JGA Presidents Alert
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5 Key Considerations When Planning a Campaign to Pay Off Debt

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Have you or your board been considering raising philanthropic funds to reduce or eliminate your institution's debt? Or are you considering including a component on debt as a part of a comprehensive campaign?

Raising funds for debt relief is good in theory but it requires a specific approach to gain support from alumni and donors. A key to fundraising is aligning the needs of your institution with the philanthropic goals of your donors, and this remains true when fundraising for debt reduction.

Recently, we have seen that if done correctly and focused on the impact of the institution's overall financial model, donors **will** entertain the idea. All debt is not created equally – more on this later – and every donor is unique.

Below are **five key considerations** your institution should address as you consider if a campaign to pay down debt might be right for your institution.

1. Demonstrate Financial Transparency

One key to fundraising for debt reduction is complete transparency. An institution must be willing to open up the books and share very specific details for donors to even consider helping pay off debt. This can be uncomfortable for some institutions, but it is a necessity. From our experience these are a few key questions that prospective donors will ask and expect to receive clear and specific information about:

- What is the current debt amount and the annual debt service that is being paid?
- What is the structure of the debt – interest rate, term of years, variable or fixed?
- What financial institution currently manages the debt?
- How has the institution done in meeting its annual covenants?
- How will paying off this debt further the institution's ability to deliver its mission?

2. Show Impact of Current Debt Load

Another key in making the case for debt reduction is creating a detailed fiscal model around the current debt. This will help show donors the impact that can be achieved by reducing the annual debt service the institution has to pay.

You also need to assure donors the institution is not asking for assistance out of an emergency situation. The model must clearly show that the institution has done everything it can to run as efficiently as possible and has already made any necessary cuts.

In most cases, donors making leadership level gifts are not interested in paying off debt if the institution is failing. Donors want to give to well-run and successful institutions that are having a tremendous impact.

3. Paint a Vision of a Future Without Debt

The financial model is critical to the success of a fundraising initiative that includes debt reduction. Not only does it show where the institution has been, but it can paint a very clear picture of what the financial health of the institution can look like when the debt is removed.

Get buy-in and agreement from leadership on what the institution will do with the saved resources that will no longer have to be going to debt service each year and share this vision with donors. Articulate in a chart or graph how the funds saved from the annual debt service can be used to achieve the mission.

This is a critical piece of the puzzle and needs to be well thought out and explained in great detail. Prospective donors might be interested in supporting debt repayment, but only if they can clearly see the impact it will have on the institution.

They will want examples of programs and initiatives that will be created or enhanced through the savings. A campaign around debt can't just ask for help and then not give details on how the funds will be used.

4. Know What Donors Won't Pay For

Earlier I mentioned that not every debt is created equal. Typically, prospective donors are more willing to entertain a conversation around debt if the debt was taken on in good faith at a time when the business model called for an investment from the institution.

What donors don't like to see is debt that has grown from an unwillingness to cut back on the budget during lean times, debt created for a capital project that is viewed more as a luxury than a necessity to the core mission, etc.

Prospective donors also aren't very interested in supporting debt if the debt was created due to a failed campaign that was intended to pay for a project but the fundraising came up well short. They will view this as poor planning and execution of the campaign and expect better campaign planning in the future.

5. Planning a Debt Reduction Campaign

Building a campaign or fundraising initiative around debt repayment in particular takes time and a great deal of thought and planning. It must involve the entire leadership team and board to make critical decisions and talk openly about the financial health of the institution and priorities for the future.

A key to building a debt reduction campaign is testing the concept with your leadership and major gift donors and prospects. Testing your campaign components via a feasibility study is an important step before launching a major campaign, but when talking about a debt-related campaign, this type of philanthropic market assessment it is vital.

As you begin your planning for a campaign, download these tip sheets for more information on preparing for a campaign or getting ready for a feasibility study.

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