

# Grassroots Fundraising Journal

VOLUME 24 ■ NUMBER 4 ■ JULY/AUGUST 2005

**FEATURING:**

## The Value of a Nest Egg: Starting an Endowment

BY KIM KLEIN

**ALSO IN THIS ISSUE:**

Prepare and Manage a Special  
Events Campaign Budget

Early Focus on Membership  
Brings Stability: The Southwest  
Workers Union Story



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## LETTER FROM THE EDITOR

### STEPHANIE ROTH

In the early 1990s, Richard Steckel wrote a book called *Filthy Rich and Other Nonprofit Fantasies*. The book was an excellent guide to creating earned income, but the title captured something else. No matter how grounded and realistic, even cynical, many of us in development are, we do fantasize about our organization getting a \$1 million gift, no strings attached, and a 30 percent response on a 50,000-piece direct mail appeal, which will cause us individually to win a MacArthur genius award, which will allow us to retire.

To be sure, once in a while, things do succeed beyond our wildest dreams. I recently helped organize a fundraising event for an organization whose board I sit on. It was an awards dinner, the first event of this kind we had ever done. We decided to plan conservatively, expecting to sell out the dinner at 300 tickets, but with limited opportunities for sponsorship or other income, we hoped to net about \$10,000. The event was successful beyond our wildest dreams, and when one of the organization's funders presented a 2:1 match for any gifts pledged during the event, we ended up netting more than \$30,000 on the evening! Of course, even this magical event was the result of hundreds of volunteers hours (paid staff played a fairly minimal role) taking care of thousands of details. No magic — just a plan, followed by concentrated, meticulous working of the plan.

This issue offers two articles on strategies that often fuel nonprofits' fantasies of becoming "filthy rich"—endowments and special events. You will see that the common thread is the importance of planning. First, you create a vision of what you want to accomplish, and then you create and track all of the detailed steps required to carry it out. Kim Klein writes in her article, "The Value of A Nest Egg: Thinking of Starting an Endowment" that a great deal of work is involved before even \$1 is put into an endowment account. We are pleased to excerpt a chapter from Cause Effective's new book, *The Special Events Toolbox* (the first of a two-part excerpt) on planning a year's worth of events and budgeting accordingly. This piece of work, when done properly, may well give your organization its fantasy event.

The issue's final article is a first-person account of an organization that recognized right from the start the importance of dues-paying members. Ruben Solis writes that the founders of his organization, Southwest Workers Union, could see how easily foundation funding could take a group off mission, so they did not seek or accept any foundation funding until they had built a strong membership base.

The articles in this issue remind us that fundraising, like so much of our work, is achieved largely by putting one foot ahead of the other, encouraging others to walk along, keeping our eyes focused on the path we have created together. That's a fantasy that can come true!

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## PART I

# The Value of a Nest Egg: Starting an Endowment



BY KIM KLEIN

In the boom years of the 1990s, even the smallest group could be found putting money away into an endowment, a reserve fund, or just a savings account. This money was invested in mutual funds or certificates of deposit and, with a little tending, the principal grew dramatically. Endowment income became a reliable and increasing part of an organization's annual needs, and for organizations with large endowments, the endowment gains were a major part of income. With the dramatic stock market downturns beginning in 2000 and the market's continuing instability, putting money aside has not been as popular or even as possible as it was in the last century.

But just like a family or an individual who saves for retirement or hard times, any organization that possibly can, should put some money aside. Organizations that should be permanent fixtures in the nonprofit landscape need to start endowments. There are ways to invest safely and to ensure both long-term growth and some income. In this introductory article, I will explore what an endowment is and isn't and what an organization needs to have in place to start one. Most of what needs to be in place to start an endowment also needs to be considered in starting a reserve fund, or even in keeping large amounts of money in a savings account, but an endowment is the most permanent of all the "nest egg" options.

### WHAT IS AN ENDOWMENT?

Coming between "endotoxin" and "end papers" in *Funk and Wagnall's College Dictionary*, "endowment" is defined as follows: "1. Money or property given for the

permanent use of an institution, person, etc., 2. Any natural gifts, as talent or beauty, 3. The act of endowing."

The first definition is obviously the one most germane here. An endowment is a permanent savings account for an institution. Money is put aside as principal and a small percent of that principal (traditionally 5 percent) is used for the annual needs of the institution. In years when the principal increases more than 5 percent, the value of the overall endowment increases accordingly,

**L**ike any source of money, an endowment can lose value, which is why organizations should have diversified income streams so that investment income is not critical to survival.

which then increases the amount the organization can use, while still staying at the 5 percent figure. In years when the principal does not increase by 5 percent, the organization can still take out 5 percent of the asset without truly eroding the original principal. On the other hand, in huge market downturns even the original principal may lose value; taking out any of it for operating expenses is not as useful, as

that further lowers the endowment's value.

Generally, using a mix of investments, an endowment can weather market instability and still be productive. However, like any source of money, an endowment can lose value, which is why organizations should have diversified income streams so that investment income is not critical to survival.

### WHY ARE ENDOWMENTS GOOD?

Though the advantages of endowments may seem obvious, let's review them anyway.

**1. Just like a savings account, an endowment provides a measure of financial security** and takes some of the anxiety out of annual fundraising.



2. *An endowment allows, indeed forces, an organization to think in terms of long-range planning* because an endowment implies a commitment to exist in perpetuity.

3. *Endowments provide a vehicle for people to make larger gifts* to an organization than might be appropriate for an annual gift, and they allow people to make one-time-only gifts with the assurance that the gift won't just be spent.

4. *An endowment gives people a way to express their commitment* to an organization through their wills; few people will leave money to an organization that does not have some kind of permanent fund.

5. *Endowments attract donors who perceive the endowment to be a sign of good planning* and long-range thinking in a group they may not otherwise have thought to support.

6. *Principal from endowments can be used for capital expenses* (such as a building purchase) and as collateral for loans, if ever needed. In extreme circumstances, the endowment can be used to keep the organization alive until it can generate other income. (While "invading principal" is something organizations try very hard not to do, there are circumstances in which it might be the best or only recourse, and it is nice to know you have that possibility.)

