

• • • A Strategy for • • • Capital Project Success in a Tight Economy

Use this five-point approach to ensure your capital project's success.

BY DENNIS IRVINE

In the nonprofit sector, the term “capital project” is met with both anticipation and trepidation. A capital project means growth, prosperity, and a new beginning for the organization. It also means years of fundraising, planning, and labor.

• • • Defining a Capital Project • • •

Nonprofit capital projects are large-scale endeavors that require special fundraising campaigns to finance. Outside an organization's ongoing fundraising efforts, a capital campaign focuses on raising a specific amount of money to fund a specific project. The most ambitious capital projects are large-scale design and construction endeavors for new facilities or renovations.

A successful capital project is an investment in culture and society. It is a testament to humanity and an embodiment of the philanthropic spirit. Conversely, a mismanaged capital project can be detrimental to a nonprofit's mission and reputation. Not only does the organization suffer from depletion of its limited resources, but funders may respond by withdrawing support if they perceive that their donations have been squandered.

• • • Funding in a Capsized Economy • • •

Wise spending is the cornerstone of a successful nonprofit, and capital projects should be approached cautiously in any economy. The economic prosperity of the mid-to-late 1990s provided many nonprofits with abundant sources of funding. An unfortunate consequence of that prosperity was, all too often, a lack of scrutiny on capital project management. Beginning with the 2001 recession, capital tides have receded, funding has

dropped, and nonprofits are approaching large-scale design and construction projects with increasing discretion.

Slow growth of personal income, in conjunction with volatile markets and drops in corporate profits, has created fundraising challenges and a hostile backdrop for capital projects. The American Association of Fundraising Counsel has shown that nonprofit funding is closely tied to the economy. When the economy's rate of growth drops, so do donations. In fact, over the past 30 years, giving during recession periods has consistently declined between 1% and 5%.

• • • Knowing When to Begin • • •

Nonprofit organizations are understandably hesitant to proceed with large-scale capital projects in an uncertain economy. With an uncertain economy come many questions such as:

- Will the committed funds actually come through?
- How much will the capital project ultimately cost?
- When should the project begin?
- How much capital can be spent early on, and how much should be put aside for later expenditures?
- What if a major problem arises after the project begins?
- Is putting the project on hold the best option in light of the economy?

Although some nonprofits may have the luxury of deferring capital projects until the economy rebounds, many don't. Capital projects are often driven by a clear and present need. Appropriate facilities are critical to the missions of innumerable nonprofit organizations. These facilities bring important returns not only for those served by the nonprofit, but also for the

organizations themselves, their staffs, and the surrounding communities. As a result, many nonprofits can't afford to put their capital projects on hold. When existing facilities are inadequate and the nonprofit's ability to accomplish its mission is hampered, the capital project must move forward, regardless of economic concerns.

• • • Start with a Strategy • • •

Once you have decided to proceed with a capital project, the next step is to develop a design and construction strategy. Your strategy should accommodate the current economy and its accompanying uncertainties. It should integrate your expectations, goals, and budget with the architectural design and construction processes.

A clear, concise strategy keeps the project on schedule and on budget while providing a strong point of accountability and avoiding the pitfalls of project mismanagement. Even a small percentage of deviation from the anticipated budget can translate to substantial dollars and impede progress. Slippage in schedule is equally costly.

• • • Project Pitfalls • • •

Without the framework of a comprehensive strategy, capital projects can go horribly awry. For example, a change in management after a project is under way can lead to inefficient backtracking and lost dollars. Or, a powerful design concept that originally generated enthusiasm can exceed the budget and miss the project's objectives after construction has already begun. And, of course, the element of the unexpected is always a threat.

Unforeseen disasters can come in a number of forms. Natural calamities such as floods, fires, and storms can wreak havoc on a facility. The unanticipated withdrawal of funding by a major contributor can also be devastating, placing commitments ahead of cash flow.

The old adage "Hope for the best, but expect the worst" applies well to capital projects. Anticipate hurdles, because capital projects have little leeway in their budgets and schedules.

