GG+A Quarterly Review

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GG+A Grenzebach Glier and Associates

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Pent-Up Demand: Pressure for Facilities Fundraising Rises in Wake of Great Recession

Charitable institutions nationwide appear to be in a bit of a building boom. From the aggregate expansion plans of major cultural institutions in New York, totaling as much as $3 billion (Jennifer Smith, "Finding the Cash for Big Arts Projects," *The Wall Street Journal*, January 15, 2015), to **Amherst College**'s 2013 announcement of plans for a $214 million science complex – reduced from an earlier projection of $270 million, but remarkably ambitious nonetheless – to pace-setting research facilities at major academic healthcare centers, the level of planned investment in facilities is extraordinary.

In this issue of the *Grenzebach Glier Quarterly Review*, GG+A explores critical questions with executive management and advancement leaders across North America in the arts, education, and medicine. How should institutions determine achievable fundraising targets for major new facilities? What are the characteristics of an effective case for support? What is the most effective plan for donor recognition and stewardship? What advice do those who have met ambitious goals have to offer, and what cautions to share?

Every institution must determine two important ratios before launching fundraising for capital purposes: the percentage of total project cost to come from private philanthropy, and the percentage of total fundraising during a multi-

continued on page 2

Everyone Said This Would Be Impossible: How High Can We Set the Bar?

Institutions across the continent are pushing the limits of previous efforts to secure capital support, as fundraising struggles to keep pace with the increase in facilities project costs. **Villanova University** has defined a goal of 25% ($150 million) for facilities in its $600 million *For the Greater Great® Campaign* – as compared with 15% of gifts achieved during the University's *Transforming Minds and Hearts Campaign*, which concluded in 2008. The **University of Toronto** has raised $1.67 billon to date during its $2 billion *Boundless: The Campaign for the University of Toronto*, of which $450 million, or 27%, has been designated to facilities projects. Toronto has set expectations for private gifts of 50% of overall building costs. **Hobart and William Smith Colleges** raised $28.5 million toward its $31.5 million Performing Arts Center, in two years – three times as much as had been secured

continued on page 7

In this Issue

Pent-Up Demand: Pressure for Facilities Fundraising Rises in Wake of Great Recession

continued from page 1

year campaign that will be devoted to facilities. For many independent schools, small colleges, and cultural institutions, the answers are fairly simple, if not easy; many will require philanthropy for 100% of facilities project costs, and most will find that facilities projects comprise the largest share of overall campaign goals. According to the Council for Aid to Education, total giving to higher education for facilities projects reached $4.1 billion in cash receipts in 2014 – up from $2.9 billion in 2009, and higher than the $4 billion reported in 2004. Over the last thirty years, gifts for capital projects have remained steady at 13% of total funds raised at public universities, while the proportion for private universities has fallen, from 15% to 11%, and risen at liberal arts colleges, from 17% to 19% of the total.

Public universities face a particularly daunting challenge, as the commitment to funding for capital projects, which had traditionally been viewed as the responsibility of state legislatures, now varies tremendously. Some states, such as Iowa, provide significant support, while others expect private philanthropy and other sources of funding to carry the burden – for example, the state of Vermont limits its support to the **University of Vermont** for capital projects to an annual distribution of about $1.2 million for deferred campus maintenance. Robert Sumichrast, Dean of the Pamplin College of Business at **Virginia Tech** and former Dean of Business at the **University of Georgia** and **Louisiana State University**, sums up the challenge of seeking both state funding and private philanthropy: “Both sides would like the other to go first.” Bob O’Connor, Vice President for Advancement of Hobart and William Smith Colleges, identifies a further, internal, challenge: “We wrestled with setting reasonable expectations for the gifts we could raise versus meeting the desires of program leaders and academics for the ideal space. We haven’t yet figured out which of these should come first.”

Strategies and Tactics: Is Fundraising for Facilities Projects Really All That Different?

There may be a certain irony in the fact that often institutions engaged in facilities fundraising – the most tangible of fundraising objectives – are faced with significant changes in project scope, site, content, and size, or even the engagement of a new architect, mid-stream. These can be difficult obstacles as fundraisers seek tangible visualizations of the anticipated new spaces to spark donors’ imaginations and engage them in the process. Yet the sheer scale of facilities projects often demands that fundraisers begin conversations with potential donors before building plans have gelled completely.