## WHAT IS BAD ABOUT ENDOWMENTS?

Believe it or not, endowments have some drawbacks too.

1. If they are big enough, they *allow organizations* that should have gone out of business, or at least changed the way they work, to exist permanently and *to stay the same*.

2. The income from a large endowment can *allow organizations to become unresponsive* to their constituency.

3. There is a philosophical point as well: money in an endowment has been diverted from the tax stream but is *not being used directly for tax-exempt activities*. Organizations that are troubled by decreasing support from government funding and increasing privatization will need to grapple with this dilemma. An organization that believes it is doing work that the government should be using tax money for (such as social services, support of the arts, support of school programs, and so on) is essentially "privatizing" itself by raising private "nest egg" funds. (A historic footnote on this point: In 1791, as part of the French Revolution, all endowments belonging to church or private institutions were seized and sold off, reflecting the Jacobin revolutionaries' belief that the state should provide what its citizens need for quality of life and that private intermediaries, particularly "the long arm of the dead donor," did

not promote a healthy society. The law that was passed, which essentially curtailed the creation of foundations, was in effect in France until 1987.)

4. As we have seen in the first years of this century, endowments can *provide a false sense of security*. Interest rates vary, stock markets crash and, of course, money can always be invested badly.

5. The existence of an endowment *may discourage some donors* from giving who prefer to support organizations that they perceive to need the money more. Further, some donors may choose to give to an endowment rather than to annual operating costs.

6. When donors give money to organizations to endow certain programs, *the work of the organization can become donor-driven* rather than mission-driven. (This pitfall is a danger with foundations and government funding as well, or with any large source of money earmarked for a specific program area.) The added problem of specific programs being endowed is that the donor is usually deceased by the time it is clear that the program needs to be changed or abandoned, but the terms for changing how the funds are spent may not be in place. If the endowment is large enough, lengthy and expensive court cases may result.

7. Managing an endowment is an *additional piece of work for board and staff*. This management time can become the tail that wags the dog, particularly if there are problems with the investments or disagreement about using the income.

## WHAT TO CONSIDER IN DECIDING TO CREATE AN ENDOWMENT OR RESERVE FUND

When thinking of starting an endowment, organizations often focus on the money: how much to raise, how to raise it, whom to ask for it. It is obvious that only organizations with strong annual campaigns are really in a position to start endowments. But there are two critical questions that must be answered before even one dollar is invested in your endowment.

*First, does everyone in the organization agree that your group should exist permanently?* Most nonprofits involved in social change are formed with the idea that if their work is successful, they will put themselves out of business. The founders generally do not think of the group becoming permanent and everyone may be surprised at how long it is taking to solve whatever problem the organization was created to address. Arts groups, independent schools, historic preservation societies, parks and wildlands conservation

Some boards rule that the principal cannot be touched even if drastic cuts are required, whereas others decide that the principal can be used to balance the budget.

groups, and some social services are clearly permanent, with their work always needed or wanted. On the other hand, environmental, feminist, liberation, and advocacy groups, if they are successful, will cease to exist.

Sometimes the most interesting part of the endowment process is discussing this question at the beginning: Should we always be here? "Permanence" in terms of endowment has shades of meaning. It can take its traditional meaning of "always and forever" or it can take the meaning of "fifty years from now." But endowments do imply existing well past the lifetime of anyone in the group, and they require the group to imagine the day when people who are not yet born are sitting on the board and working as staff. Will your group be needed then? What is the evidence of that need?

It is important to make sure that everyone among board, staff, key volunteers, and donors (often many of the same people) agree that permanence is a value. When people don't agree on that, the fundamental reason to have an endowment and the driving force of endowment fundraising is already in trouble.

*Second, what will endowment income be used for?* Just as couples may have differing ideas about how and when to use savings, so may board and staff differ about using endowment income. Some will see the income stream as a relief from constant fundraising and will not expect the group's annual budget to grow very much. Others will see the endowment income as paying for particular programs or doing things the group has not been able to do before.

What you use the income for is related to how big you want your endowment to be. An organization with a \$250,000 budget simply looking for a little financial relief will be happy to start with a \$100,000 endowment that yields \$5,000 a year. This money can be used to increase staff health care benefits, or buy better equipment, or fix up the office. It is not enough money to change the direction of the group in any way, but it is enough to make life easier. A group looking for enough endowment income to open a satellite office or explore new program directions will need an endowment of \$1,000,000 or more, from which they can safely draw \$50,000 a year.

Once these two questions are resolved (which, in more than one organization I have worked with, took a year of discussion), you are ready to begin the necessary initial logistical steps. These involve authorizing the endowment, determining what gifts will be accepted, and deciding on investment policies.

## THE AUTHORIZATION

First, the board agrees to create an endowment fund. This fund will be reflected in all financial reports as a separate line item. The group agrees to hold this money in perpetuity. It is at this point that the group should consider and decide on a series of policies about the endowment money.

### A Use Policy

Policies detailing how the interest income from the endowment will be used can be couched as broad statements, but should not be so broad that they are subject to a variety of opposing interpretations. For example, one

organization's policies stated, "Endowment income is to be used for operating costs." Later, they opened another office and added new programs. Some board members thought the endowment income should be spread to include all operating costs for all programs; others felt the

income was limited to operation of programs in place at the time the policy was created and that new programs were therefore on their own to raise all their money.

Use policies should also specify how the use of the endowment income could be changed. Most organizations use the income to fund their ongoing program and general operating expenses. Others, however, may use endowment income just for one aspect of their program, or, if they own their own building, just for expenses related to the maintenance and improvement of their property.

### An Invasion Policy

Are there any circumstances under which the group would use (invade) the endowment principal? There are no right or wrong answers to this, except to say that in most cases endowment principal is not used except under the most dire circumstance, or in the years when the principal does not grow by 5 percent. The group will need to decide on the categories of "dire." Most board policies establish that the endowment can only be used if the organization itself is in danger of closing and that the amount taken from the principal must be paid back within a given time period. Some boards rule that the principal cannot be touched even if drastic cuts are required, whereas others decide that the principal can be used to balance the budget. These contingencies should all be spelled out in the authorization. There have been several circumstances in which a board of directors and staff worked very hard to build an endowment, then years later, after all those people were gone, another board with too much latitude to invade voted to use endowment principal to balance the budget, gradually burning through the whole corpus.

