

**Helping Our Donors Understand Fundraising Costs**  
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Increasingly donors are asking charities how much of their gift will actually go to the programs they specify. These queries are prompted by media reports of excessive fees and overhead costs – and fraud. Furthermore, knowing how their gift will be used is promised in the Donor Bill of Rights! Therefore, in order to secure that next major gift we need be prepared for the question, “How much does it cost you to raise a dollar?”

What is the answer? “There is no definitive response,” according to John Taylor, principal, Advancement Solutions (Decatur, GA). “This is one of the most difficult questions to accurately answer, if it is even the right question. But we owe it to our donors – and to ourselves – to respond appropriately.”

Taylor explains that there have been a couple of studies that have tried to guide organizations to estimate these costs. The first, conducted by CASE (Council for Advancement and Support of Education) and NACUBO (National Association of College and University Business Officers), concluded that costs vary (no surprise there) between 15 and 35 cents to raise a dollar. But the study had flaws and focused on higher education only. However, the formula can still be a useful guide.

Recognizing the flaws in this early study, the Center on Philanthropy at Indiana University joined forces with the National Center for Charitable Statistics to conduct a related study that included many more organizations including non-educational nonprofits. In this study they opted to use the data reported to the IRS on form 990. The study ultimately was inconclusive as they discovered that many (approximately 37 %!) nonprofit organizations simply failed to properly complete the 990.

So how do we respond to our donors? “I contend that we have not been looking at the right issue,” says Taylor. “We should be speaking with our prospects about return on investment and not how much does it cost to raise a dollar. This involves a much broader look at an organization's costs and revenue, and gift impact, over a much longer period of time. For example, that foundation grant you just received didn't happen by magic this year. It reflects the results of several years' worth of work by many people.”

Taylor concludes by saying, “Explain to your prospects and donors that you review budget and expenditures every year to ensure you are as lean as possible – and that you will happily share a copy of that budget with them. Assure them that their generosity will be used to the fullest extent possible for the programs they desire. And, oh, by the way, an unrestricted annual fund gift would sure help their major gift go farther!”