FIELD NOTES

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FINANCING YOUR CAPITAL PROJECT

As we talk with clients and colleagues, we are often asked, "Just how do I finance my capital project?"

While it's not complicated, there are a few general facts, assumptions, and figures you'll need to know before you get started.

Project Scope

Your capital plans should start with the activities that are planned for your new or renovated facility. Programs and use dictate the size, cost and configuration of the facility. So, first establish a capital project budget that includes:

- **Construction Costs:** generally about 70% of the total cost (that's the number from your contractor or consultant).
- **Soft Costs:** about 25% of the total costs (architectural/engineering fees, construction interest, permit fees, signage, furniture & equipment, all the items that the contractor doesn't provide).
- **Campaign Expenses:** generally about 5% of the project.

Now add a timetable in months of how long the construction period will last, from ground breaking to opening.

Fund Raising (the exciting part!)

Know how much support the community and leadership can provide to fund the cost of the project. (You did a feasibility study, right? That will get you a pretty good answer.) Once you start raising funds and getting pledge commitments, work out a schedule of when you anticipate the pledges will be collected. Plan this just like you plan your construction costs: by month, quarter, or year.

Permanent Gap

Now that you've completed steps 1 & 2, overlay the construction costs and pledge collections on your timeline. This gives you the gap between what has been raised (pledged) versus how much your total capital project will cost.

Capital Costs	$14MM
- Dollars Pledged	$10MM
Permanent Gap	**$ 4MM**

This gap is permanent and needs to be financed over a period of time. The typical types of financing include tax exempt bonds, conventional term loan financing, New Markets Tax Credits, bank qualified bank debt, public tax exempt bonds, or private placement bonds.

Temporary Gap

Even if the capital project is fully funded by your campaign fundraising or you expect a permanent gap, there is probably going to be a temporary gap. This gap occurs when your gifts or pledge payments come in verses the dollars going out the door for the construction.

This temporary gap is usually funded by either a bridge loan or a construction loan that is interest only, and – for a short period time – allows you to fund all the costs and complete the project without tapping in to your operating cash. After the project is complete, if you still have that permanent gap then you finance that part as outlined above.

Still have questions or need someone to guide you through this process? DBD Senior Consultant **Jim Mellor** can help! His work with non-profits also includes pro forma modeling, bank relationships and debt management, and a myriad of other financial implications to see if your organization is prepared to embark on a capital plan.
To learn more, email info@donorbydesign.com

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