**A**t the beginning most grassroots organizations should accept only cash, appreciated securities (stocks and bonds), and life insurance with few or no use restrictions.

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Related to this question is the question of who will have the authority to decide whether to use endowment principal. Most boards rule that the whole board would have to approve of such a use. Others stipulate that up to a percentage of the principal can be used on the vote of the executive committee; beyond that percentage the decision must go to the whole board. At the full board meeting, some boards require unanimous agreement, while others deem that a simple majority or two-thirds' vote is sufficient. Some of these procedures will be determined by how the group makes decisions on other matters.

## **GIFT ACCEPTANCE POLICY**

The second broad category of decisions involves what types of gifts you will accept, who has the authority to accept them, who will draw up contracts with donors about them, and under what circumstances the organization will accept or decline a gift. (Most organizations should have some gift acceptance policy in place even if you don't have or never intend to have an endowment. As you can see from the examples below, any kind of fundraising effort could run into the questions listed.)

For example, will you accept the gift of a house? "Well, why not?" you ask brashly. One group discovered that a house was given to them because the owner could not sell it, even at a huge loss. Another group accepted a house with a lien on it. Another accepted a duplex with tenants. They were going to convert the duplex into an office and sought to evict the tenants, creating an enormous public relations nightmare, including this headline: "Single mothers evicted for 'social justice.'"

Will you take jewelry or art or antiques? You have to think about what you will do with this stuff. How will you sell it? Do you have access to appraisers and buyers of fine art? These items may be worth a lot of money, but you may not be able to sell them. You can spend hours of staff and volunteer time trying to getting a fair price for these items, and at the end of the day they have cost you more than they were worth.

Will you accept stock from companies that make weapons or degrade the environment or use sweatshop labor? (Because stock should be sold immediately, most organizations can accept stock from companies they disagree with without supporting them.) For a thorough discussion of gift acceptance policies, see "Fundraising Medicine: Creating Gift Acceptance Policies," by Rick Cohen. *Grassroots Fundraising Journal*, Vol. 21: 1, 2002.

Will you accept endowment gifts that are restricted in use? For example, if someone wants to endow your children's program forever, will you accept that restriction? If they want to create a new program and endow it, will you consider that?

To keep things simple, at the beginning most grassroots organizations should accept only cash, appreciated securities (stocks and bonds), and life insurance with few or no use restrictions. Other kinds of assets can be negotiated on a case-by-case basis.

Your published gift acceptance policy can be very simple: "The Board of Directors of People for All Things Good reserves for itself the right to turn down any gift that we believe will not be in the best interest of our mission or that we feel we cannot handle appropriately." What you publish is not as important as that you have this conversation with your board and staff and that everyone understands what you are getting into. The tendency of most organization is to accept all gifts ("Don't look a gift horse in the mouth"), but without spending an inordinate amount of time on it, you need to be clear that some gifts can be burdensome beyond their value.

If you have questions about the types of gifts you should accept and what is involved, hire a consultant to help you. This may save you money and time later.

## **INVESTMENT POLICIES**

Your organization also needs an investment policy. Will you invest entirely for income or will you have a mix of investments that allow for growth of the principal and income? Will you require socially responsible investing, and if so, what screens will be put in place? For example, some groups have screens that exclude specific kinds of products or businesses, such as "no tobacco, box stores, or logging." Others require evidence of no union busting, racially diverse staff and board, or domestic partner coverage. If you do social screening, you need to set priorities. If you try to screen for everything bad, you will have few places to invest.

The board will need to create an investment committee. This can include people who are not on the board. Friendly bankers, your biggest donors, or program officers at foundations can recommend people for this committee and sometimes can serve themselves. For many grassroots board members, their biggest investment is a new car; investing endowment funds requires learning a number of new concepts. Even if the board delegates responsibility for investment decisions to others, it must still educate itself in order to monitor the management of the endowment. It is not always easy to tell what is a good or bad investment, nor is it always easy to tell if someone is using your lack of investment knowledge to their (and not your organization's) financial advantage. While you may want to hire an investment professional, don't ever trust your investment decisions to just one person or a group of people who are all friends with each other.



## ARE YOU READY?

Here is a brief checklist to help you determine if you are ready to start an endowment:

The entire board, staff and key volunteers ("We") agree that our organization needs to exist at least 50 more years. YES NO

We currently have a strong individual donor program in place. Thank you notes, newsletters, and appeals go out on a regular basis. We regularly meet with our major donors, and a majority of our staff and board feel comfortable asking for money in person. Further, our annual income from individuals has been growing for the past three years, both in amount of money and in number of donors.

We have considered the drawbacks of having an endowment and have decided the advantages to our organization merit the risks.

We have decided on the use of the income from our endowment.

We have decided on an approximate ideal size for the endowment (understanding that this may take several years to achieve).

Authorization (reflected in the minutes) to open an endowment has been given by the board.

The board, in discussion with all appropriate parties, has created the following policies:

- A use policy
- An invasion policy
- A gift acceptance policy
- An investment policy

We have a plan for creating an investment committee (it is not really necessary to have such a committee until you have some investments).

We are excited about moving into this next phase in our organizational development.

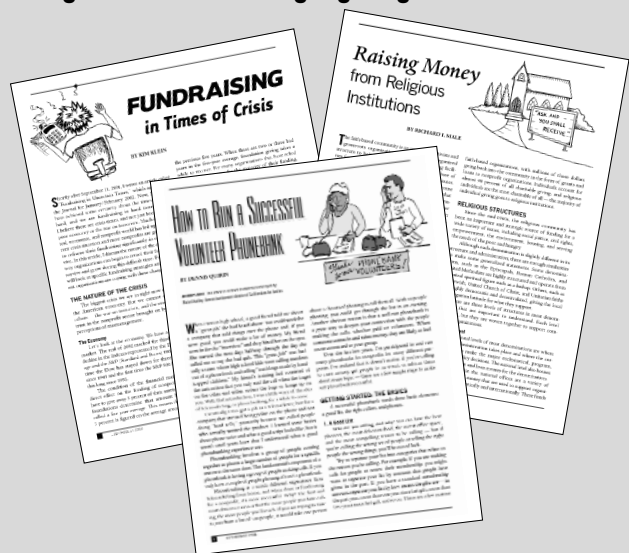
If you answered yes to all the items, you are ready to go ahead and start an endowment.