Type of Institution	FY84-93 (in Millions)			FY94-03 (in Millions)			FY04-13 (in Millions)		
	Average Total Private Support	Average Funds Raised for Facilities Projects	Facilities Support as % of TPS	Average Total Private Support	Average Funds Raised for Facilities Projects	Facilities Support as % of TPS	Average Total Private Support	Average Funds Raised for Facilities Projects	Facilities Support as % of TPS
Private Liberal Arts Colleges	$5.09	$0.89	17%	$10.37	$1.93	19%	$13.26	$2.55	19%
Private Universities	$30.79	$4.65	15%	$69.61	$8.43	12%	$113.07	$12.04	11%
Public Universities	$16.52	$2.22	13%	$42.4	$5.48	13%	$67.24	$8.94	13%

Source: Voluntary Support of Education (VSE) Report, Council for Aid to Education (CAE)

At the same time, explains Michael O'Neill, Villanova University's Senior Vice President for University Advancement and Alumni Relations, facilities projects provide fundraisers with a set of specific targets that can encourage donors to confirm their intentions. "We've been able to use the timetable – things like the date of our ground breaking and our established financial targets – to move major prospects toward gift decisions." The Villanova Board has determined that the University must have 75% of total project cost, including an operating endowment, pledged and 50% or more in hand in order to break ground. This firm and broadly communicated rule has been helpful at key moments. The University of Vermont's Board requires that 70% of the philanthropic goal be committed before ground breaking, and that the **University of Vermont Foundation** present a positive projection for remaining fundraising needs; they, too, always include a goal for operating endowment for new buildings, a practice that was instituted about 15 years ago. Rich Bundy, President and Chief Executive Officer of the Foundation, adds that pledge payment schedules must often be compressed, in order to meet interim cash flow requirements.

Interviewees emphasized the critical importance of securing the lead gifts first, as most facilities projects do not offer sufficient recognition opportunities to engage a broadly balanced range of gifts and meet the overall goal. Yet fundraising need not rely on an "all-or-nothing" approach; nearly all of the 27 gifts of $10 million or more to Toronto's *Boundless Campaign* thus far include some component of capital support, through careful proposal development and donor education about the University's needs.

> "When it comes to capital projects, our donors understand and respond to deadlines. Benefactors who believe in the project typically respond to that urgency."
>
> Mike O'Neill, Villanova University

Many recommend that fundraisers engage their architects in making presentations to potential donors. "We hadn't fully anticipated donors' interests in a full set of completed renderings, models, and computerized walk-throughs," notes Bob O'Connor. "It's the emotive appeal of visual materials in closing the gifts." Others have involved physicians, faculty members, curators, or performing artists in presenting institutional plans and in direct conversations with prospective donors.

Board involvement, too, is critically important. When **Children's Memorial Hospital** in Chicago set out to raise $300 million for a new hospital, out of a total cost of $865 million, many doubted the hospital's ability to reach that goal, according to Patrick Magoon, President and Chief Executive Officer of the **Ann and Robert H. Lurie Children's Hospital**, which opened in 2012. He credits the extraordinary success of the *Heroes for Life Campaign* to "the energy and commitment of our Board. They were determined to be successful, and to make this a project that would be embraced by the entire city." He advises others to recruit board members who are both prepared to introduce the CEO to previously unaffiliated individuals and are comfortable with solicitation. When the Campaign was complete, Lurie had secured

continued on page 6

Next Generation Benchmarking: Beyond Staffing and Expenditures

Every potential donor has choices when considering where to direct philanthropic dollars, yet there is far less direct competition among charitable organizations than in almost any for-profit sector. As a result, many institutions are eager to study their advancement programs in comparison to others, and willing to share intelligence about strategy, tactics, investment, and results in exchange for similar information from peers or "aspirant peers" (high-performing programs).

We benchmark for a number of important reasons. Benchmarking helps identify new strategic investment or changes in the allocation of existing resources both at the institutional level and within specific units or programs. The use of data, rather than opinion or anecdote, with boards and institutional leaders often enables advancement leaders to argue effectively for increased investment in their programs. Benchmarking information about gift officer performance metrics can be used to identify, implement, and monitor changes in portfolio sizes, standards for work performance, and outcomes. By comparing historic growth rates at various investment levels, benchmarking staffing and expenditures in relation to fundraising results can help determine the bottom-line impact ("net yield") that changes in investment or allocation might have on an organization's results. Finally, in order to promote continuous improvement and combat complacency, benchmarking can highlight areas that suffer from inadequate data collection or poor data quality processes.