In the face of disaster, a focused yet flexible project strategy can be recast swiftly to adjust to new parameters, and the project can resume quickly and efficiently, with minimal losses. Without a focused, flexible strategy, a disaster will send the project back to the drawing board and result in a severe loss of time and money.

• • • The Elements of Success • • • in Any Economy

How does a nonprofit go about developing an effective strategy? Although every nonprofit has unique needs and every

The Five Steps to Capital Project Success

With a strategy for design and construction in place, any nonprofit can move forward with a capital project in uncertain times. Below are the five basic elements of an effective strategy:

1. **Develop cost goals**, and establish how much money can be spent on the front end of the project.
2. **Prioritize needs**, and establish project benchmarks that correspond with fundraising timelines. Never allow spending to outpace fundraising.
3. **Identify and build the right team** for the project. Negotiate contracts, and develop a strategy to purchase everything for the project, from architectural designs to appliances.
4. **Make sure all parties** involved with the project (board, staff, volunteers, consultants, vendors, contractors and suppliers) are on the same page. Miscommunication generates costly mistakes.
5. **Check your progress** against the strategy, count every penny, and track variance. Know exactly where the project is in regard to its budget and schedule.

project has unique specifications, all project strategies should include five basic elements:

1. Cost Strategy. To devise a cost strategy, synchronize your available funds and fundraising capabilities with the overall scope of the project. The project parameters will be determined ultimately by your organization's assets and available capital. Set reasonable, realistic budgets, and make compromises by delineating your needs from your wants. Consider the cost of real estate, and explore various ownership structuring options and partnership opportunities. Keep the organization's "sacred cows" in mind as well; they cannot be overlooked.

2. Time Strategy. With the cost strategy established, develop a time strategy and schedule for the project. Begin by identifying any existing, predetermined milestones. For example, you may not be able to take ownership of a piece of property until a certain date, causing a delay in groundbreaking. Or, the project may need to be finished in time for a special event. Set real timeframes for fundraising, and create a practical schedule based on these milestones. Then, follow the time strategy steadfastly. Falling off of schedule can cause your organization to lose control of its finances, resulting in expenditures greater than funds raised. The result, ultimately, is loss of capital, loss of credibility, and a very disappointed constituency.

Dealing with Disaster

When faced with a major project pitfall, the organization must first come to terms with the situation. An honest and straightforward assessment of the organization's fundraising capacities must be made. This assessment will help guide the organization in the development of a new plan that determines exactly how much capital is needed to complete the project, establish a deadline for procuring those funds, and trim supplemental expenses.

In this situation, the nonprofit must cut its losses immediately and re-profile the project based on the available capital. It is advisable to take a step back from the project and consider creative solutions for meeting project objectives. To forge ahead in a crisis, the nonprofit must be solvent and ahead of its cash flow.

3. Procurement Strategy. It takes materials, equipment, and a talented team to build a successful capital project; therefore, a strategy incorporating human capital, as well as bricks and sticks, is critical. Procuring a good team takes thorough evaluation. Develop criteria based on the project scope and parameters, and then build a skilled team that can perform. Use care and discretion in the process of soliciting, evaluating, and engaging a qualified team. Clearly identify the various team members, and make sure that there are no extraneous players. It's not unusual for a \$20 million project to involve more than 20 consultants, all of whom play necessary roles on the project team. Contractors, subcontractors, vendors, and suppliers may multiply this team several times over.

In addition to the project team, the procurement strategy should include the acquisition of everything from forklifts to fixtures. Identify every element and item needed to execute the project—architectural design, construction equipment and materials, technology, vendors, and operations—and then develop a plan to procure them.

4. Communication Strategy. With the team in place and the project underway, communication becomes paramount. Be sure volunteers, consultants, board, staff, vendors, contractors, and suppliers are all on the same page. A successful communication strategy provides clear leadership and accountability. It also motivates the team, stimulates problem solving, delineates clear goals, and provides a platform for evaluating activities. Be sure the project's status is continually measured, recorded, and reported to everyone involved. Clear communication is the key to efficiency at this point. Miscommunication will result in expensive misunderstandings and discord.