In the next issue, we will outline how to create an endowment campaign. **GFJ**

KIM KLEIN IS PUBLISHER OF THE GRASSROOTS FUNDRAISING JOURNAL.

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# Prepare & Manage *a Special Events Campaign Budget*

BY LAUREN GOLDSTEIN

**EDITOR'S NOTE:** The following article is adapted from the book, *The Special Events Toolbox: A Nuts-and-Bolts Guide to Planning and Implementing Successful Special Events Campaigns for Nonprofit Organizations*, reprinted here with permission of the author, executive director of Cause Effective. This article offers excellent ideas about budgeting for special events, placing the planning process in the context of what the authors call a "Special Events Campaign." Here's how they describe such a campaign: "Think first about all of the events you want to do over a whole year rather than focusing on each event individually. A campaign is a series of special events, each with its own primary objective, designed to fulfill a set of objectives over a period of time."

Special events can be an effective part of an organization's overall strategy because they can accomplish a range of things in addition to raising direct dollars. To name a few, events can help to raise an organization's profile, recognize volunteers, educate clients and achieve other program objectives, enlist members, and cultivate new donors.

But for every reason to plan and implement a special event there is a corresponding reason not to do one. They can burn out your volunteers, take precious time away from your program, alienate friends, and garner negative publicity. And, let's face it, they can lose money when you're trying to make money.

So before you guarantee the count with the caterer or print the invitations, consider carefully if the special events you are planning are right for your organization right now. How do you do that?

First, determine what you want to accomplish—net \$50,000, announce a new program, honor a long-time funder. Will this event help you reach that goal? Second, take stock of your organization's capabilities: Do you have the human and financial resources to execute the event?

If your answer to either of these questions is no, then this event may not be right for your organization at present, and you should consider the myriad other ways of achieving your objectives. Once you decide the place of

events in your fundraising program, this article will tell you how to budget for them.

## **BUDGETS: TOOLS TO USE**

We recently asked a new client what her budget was for an upcoming conference. "How am I supposed to know?" she replied. "The conference hasn't happened yet." This interaction illustrates two common misconceptions about special events budgets: that you have to know precisely what you'll invest and earn before you can prepare a budget; and that budgets are a report of the past rather than a forecast of the future.

Budgets are in fact an excellent tool. They can help you do the following:

- Determine the financial benefits and risks of your special events campaign and each special event.
- Assess the likely income and expenses of each special event and of your overall special events campaign.
- Control costs and revenue, making sure money isn't spent excessively and that the greatest possible revenue is collected.
- Make decisions by providing a financial context for planning and implementation issues.
- Track income and expenses and prepare financial reports.

## PREPARE AN OVERALL SPECIAL EVENTS CAMPAIGN BUDGET

Prepare a budget for each individual special event and for your overall special events campaign. The overall budget will help you measure how the activities you've chosen will combine to meet your overall objectives. If, for example, your projected total net income for the campaign is less than your direct fundraising objective, either the objectives need to be changed or some of your events need rethinking. Alternatively, you may find at the end of the budgeting process that you haven't set ambitious enough objectives; if so, go back and change them.

The overall campaign budget also provides a way to capture expenses that do not pertain to any particular event, but to the campaign overall. For example, if you decide to recruit an honorary committee for your entire anniversary campaign or to print note cards that will be used for all of the events, the expenses should appear in a separate overall anniversary column.

## PREPARE AN EXPENSE BUDGET

The most important step in preparing an expense budget is to itemize your expenses. More people make mistakes by forgetting an item than by incorrectly estimating the cost of that item. Use the "Budget Checklist," on page 12, review past budgets from your own events or from other organizations' events, and think through each event, writing down every item that comes to mind. When itemizing, be as specific as possible. Although your budget may contain headings like "administration," "facility," or "decor," be sure to also identify the actual items within the categories that require expenditure. For example, rather than writing "Promotion. . . \$3,700," put down each cost:

Graphic design . . . . .	\$ 200
Press releases (printing) . . . . .	50
Printing 2,000 leaflets at \$.25 each . . . . .	500
Printing 500 invitations at \$1.00 each . . . . .	500
Printing 500 posters at \$1.75 each . . . . .	875
Envelopes/stationery . . . . .	75
Purchase two quarter-page ads in the Star-Journal . . . . .	1,000
Copywriter: one day at \$500 . . . . .	500
	<hr/>
	<b>\$3,700</b>

Although we frequently tell our clients that there are no hard-and-fast rules in special events planning, the expense side of budgeting is the exception. Always include the following categories in your special events budgets:

- **Miscellaneous.** This category captures all of the items you legitimately cannot think of but are sure must exist.
- **Contingency.** This category covers the cost of things that will go wrong that cannot be anticipated. Items eventually paid for in this category range from carpet cleaning

for the spilled wine to replacing the workers who were out sick. To estimate a fair number for contingency start at about 10 percent of the total budget and then estimate up or down based on your familiarity with the event, your confidence in the budget, and the size of the total budget.

*A word to the wise:* Only spend your contingency money on a real emergency, and don't take it out of the budget until well past the close of the event. Remember, the bills keep coming – even after the event.

- **Staff and Overhead.** If your staff weren't working on your special events, they would be doing something else instead—perhaps raising foundation funds or soliciting major gifts or generating income by providing services to clients. This is called an opportunity cost. You must include the cost of the staff time devoted to your special events and a reasonable estimate of the corresponding cost of overhead in your budget.

## Special Events Budgeting Tips

**Prepare a master budget for all your special events at the same time.** Not only will doing this save you time in the long run, but you may find ways to save money by covering expenses of different special events in one shot.

**Don't spend—invest.** In business, you either invest money or you take it home. In a nonprofit organization, you can't take it home, so anything you earn should be re-invested, and any expenditure should be a carefully calculated investment on behalf of the organization.