The most common analyses, by far, revolve around the relationship between staffing and expenditures and dollars raised. Key ratios, such as CPD (cost per dollar raised) are used to illustrate how efficient an organization is overall in raising money. But are we missing something with these baseline analyses?

Consider this typical summary benchmarking chart (below). It appears that our focus institution is significantly stronger than the benchmark cohort average, raising more money and doing so at a lower proportionate and absolute cost than the comparison institutions. What would you say: a pat on the back and little opportunity to improve?

Not so fast. This example does not account for the philanthropic "potential" of this organization's natural constituency (such as alumni, patients/practitioners, ticket buyers/members, and volunteers). Consider how our view of the focus institution's performance changes when we review philanthropic potential and measure how well it is driving participation from the always important HNW (high-net-worth) constituency.

See the next chart. What is your impression of this organization now? Yes, it raises 13% more per year than the benchmark cohort, but its ratio of HNW households is nearly double (2.04% of their total population versus the benchmark of 1.12%), and it enjoys a staggering 1,274 more households

	Key Performance Indicators (Mean FY09 - FY14)	
	Focus Institution	Benchmark
Total Private Support (cash)	$124.50M	$110.05M
Total Expenditures	$14.94M	$19.81M
Net Yield	$109.56M	$90.24M
Cost per Dollar Raised	**$.12**	**$.18**

Source: GG+A Philanthropic Analytics

Philanthropic Gift Capacity Rating	# Prospect Households (% of Total Households)		Five-Year Participation Rate (Mean Cumulative Giving per Donor)	
	Focus Institution	Benchmark	Focus Institution	Benchmark
$10,000,000+	19 (0.01%)	7 (0.00%)	36.8% ($224,575)	57.1% ($305,050)
$1,000,000 to $9,999,999	123 (0.08%)	45 (0.03%)	44.7% ($204,750)	55.6% ($286,650)
$250,000 to $999,999	601 (0.40%)	313 (0.19%)	47.4% ($158,550)	47.9% ($171,234)
$100,000 to $249,999	2,341 (1.55%)	1,445 (0.90%)	38.0% ($57,900)	31.1% ($82,797)
High-Net-Worth Subtotal	3,084 (2.04%)	1,810 (1.12%)	40.1% ($88,560)	34.8% ($113,400)

Source: GG+A Philanthropic Analytics

with five-year potential giving of $100,000 or more. If this organization could increase participation rates and average gift levels to match the peer cohort, it would be able to raise an additional $4.6 million per year.

While this "quantitative" benchmarking has pointed us in the right direction, it is critical that our analysis not only include direct conversations with leadership and staff members at our focus institution, but also with representatives of the peer cohort group. A carefully structured investigation will help us understand the nuances in the numbers and collect important benchmark data that is qualitative in nature. For example, we may learn that our focus institution has a cultural bias toward higher overall participation rates, which has resulted in the relentless pursuit of smaller annual gifts. This may result in limited energy available for the pursuit of larger major gifts, with their correspondingly longer cultivation cycles.

In our example, several of the cohort members with lower HNW capacity have been more successful at achieving larger average gifts from top prospects. While there may be easy-to-identify quantitative measures that made this possible (for example, more major gift officers with smaller, more focused prospect portfolios), through the process of qualitative interviews we learned that each also has launched specific programmatic efforts designed to encourage gift officers to ask for larger gifts. These tools ranged from performance management and incentive goals, to well-articulated gift opportunities for donors with capacity in the higher ranges, and solid training for gift officers in the presentation of such opportunities to donors.

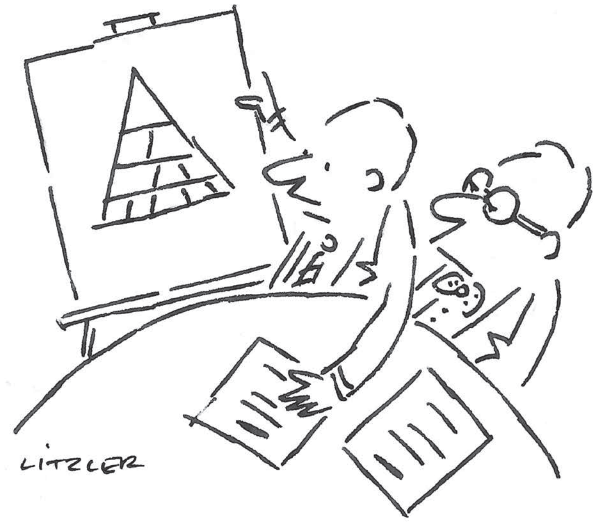
The next time your organization is asked to participate in a comparison of fundraising metrics, consider how lucky you are to contribute to an industry that values constant learning and improvement of the profession and all its members, not just the largest or most visible participants. Make sure you take advantage of the opportunity to receive your data in comparison to the rest of the cohort, and make yourself available for the qualitative – not just quantitative – portions of the survey, as the results will be richer and more informative for all participants.

