielded a list of 136 prospective funders. When indicating "homelessness" under the social services category, the list of prospective funders was narrowed to 51. When adding "capital/building grants" to the search criteria, the list was narrowed further to 19 prospects. In any prospect research endeavor, the more specific your criteria, the more curated the prospect list.

Reviewing the websites of funders identified from these search engines provides more information about their grantmaking interest areas. Reviewing their 990s provides additional detail regarding grant levels and types of projects that they fund. For those foundations without public information, which is the case for most family foundations,

researching 990s provides invaluable information about a foundation's interest and capacity in making larger grants. However, 990s may or may not list the larger grant as specifically supporting a capital project. Still, it is important to know what a grant prospect's capacity is for a larger grant and their history of making those larger grants before adding them to the capital grant prospect list.

Qualifying the Prospect

An important aspect of building the gift chart for a capital campaign is “qualifying” the donor as a gift prospect. This involves vetting a prospect list using wealth screening or similar tools and determining each prospective donor's capacity to give. During the qualifying process, it is also important to find out the prospective donor's philanthropic interests and relationship history with the organization. This is generally followed up with outreach to begin a conversation and gauge a prospect's interest in the campaign. Qualifying donors are then put in the donor cultivation portfolio.

The process for qualifying a grant prospect looks different. After funders have been researched and added to the list of grant prospects for the capital project, it is advisable to reach out to a program officer to inform the foundation about the project and the organization's interest in being considered for a capital grant. The program officer can provide important information about how receptive the trustees will be to the request and what the best timing for the ask should be, based on their current grant review docket and expected grant payouts for the year. These conversations can yield important information and help the organization determine the best use of its paid and volunteer talent, as well as add projected grant funders and amounts to the gift chart. These conversations are also critical relationship-building tools since capital projects are complex and may require recalibration if fundraising goals are not met or if the project start date is delayed. The better the relationship with the grant funder from the outset, the better these difficult conversations will go.

Timing

The timing of grant requests for capital campaigns can be challenging. Foundation funders are very rarely a source of lead gifts for a capital project. As a general rule, foundations will award grants for a capital project only after 50% of funds have been secured or committed. Some foundations want to see a specific amount of funds committed—as low as 30% or as high as 70%—before they will consider a capital request from an applicant. Still others require grant seekers to break ground on the project before they will consider a grant request.

In addition to meeting the threshold for committed funds for the project, another important factor to keep in mind when considering

submitting a capital grant request is the funder's timeline for review. Generally, grant funders take three to six months to review a grant request, especially if they have a two-step application process that starts with a Letter of Intent (LOI). The process for some funders can take as long as nine months. If the capital project needs the funds sooner to meet the timeline for breaking ground or for securing matching funds for government sources, this timeline may be a barrier.

Building the Capital Grants Calendar

Once a grant funder is qualified as a capital grant prospect, they can be added to the organization's annual grants calendar or grants management tool. Some organizations opt to create a separate capital grants calendar to be able to track deadlines and awards separately and provide up-to-date reports to the campaign committee. Once the capital grants calendar is established, the development of grant materials will have to be assigned to an experienced grant professional who can translate the case statement and project budget to meet the specific requirements of each grant application.

Communication & Cultivation

Capital projects are complex with lots of moving parts. It is important to start communicating with funders and prospective funders early in the process. Phone calls, email updates, and in-person meetings all serve to inform program officers about the vision and plans for the project, engage them in important conversations about how their foundation can help, and provide important updates as the campaign unfolds. Early communication will help guide decisions about the best time to submit a grant proposal for the project and the right ask amount. Ongoing communication helps build momentum and demonstrates the organization's commitment to accountability and transparency.

Role of the Case Statement

The case statement is an important document for donor cultivation in capital campaigns. The case outlines what the goals and objectives of the campaign are, and most importantly, the expected impact. A good case statement also has the ability to inspire donors to give. If the case statement is a good one, it includes impact statements that have been tested during the feasibility study, when major donor prospects were asked to give feedback about the goals and intended impact of the campaign. The case statement should include a project budget that summarizes where the organization expects to raise the needed funds and how much is needed to complete the project. The case statement is also a very useful tool for developing capital grant requests. Often, the grantwriter can lift language directly from the case statement for use in the grant application, which will typically require additional details on

project goals, activities, timelines, and measurable outcomes. Funders may also want to see a more detailed line item project budget, and in some cases, a pro forma budget to assess the longer-term impact of the project.