**Don't invest money before you earn it.** Don't invest money when you don't have it in hand or firmly committed.

**Don't spend the same money twice.** This is a common mistake. Make sure you replace any front money you use to get a special event going. If your organization gets a \$500 grant and you've already made commitments based on that income, make sure you don't spend it again. Keeping careful records will help you avoid this problem.

**Don't invest what you can't afford to lose.** Consider the worst possible outcome of your special events program. Can your organization afford to absorb that loss? If it can't, don't allow yourself to say, "That won't happen." It might!

**Be realistic.** Don't get caught up in wishful thinking; be prepared to lay out some money, and don't count on all the potential income as coming through.

**Make sure your special events budget is consistent with your organization's financial status and goals.** If your organization's annual budget is \$12,000, can you or should you be producing a \$75,000 arts fair? On the other hand, if your organization has a \$15 million annual budget, does it make sense to produce a cocktail party to raise \$500?

**Use your budget.** Like any tool, a budget can help you only if you use it. Refer to it before you make a purchase or plan your fundraising, and revise it regularly as the special event progresses.

You need not broadcast this information to every funder and friend, but someone must consider it in making special events decisions. Senior-level staff can be expensive, and when board members are faced with this reality, they may be inclined to do more of the work themselves! The best way to calculate this figure is to approximate the percentage of time each staff member will invest in an event and apply that same percentage of their salary to the event budget. Use the same formula to calculate a share of the organization's overhead costs (such as office rental and business machines) to apply to the budget, since those resources could be used to carry out your organization's program or raise funds if they weren't being invested in the special events.

Once you have identified all of the items, determine costs as accurately as you can. Don't just guess on items you don't know. Do some shopping! Call potential suppliers, sites, and consultants and find out what they charge for the things you'll need. Another good way to determine costs is to ask other special event producers and other organizations how much they pay and to whom. You will also need to consider your objectives in determining how much you are willing to invest in each item. Invitations can cost anywhere from ten cents to ten dollars each; your objectives should help you determine where in the range you wish to fall.

These steps will help you prepare a solid budget and might give you some leads for savings you wouldn't have considered (see budget example on page 13).

## PREPARE AN INCOME BUDGET

Preparing the income side of a special events budget is similar. Begin by itemizing income sources. In the "Budget Checklist" we have listed some general income categories. Be as specific as you can. For example, rather than writing "Ticket Sales. . . . \$24,500," specify contribution levels as follows:

Benefactor tables at \$1,500 each . . . . .	\$ 4,500
Sponsor tables at \$1,000 each . . . . .	5,000
Benefactor tickets at \$150 each . . . . .	7,500
Sponsor tickets at \$100 each . . . . .	7,500
	\$24,500

This is also a good time to consider ancillary income. Ancillary income is the extra money you can make with items such as raffles, T-shirt and button sales, silent auctions, and paid greetings in your journal.

Do not make up income numbers! Think about the maximum and minimum potential return from each source, what is likely from each, and which of the sources you will pursue. To get the most accurate information on how much a donor is likely to contribute for a ticket to your event, do the income equivalent of shopping: survey your past and potential donors. Asking people not only eliminates the

uncertainty, it also shows your donors that you care about what they think. As with expenses, consider objectives in thinking about the income you might generate.

## WORKING BOTH SIDES OF A SPECIAL EVENTS BUDGET

Some special events will have variable costs (expenses such as catering or journal printing) that depend on how many people attend or how many journal greetings are purchased. For budgeting purposes, estimate sales and make sure your income and expense columns are based on the same calculations. Add notes to your budget to explain those assumptions for future reference.

When working with variable costs, it is sometimes useful to prepare budgets based on different sales estimates. This sort of information can be helpful in pricing.

Don't forget the cost of free tickets. If you are producing a fundraising dinner with direct costs of \$45 per person and you have to give away 20 tickets to media contacts, a few of the organization's big contributors, the Mayor, and volunteers, those freebies will cost you \$900, and that expense should be included in the budget. Likewise, if your site has a maximum capacity and you are giving away tickets, subtract the free tickets from the number you have to sell. In the example above, if the site can only hold 200 people, estimate income based on selling 180 tickets.

Include all "in-kind" contributions (donated goods or services) as income and expenditures. For example, if someone donates the printing of 5,000 leaflets, that gift has an actual monetary value and is equivalent to cash; list it on both the income and expense sides of the budget. We recommend doing this for several reasons. First, you want a clear picture as you proceed of how much your special events will cost and how much you will raise. Second, you must be prepared to pay that expense if the contribution isn't realized. Finally, you'll know for future special events what the true costs were. Use your budget as a tool to identify potential in-kind opportunities.

## CASE EXAMPLE: Regional Arts Association Creates a Special Events Campaign Budget

The Regional Arts Association's Board of Directors has tentatively approved next year's special events campaign, which includes the following:

- **A performance of "West Side Story" followed by a cocktail reception for large donors** (Primary objective: Showcase local talent)
- **Two house parties** (Primary objective: Enlist future donors)
- **A picnic** (Primary objective: Attract new friends and donors)
- **A gala dinner with a journal and an art auction** (Primary objective: Raise money)

Before giving final approval, the board asked to review budgets for each event as well as a budget for the entire special events campaign.

To create the budgets, Marcia Smith, the organization's development director, looked at budgets from last year's performance, gala, and picnic. Since they had never done a house party, she called several colleagues for input. Two of them emailed her budgets from house parties they had done for their organizations.

Using the "Budget Checklist," she crossed out the expense categories that didn't apply to any of her events, then developed a budget for each event, writing in appropriate budget categories. She filled in the numbers she knew from last year's events (noting some assumptions about increase in both price and number of guests).

For "Miscellaneous" and "Contingency," she used last year's amounts for the repeat events even though none of

the contingency budget and only some of the miscellaneous budget was spent. For the house parties she thought about what could go wrong that money could fix and decided the organization might need to provide food, so she added that to the budget. She convinced the director to include staff time in the budgets, even though it hadn't been included in the event budgets before.

On the income side, she listed the categories and numbers in the same way, being careful to specify each source of income.

