Three Ways to Cover Your Campaign Costs
John H. Taylor, Partner, Alexander Haas
First Written for Major Gifts Report, 5/2007

Your board of trustees/directors/governors have just informed you that they expect a campaign – with a silent phase launch in 18 months – that is supposed to double your annual gift revenue. Piece of cake, right? Of course it isn't. Boards frequently do not recognize the fact that you need to spend money to make money. In many organizations board members assume that to bring in more you simply have to ask more. But they do not see beyond the ask, and the costs associated with expanding our programs. And they almost always misunderstand what their personal responsibility is.

So the first step, according to John Taylor, principal, Advancement Solutions (Decatur, GA), is to educate your board. "First of all, money does not grow on trees. They have to see the numbers and realize that to double – or more – annual revenue means more events, more asks, more cultivation, and more stewardship. And the only way that can happen is if either more resources are provided – or the board picks up the slack." So, option number 1, suggests John, is to ask the board to fund the campaign. "Remind them," he continues, "that typically 20-40% of the campaign total is going to come from them anyway – the more they underwrite infrastructure expenses, the less they may need to contribute." John also suggests an option 1a. If the organization is fortunate enough to have a quasi endowment this might be a time to ask the Board to tap into same.

"Option 2," Taylor suggests, "works best if you are building an endowment. If so, alter the payout rules during the first 5-10 years to return a percentage of earnings to the campaign war chest – perhaps something on the order of 5-10%. John continues, "Assure to your endowment donors that this will *not* impact the amount that will be given to expendable accounts for their intended purposes – this only impacts the amount returned to principal. The endowment will not grow as quickly, but some of your campaign costs will be covered – but not immediately. A temporary loan many be needed until the return is great enough to cover costs."

Taylor reserves option number 3 as his least favorite, but nonetheless viable. "Consider a gift tax on all dollars donated and counted toward the campaign." For those not accustomed to the term, a "gift tax" is a percentage applied to every donation that is taken from the intended purpose of the donation and used to cover operating costs.

"There are two problems with taxes," says Taylor. "The first is that such an instrument violates the Donor Bill of Rights *unless* donors are told in advance that this portion of their gift will not go toward intended purposes." John concludes with the second problem – "Too often nonprofit organizations get too used to these taxes and keep them indefinitely, forgetting that they should really be going back to their boards to seek permanent funding to support the development operation."