For further information, please contact Creighton Lang, Senior Vice President of Philanthropic Analytics, at 312.372.4040 or clang@grenzglier.com. Creighton is a senior member of GG+A's Philanthropic Analytics practice. He leads the firm's overall institutional comparison and benchmarking projects, including several ongoing multi-year benchmarking initiatives with cohorts of high-performance institutions across an array of philanthropic sectors.

Pent-Up Demand: Pressure for Facilities Fundraising Rises in Wake of Great Recession

continued from page 3

over 100 commitments of $1 million or more, including Ann Lurie's transformational gift of $100 million; gifts for the new hospital exceeded $350 million.



"IN THIS PARTICULAR GIFT PYRAMID YOU PLAY THE PHARAOH."

What, Another New Building? Constructing the Case for Support

A typical approach to capital fundraising would focus on the details of the building itself, such as external appearance, site plans, and net square feet. "It's easier to raise money for a building because it's literally concrete," Sharon Gersten Lockman, former executive director of **Alvin Ailey American Dance Theater**, noted in *The Wall Street Journal* (January 2015). And the campaign would be structured to take advantage of the many recognition opportunities for spaces large and small – in some cases, down to the garden paths and elevators.

Yet every institution operates within its own culture, and some are less focused on visible recognition than others. Rich Bundy, who held positions at **Pennsylvania State University** and **Iowa State University** before joining the University of Vermont, reflects on the regional variations he has observed in this regard: "I've been surprised by how few Vermont donors are interested in public recognition of any sort. Iowa State donors would often allow a gift announcement, but didn't want much celebration." At the **University School of Nashville**, says Anne Westfall, Director of Development, "our donors seem far less interested in visible naming and public recognition than donors to other not-for-profit institutions."

"If you can explain how the new facility will allow you to do something different and better than you've ever done before, you will be able to raise the funds you need," says Robert Sumichrast, reflecting on plans at Virginia Tech to build a residential and instructional complex for the Business School that will encourage creative interaction among students and faculty members that would simply not be possible in the current configuration of campus facilities. Pat Magoon agrees, noting that it is always easier to raise funds for "people and programs" than for buildings *per se*. Adds David Palmer, Vice-President, Advancement, University of Toronto: "Our success has depended on consistent and careful communication of the fundamental importance of our capital projects to the experience of students and faculty members." ❖

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continued from page 1

for any single facilities fundraising project in its history, and almost entirely after the conclusion of the $205 million *Campaign for the Colleges*. Despite an enormous sense of accomplishment, O'Connor would do it differently the next time around. His advice: "Position your major capital project early in the comprehensive campaign, so that you're able to take full advantage of lead donors who are inspired by the president's vision. It would have been easier to fund the smaller capital projects late in the campaign, with gifts of $750,000 or $1 million."

Sometimes circumstances disprove accepted truisms about fundraising for capital projects – such as the strongly held belief that raising funds after the building has been opened can be nearly impossible. In 2013, the Trustees of University School of Nashville decided to take advantage of a favorable lending environment by launching a substantial renovation and restoration of its original 1925 building and adding a new "main entrance," with the goal of opening for the School's centennial. According to Anne Westfall, this has made some wonder, "How are they funding that building?" Yet gifts now stand at $2.5 million toward the $8 million project cost, and fundraising continues.