She then designed a spreadsheet with a column for each event and a column for the campaign total (see page 13). **GF**

*Part Two of this article will appear in the next issue.*

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## Special Events Budget Checklist\*

### INCOME

- Auction
- Concession Sales
- Donations: Cash
- Donations: In-kind
- Games
- Journal Greetings
- Journal Sales
- Raffles
- Ticket Sales
- Underwriting
- Vendor Fees

### EXPENSES

#### Performers/Entertainment

- Expenses
- Fees/Bonus/Pct.
- Royalties

#### Catering/Refreshments

- Audience/Attendees
- Performers/Speakers
- Staff/Volunteers

#### Logistics

- Accommodations
- Meals
- Transportation (for materials)
- Transportation (for people)

#### Tickets

- Box Office
- Printing
- Service Charge

#### Facility

- Asst. House Manager
- Cleaning Crew
- Coat Check
- Company Manager

- Electricity
- External Security
- General Manager
- Heat/Air Conditioning
- House Manager
- Internal Security
- Maintenance
- Rental: Guarantee
- Telephone/Modem
- Ticket Takers
- Tips
- Ushers
- Waiters/Servers
- Water/Sewage

#### Production

- Bullhorn
- Chairs/Seating
- Computer
- Curtain/Backdrop
- Easels
- Ladders
- Lighting
- Music
- Overhead Projector
- Piano/Organ
- Podium
- Portable Toilets
- Projectors
- Props
- Recording/Video Screens
- Sets
- Sound Equipment
- Stage/Platforms
- Tables
- Taping
- Tents
- Walkie-talkies

#### Production Personnel

- Asst. Stage Manager
- A/V Operator (PowerPoint etc. )
- Choreographer
- Director
- Electricians
- Light Board Operator
- Piano Tuner
- Production Coordinator
- Stagehands
- Spotlight Operator
- Sound Operator
- Stage Manager
- Teamsters/Unions

#### Insurance

- Such as Liability, Fire, Property Damage

#### Permits

- Alcohol
- Electricity
- Merchandise
- Sound/Light
- Special Event
- Stage
- Street Closing
- Vendor

#### Concessions

- Bumper Stickers
- Buttons/Caps/T-Shirts
- Credit Card Machines
- Tables/Chairs

#### Promotion

- Advertising
- Copywriting
- Direct Mail
- Displays
- Envelopes

#### Flyers/Brochures

- Invitations
- Journal
- Labels
- Letterhead
- Logo
- Photography/Videography
- Posters/Media
- Public Relations
- Reply Cards
- Reply Envelopes
- Signs/Banners
- Save-the-Date Cards
- Website

#### Decorations

- Balloons
- Displays
- Flowers
- Napkins
- Photos
- Supplies
- Tablecloths

#### Administration

- Accounting/Legal
- Computers
- Consultants/Event Planner
- Copying
- Fax
- Messengers
- Nametags
- Postage
- Software
- Staff
- Supplies

*\*Please note: This is a partial list of budget categories. A complete version is available in the book.*



## PLANNING WORKSHEET (SAMPLE): Regional Arts Organization

ITEMIZED INCOME/EXPENSES	"WEST SIDE STORY"	HOUSE PARTIES	GALA	PICNIC	GENERAL	CAMPAIGN TOTAL
<b>INCOME</b>						
Ticket Sales - Basic Single	5,000	0	10,000	0	0	15,000
Ticket Sales - Basic Group	7,500	0	10,000	0	0	17,500
Ticket Sales Higher Levels						
Patron (24 @ \$250)			6,000			6,000
Sponsor (14 @ \$500)			7,000			7,000
Benefactor (6 @ \$1000)			6,000			6,000
President's Club (6 @ \$1500)			9,000			9,000
Individual Contributions	0	3,600	4,500	0	0	8,100
Corporate Contributions	0	0	5,000	1,000	0	6,000
Journal Greetings	5,000	0	5,000	0	0	10,000
Food/Drink Sales	1,000	0	0	1,500	0	2,500
Food/Drink In-Kind	300	800	0	300	0	1,400
T-shirt Sales	2,500	0	0	800	0	3,300
<b>Total Income</b>	<b>\$21,300</b>	<b>\$4,400</b>	<b>\$62,500</b>	<b>\$3,600</b>	<b>\$0</b>	<b>\$91,800</b>
<b>EXPENSES</b>						
Food**/Catering - Guests	\$0	\$800	\$11,700	\$0	\$0	\$12,500
Food/Catering - Vols/Performers	150	0	200	0	500	850
Food for Sale	300	0	0	750	0	1,050
Transportation	0	0	75	0	100	175
Printing						
Tickets	35	0	0	0	0	35
Program/Journal	1,100	0	600	0	0	1,700
Invitation	300	20	1,000	50	0	1,370
Save The Date Card	0	0	125	125	0	250
Posters/Flyers	1,000	0	0	100	0	1,100
Graphic Designer***	0	0	0	0	1,000	1,000
Signs	0	0	350	50	0	400
Royalties	200	0	0	0	0	200
Facility Rental	600	0	included*	0	0	600
Lighting Rental	included*	0	0	0	0	0
Sound System	included*	0	included*	125	0	125
Photography	325	45	200	125	0	695
Walkie Talkies	included*	0	50	0	0	50
Sets/Props	4,500	0	0	0	0	4,500
Insurance	0	0	0	1,500	0	1,500
Permit Fee	0	0	0	25	0	25
T-Shirts	900	0	0	300	0	1,200
Postage	330	66	330	99	200	1,025
Flowers/Displays	0	0	400	0	400	800
Staff time/Overhead	4,500	300	5,000	500	3,000	13,300
Messengers	20	0	75	0	100	195
Miscellaneous	300	100	300	100	200	1,000
Contingency	1,000	200	1,000	200	300	2,700
<b>Total Expenses</b>	<b>\$15,560</b>	<b>\$1,531</b>	<b>\$21,405</b>	<b>\$4,049</b>	<b>\$5,800</b>	<b>\$48,345</b>
<b>Net Income (loss)</b>	<b>\$5,740</b>	<b>\$2,869</b>	<b>\$41,095</b>	<b>(\$449)</b>	<b>(\$5,800)</b>	<b>\$43,455</b>

### NOTES

\* Included as part of venue rental.