Growing Downtown

As early as 1995, board and staff at YWCA Topeka (www.ywcatopeka.org) recognized a need to expand and renovate its building. Constructed in 1976, the downtown facility was due for remodeling. Mechanical systems were inefficient, the roof needed attention, and office and meeting space was at a premium. Fulfilling the vision of being a "center" for services to women and families would require a capital campaign of significant proportions.

In 1998, the board voted to proceed with a capital campaign for \$2.5 million, which included a \$250,000 endowment. Then Security Benefit Group, one of the largest companies in Topeka, generously donated its childcare building, valued at \$1 million with furnishings. With this gift, the steering committee recommended adjusting the campaign goal to \$3.5 million, and the board agreed.

The donated building, about six blocks from the YWCA's downtown facility, put the campaign on the map. Hartsook Companies (www.hartsookcompanies.com), a campaign consulting firm, laid out a strategic plan that involved grants, corporate gifts, and a State of Kansas community service income tax credit piece.

Local corporations began giving toward the campaign at a rapid clip. Many corporations that donated to the campaign at the "leadership level" (\$25,000 and above) gave the largest gifts they'd ever given in Topeka. Impressive grant gifts also highlighted the successful campaign.

Additions and renovations to the downtown facility came in three phases: one, a Battered Women Task Force Center and Health Arena; two, an area for the Girls to Girls program as well as swimming pools and locker rooms; and three, renovations to the donated building.

"Hartsook Companies was our partner from the very beginning of the campaign," says Kay Coles, YWCA Topeka's executive director. "They helped us lay out the strategy and gave essential guidance on how to secure the gifts. If it had not been for their direct assistance and constant, relentless prodding—I mean encouragement—we would not have been as successful."

—adapted from "Growing Downtown" by Denise Rhoades
ASR Philanthropic Publishing (www.asrpublishing.com)

5. Financial Management Strategy. While the cost strategy delineates the budget on the front end, the financial management strategy is the lifeline that runs throughout the project. It is an empirical measurement of the project's performance of the cost plan. It incorporates project accounting, financial projections, and reporting. It checks current status against established budgets, tracks any variances, and allocates contingencies. It documents every invoice, contract, and payment, with a record of all work completed and items received. This element is crucial to the project because it provides a real-time account of where the project stands. Without a financial management strategy, determining current performance and predicting next steps becomes impossible.

• • • Investing in Tomorrow • • •

A five-point strategy for design and construction will ensure the success of your capital project. If your organization doesn't have the internal resources to develop a project strategy, a professional strategist can provide the expertise to guide the process successfully. Project pitfalls are inevitable, but with a strategy firmly in place, you can anticipate the unexpected and overcome disasters without losing initiative. Despite economic turbulence, the commitment to philanthropy remains strong, and capital projects are the most important investments a nonprofit organization can make. ■

For More Information

Want to learn more? See the following *Nonprofit World* articles at www.snpo.org.

The First Capital Campaign (Vol. 6, No. 1)

Are You Ready for a Capital Campaign? (Vol 12, No. 5)

Fourteen Hot Tips for Capital Campaign Success
(Vol. 15, No. 5)

Your Fundraising Campaign Can Raise More than Funds
(Vol. 13, No. 4)

Nonprofit Doesn't Have to Mean Noncomfortable
(Vol. 18, No. 2)

Are You Sure You're Ready for a Fundraising
Campaign? (Vol. 16, No. 4)

Should a Famous Person Chair Your Fund Drive?
(Vol. 14, No. 4)

Dennis Irvine is the president and founder of Irvine Team, the first-of-its-kind customer-focused "design + construction strategy" company serving markets across the United States. Irvine Team can be contacted in Houston, Texas, at 713-840-1880.

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