On the other hand, positioning the new building not as an end in itself, but as a means to achieve a broader and more diverse range of programming for its audience, has served **Rockport Music** well. Tony Beadle, Executive Director of Rockport Music, reports that the 2010 opening of Rockport's stunning Shalin Liu Performance Center provided an extra incentive for a final round of fundraising. With $3 million still to raise toward their $20 million project, Rockport was able to close the gap through about a dozen gifts, most of which represented renewed support from early donors who were enthusiastic about the new facility and eager to help the organization achieve its goal. Rockport used the opening of the new facility to catapult expansion from 22 concerts annually to more than 100. Coupled with rapid growth in its mailing list and website page views, as well as acquisition of an improved database to monitor ticket buyers, visitors, and donors, Rockport has used the move to the new Center to achieve strategic objectives for all aspects of programming. ❖

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An international leader in philanthropic management consulting, Grenzebach Glier and Associates (GG+A) has more than 50 years of experience with educational, cultural, medical, and other non-profit institutions. The goal of the *Review* is to provide timely information about issues and events that are relevant to philanthropy.

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Expressions of Gratitude Gone Wrong: The Question of Perpetuity

Many were surprised by the announcement in the fall of 2014 that **Lincoln Center** has agreed to pay the Fisher family $15 million in exchange for approving the Center's plans to rename the space known since 1973 as Avery Fisher Hall – funds that would reportedly be replaced by the gift of a new donor who claims the naming rights for a renovated space estimated to cost more than $500 million. "Perpetuity turns out to be measured in decades rather than centuries or millennia," wrote Peter J. Reilly ("What's In a Name? Should Naming Rights Reduce Charitable Deductions?" *Forbes*, November 18, 2014). That donor, David Geffen, has now appeared, less than six months later, with an extraordinary gift commitment of $100 million (Robin Pogrebin, "David Geffen Captures Naming Rights to Avery Fisher Hall With Donation," *The New York Times*, March 4, 2015), in exchange for which the hall, home to the **New York Philharmonic**, will bear his name "in perpetuity." (A Lincoln Center spokesperson noted that the $15 million has been built into the project's overall budget, rather than coming directly out of Mr. Geffen's gift – a fine distinction, perhaps.)

The issue is not new, and donors who care deeply about tangible recognition have been advised for some time to exercise due diligence regarding the details of gift agreements. Richard S. Conn ("Caveat Donor for Charitable Giving," *Los Angeles Lawyer*, July/August 2010) imagines a number of scenarios, including situations in which lead donors may wish to influence the recognition afforded other donors, or specify future recognition beyond the period of useful life of the building. He notes, however, that donors and their legal advisors "should not be surprised if the…institution resists particular proposed restrictions. Many institutions are now sensitized to the need to retain flexibility." Charitable institutions, of course, would far prefer to position recognition as an expression of institutional gratitude for generous support, rather than a contractual obligation. Yet, as Pat Magoon reflects on the campaign for Lurie Children's Hospital, "the more sophisticated donors were interested in protecting their investments by ensuring institutional commitment to retaining their names."

The most frequent issues surrounding donor recognition center on the size of the naming gift in proportion to the building cost, and the length of time for which the name is guaranteed by the institution. Beginning in 2010, the University of Toronto established formal guidelines, which require that a naming gift meet the threshold of 50% of the goal for private philanthropy, or 33% of the total project cost (whichever is higher). The University of Vermont, as well, typically seeks gifts at 50% or more of the philanthropic goal in order to name a building. Other institutions have sought gifts that fund building projects fully, particularly in situations where a prolonged campaign to fund a capital project through gifts of all sizes would damage ongoing fundraising for the operating budget – a risk that not every institution can take.

> "Perpetuity turns out to be measured in decades rather than centuries or millennia."
>
> Peter J. Reilly, *Forbes*

GG+A has found that most institutions continue to promise recognition either for "the useful life of the building" – wording that has been received positively by donors thus far at the University of Vermont, for example – or, "in perpetuity." Some offer time-limited naming rights under certain circumstances, such as the **Smithsonian Institution,** where the General Motors Hall of Transportation at the **National Museum of American History** was named for a 30-year period in recognition of a $10 million gift.

A focus on stewardship, for the long term, will certainly help institutions to navigate potentially difficult conversations with donors, or donor family members, when the programmatic needs have changed such that named spaces or buildings are no longer useful to the core mission. Staying in touch with donors and their heirs is easier for institutions that sustain relationships with their donors by providing periodic reports on the programs that take place within the buildings they have supported. Kathryn Miree and Winton Smith ("The Unraveling of Donor Intent: Lawsuits and Lessons," *Planned Giving Design Center Network*, 2009) complement now-common recommendations regarding the establishment of a standard gift agreement and a careful, long-term stewardship plan, with an obvious but oft-neglected practical bit of advice: "Keep the documents in a safe place."

Words to the wise.