\*\* Food for house parties is an in-kind donation (listed under both expense and income).

\*\*\* Graphic design for all printed materials for the campaign.

### ASSUMPTIONS

1. "West Side Story" assumes a four-night run with 800 seats sold per night (ticket prices: single ticket, \$5; group tickets, \$5 a person).

2. House Parties assume 3 parties averaging 40 guests (\$30 per guest)

3. Gala income assumes the following: 250 guests plus ten comps

Ticket prices:

- Single, \$100
- Group, \$100/person (\$1,000/table of 10)
- Patron, \$250
- Sponsor, \$500
- Benefactor, \$1,000
- President's Circle, \$1,500

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# Building Membership Brings Stability: The Southwest Workers Union Story

BY RUBEN SOLIS

**S**outhwest Workers Union (SWU) is a 17-year-old non-profit whose mission is to bring about environmental and economic justice in San Antonio and South Texas, including the Texas-Mexico border region. One of the cornerstones of SWU's establishment is that it developed in the first five years without foundation grants. It was an intentional decision on the part of the leadership of SWU not to take foundation money until the organization completed its first five-year plan (1988-1993), which had the following goals:

- *Transition the board of directors of SWU from professional organizers to indigenous grassroots leadership*
- *Secure the establishment of SWU as an organization (incorporate with 501 (c)(3) status, develop organizational systems, and so on)*
- *Establish a membership base*

The third goal was and remains the most important.

## WHY EMPHASIZE MEMBERSHIP

Deciding to establish a membership that would provide SWU's funding as well as our political base came from understanding the dangers of depending on foundation grants. SWU staff especially did not want to become "professional organizers," more focused on obtaining funding than on creating direct social change.

In the 1960s and 1970s, the prevailing view among political movements was that grants could make an organization compromise its political position, acting as "shock absorbers" of the political movement for social change at the grassroots. Many in the nonprofit movement at this time had a service provider/reform strategy that seemed aimed at righting the wrongs of the system, but otherwise leaving it intact. Southwest Workers Union sought to prove that another type of organization was needed—one that focused on creating social change through empowering individuals to act in their own behalf. One criterion for this was the ability to develop a member base. The membership would sustain the organization both financially and organizationally through the commitment of the group's indigenous leadership.

In addition, the board of directors would transition

from one composed of professionals to one led by the rank-and-file members of SWU. The accomplishment of these goals was imperative to establish the organization as truly grassroots and to develop leadership and plans of action before applying for grants. Thus the strategic direction of the organization would not depend on the will of the funding world.

## GETTING STARTED

In 1988, Chavel Lopez and I founded Southwest Workers Union in recognition of the need to organize public school workers. While carrying out our the first five-year plan, SWU brought in money for operations from donors and members. At the time I was working for a university and was able to donate part of my salary so SWU could hire a director. I was also able to provide a free office to SWU at my house, along with the use of my phones and computer. Chavel Lopez, the original director, worked for the SWU organization on a full-time basis.

In these early days, SWU relied heavily on community fundraisers, especially BBQ plates (in Texas...), bringing in about \$1,000 per event. We developed a donor drive each summer, which raised between \$1,000 and \$3,000. This was a challenging time for SWU, and all involved formed a strong commitment to make the organization succeed.

## PLANNING

The first five-year period was a strategic one for Southwest Workers Union. During this time, SWU and the leadership developed an analysis of the reasons and conditions that made the establishment of Southwest Workers Union necessary. SWU developed its vision, defined its mission statement, and created the structure of the organization, which would be made up of local organizations working for environmental and economic justice. SWU's member board of directors would be made up of the presidents and vice-presidents of each of these organizations, who are elected by the membership at the annual membership convention. Today SWU's fourteen organizations include public school workers fighting for a living wage, community members working for environmental justice, and youth members—all learning to

empower community members to fight for their rights. (There is also an executive board, elected from the member board, that oversees the administrative details of the day-to-day activities of the overall organization.)

In 1995, I moved from being a benefactor to being SWU's second full-time staff person. By then SWU had nearly 400 members and was in its second five-year plan of action. SWU was ready not only to support two full-time staff members but also to receive funding from foundations. We knew exactly what we needed the money for and how it would advance our work.

## MEMBERSHIP REMAINS FOREMOST

In the beginning, membership was slow in taking off, and it took several years to bring in enough money from dues to cover one salary. At the end of the first five-year plan, SWU had 250 members, with average dues of \$5 per month. By the end of the second five-year plan (1993-1998), SWU had grown to a membership base of 1,000. By the end of the third five-year plan in 2003, SWU was up to 1,500 members. Today SWU has 2,100 dues-paying members who together contribute approximately \$40,000 per year. While the dues income represents only a fraction of SWU's existing budget, the goal is for dues income to cover core staff—about \$150,000 or half of the operating annual budget—by the time of SWU's 25th anniversary in 2013, with interim goals of 5,000 members by 2008 and 8,000 by 2013.

Membership is key because SWU's goal is to develop grassroots leaders to see each of their struggles as part of the greater movement for social change and to develop their leadership skills so they can take action on their own grievances—with the support of the community behind them. As a result of understanding the common interests that underlie any one person's encounter with economic injustice, wage discrimination, or racial issues, SWU's membership has made the link of personal to regional, national, and global issues. This has created a strong bond among members and a strong organization.

SWU is also strengthened by its view of membership as a family commitment, and we involve everyone in our member families in working from a community level for change. This approach helps to overcome the gender divide between wage earners and non-wage earners and the generational divide between parents and children.

One of the benefits of membership in SWU is the opportunity to attend Leadership Days, in which we provide intensive skill development in leadership using popular education methodology. As members see their own lives in the context of the larger world and understand how working on any issue advances work on all issues of justice, they also work to expand SWU's membership

because they see the membership itself—rather than the organization—as the tool for social change.

Sticking to our unwavering goal of a member-based organization has kept SWU continually focused on membership development. With so much at stake, and so many unknowns as the foundation world shifts funding and priorities in the wake of 9/11, we feel we made the right decision years ago of committing ourselves to the membership, who then commit themselves to SWU. **GF**

RUBEN SOLIS IS A FOUNDER OF SOUTHWEST WORKERS UNION.