Other Things To Consider

Opportunity Costs

It is important to be prepared for the potential impact of winning capital grants on the organization's annual goals for program and operating grant revenue. Capital grant awards can be significantly larger than program or operating grants. A nonprofit may find that a funder who typically made an annual \$25,000–\$50,000 program or operating grant to the organization is open to considering a \$250,000 request (or higher) for the capital project. In outreach and communications with the funder, it is important to ask whether the capital grant will supersede the annual program or operating grant or if the funder will consider making a capital grant in addition to their regular annual grant. Gathering this information in advance of submitting a grant request will be critical in meeting the organization's annual grant revenue goals for program and operations in addition to raising the funds needed for the capital project. An invested grant funder will likely consider both requests, but if the grantseeker does not communicate and clarify expectations in advance, the organization may not be prepared for the impact on the operating budget if it prioritizes capital grant requests over project and operating requests. Additionally, the grantseeker will need clarification regarding what the application process looks like, i.e., submitting separate applications for each request or combining the application as a request for both capital and program support.

Hidden Costs

The Nonprofit Finance Fund recommends that organizations evaluate the implications of one-time capital expenditures and ongoing operating and capital revenue needs necessary to sustain the program in the new or reconstructed space (PortaLatin, 2018). For example, operating programs out of a newly purchased building might require additional staff to manage growing enrollment in the program. Along with expanded programs in a new space, an organization will need to consider non-personnel expenses such as program supplies, a new phone system, technology upgrades, etc. These additional and ongoing expenses can be addressed in the grant strategy for the campaign, but need to be identified and planned for in advance. These budget line items may be fundable by a grant funder that will not pay for bricks and mortar expenses.

Contingency Planning

One last detail to keep in mind is the possibility of unforeseen consequences or liabilities if the organization is unable to meet its capital campaign goals. Large capital projects present unique challenges and risks. Organizations that are new to capital projects sometimes fail to accurately assess the risks. For example, failure to adequately build in contingency costs to the project budget may cause delays in completing the project, or worse, cause the organization to abandon the project altogether. These scenarios can undermine a funder's confidence in the organization's ability to manage complex projects. Failure to build in contingency costs can also impact the long-term financial health of the organization, which can undermine funder confidence.

Communication Efforts

Ongoing engagement of funding partners is key for capital projects, especially when adjustments are necessary to the project scope or timeline. This communication looks different than communication with major donors who support the project. Private foundations differ from other donors in that their core business is evaluating organizations and projects and distributing grants (Allen, 2019). As a general rule, grant funders are accustomed to conducting due diligence when reviewing any grant request and monitoring progress on anticipated grant outcomes. Capital projects are no different, but the stakes may be higher. Grant funders may expect, and in some cases require, more detailed and timely information about the progress of a capital campaign, including in-depth financial reporting, and how an organization is mitigating challenges and/or changes to the original project scope and timeline. An organization that incorporates grants into its capital campaign strategy has to be prepared to meet these reporting requirements.

Be Prepared to Explain the Effects on the Organization's Bottom Line

During a capital campaign cycle, which can extend over multiple fiscal years, nonprofits can show a year or two of what look like large surpluses because capital is raised upfront and can be mistakenly commingled with regular revenues. The Federal Accounting Standards Board does not require a separation of revenue and capital in audited financial statements (Portalatin, 2018). A grant applicant needs to be prepared to explain what portions of its operating surplus are restricted capital gifts.

Naming Opportunities

Capital campaigns often offer naming opportunities to donors at a certain level. It is recommended that the organization's board review and approve a policy about what kind of names the organization wants to solicit and what gift levels come with a naming opportunity. The

eligibility of grant funders for a naming opportunity should be spelled out in the policy. Foundations are not necessarily more motivated to support a capital project because of a naming opportunity. However, if an applicant organization plans to offer a naming opportunity to a grant funder, it is important to think about how this advances their grantmaking priorities. For example, a funder that invests in STEM initiatives may be more interested in a naming opportunity associated with a new school building's science lab than, say, the auditorium.

Conclusion

Capital campaigns are a significant undertaking for any nonprofit organization, and require thorough planning. Not all capital campaigns may be of interest to grant funders. However, if an organization has a strong history of procuring and managing grants, and the capital project advances the philanthropic mission of one or more grant funders, a grant strategy should be included in campaign planning. When an organization incorporates grant prospects in the gift chart, it is important to ensure adequate staffing for the grants development and management process, which looks different than the process for cultivating major donors to support a capital campaign. If executed effectively, the capital campaign can deepen the partnership with a grant funder(s) as well as build an organization's mission, impact, and reputation.

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