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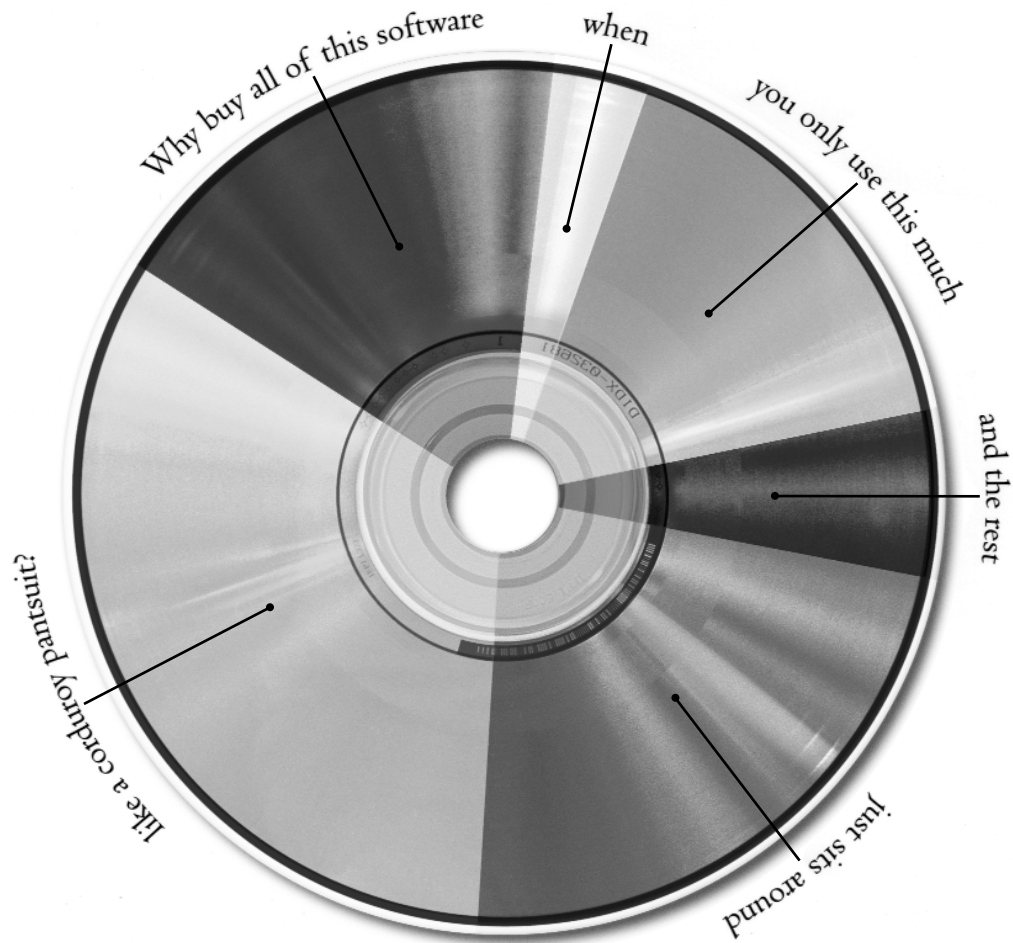
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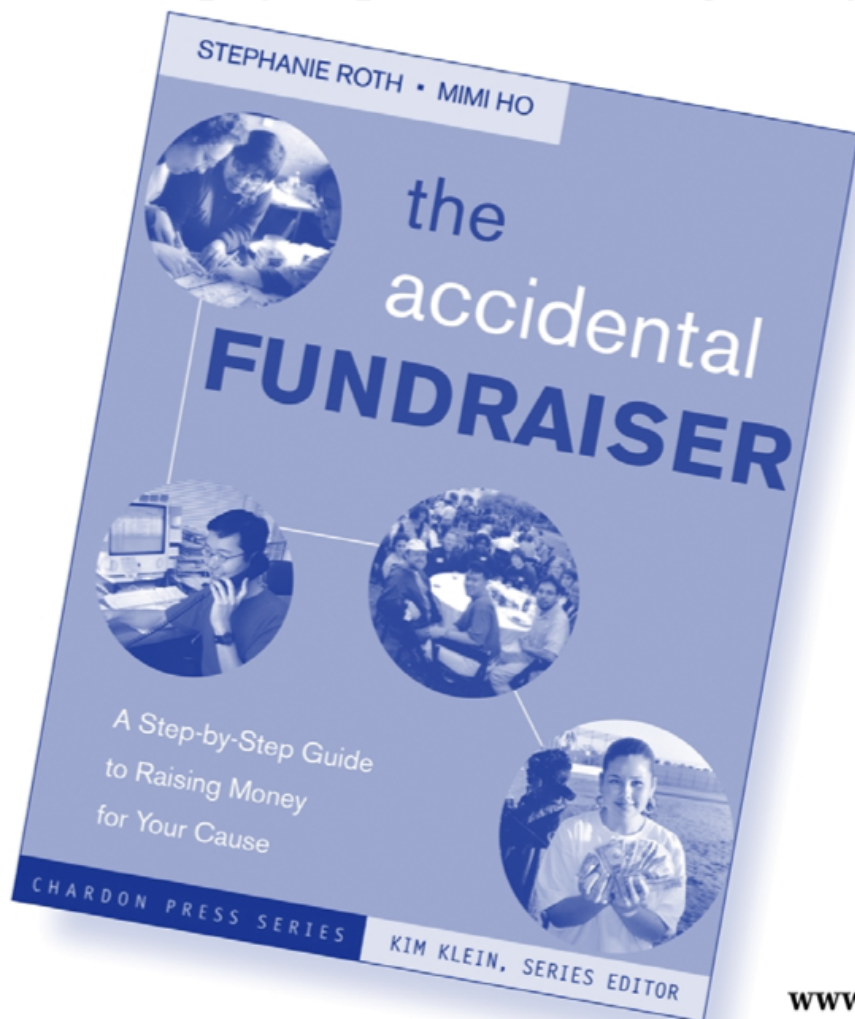
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