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# CHALLENGE GRANTS for Community Development Projects

Dr. John P. Smith  
Extension Sociologist  
North Dakota State University

With the cut-back in federal dollars for community development projects, community leaders have had to innovate to keep getting funds for projects. One method of raising funds is the "challenge" grant.

Readers should be cautioned about two things. First, challenge grants may be excellent short-term instruments for recreation or community service projects. They cannot take the place of traditional funding sources for major public works projects. Second, they are a very visible, "public" fund-raising effort. As such, one must anticipate problems with failure to reach goals and the possible consequences of such failure. Some leaders may look bad if the effort fails; there may be community dissension if goals are not attained. But if the goals of the project are well thought out the group is well prepared and the public gives support, the possibility of failure is minimized. The following six questions and answers about challenge grants can give community leaders and recreation leaders ideas about how to start the challenge grant in their communities.

### 1. What is a challenge grant?

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Challenge grants are methods of expanding fund-raising efforts on the part of non-profit corporations, organizations and associations that have a tax-sheltered status. Organizations plan a specific fund-raising activity, then they request companies, trusts, or individuals to match funds raised on some negotiated basis. Members of organizations then set out to raise a required amount of dollars.

### 2. What is an example of a "challenge" grant?

Minnesota Public Radio has annual fund-raising activities and effectively uses challenge

procedures on two levels. First, on the state level, fund raisers contacted the Bush Foundation and arranged a \$2 for \$1 match at specific times in the fund-raising week. Other corporations and trusts offered a dollar for dollar match. Also, individual stations in the Minnesota Public Radio Network got matching grants from local businesses. The "challenge" aspect for Minnesota Public Radio was acquiring a certain number of "new" members for contributions.

### 3. How does a group prepare for a challenge grant?

First, the group or organization undertaking the challenge grant should have an IRS tax deferred number. This number is given by the Internal Revenue Service as a result of their decision that the group is a public spirited organization oriented toward education or public service. This status permits donors to claim a tax benefit on their income tax form.

Second, a tangible fund-raising effort is needed. The objective, amount, and use of funds of the fund-raising effort need to be thought of ahead of time.

Third, the number of members supporting the fund-raising project is important. Members of organizations can be asked how much volunteer time or money they might make available for the fund-raising project. Both of these are indicators of membership loyalty and group commitment which an organization can rely upon.

4. What kind of companies and organizations does a group consult to develop a challenge grant?

The time span of the fund-raising project and the amount of money to be raised are two factors indicating whom to contact. Some efforts are small-scale, short-term projects. They can be accomplished in a month or so. Longer term projects with greater financial needs require more planning and contacting of trusts, corporations and businesses who are interested in long-term commitments for tax purposes. For major projects, groups should consult the Foundation Index to ascertain which corporate trusts will consider particular types of projects and have funded such projects previously. The Foundation Index contains a file of all national trusts and foundations that have given \$5,000 or more for programs. Also, look to state level trusts and businesses for support. Finally, a group may want to consult with a lawyer to understand the benefits of long-term and deferred gifts to churches and other non-profit organizations.

For smaller financial needs on a short-term basis, the planning and legal problems are fewer. If a group plans to earn \$2,000 on a project, a variety of local businesses and fraternal organizations can be contacted. Each group can be asked to subscribe or match a portion of the \$2,000. For example, a businessman may be asked to match 10 cents on the dollar; his requested match would be a **maximum** of \$200 if the full \$2,000 is acquired. Make it clear to the "matcher" what his or her maximum contribution would be in the event of the optimum condition.

5. Should a project be "over-challenged"?

A "full" challenge grant would match a funding effort at a 100 percent of the project. If a goal of \$2,000 is attained, then the group or organization could count on \$4,000. But some groups try to "double challenge" a match for a project. This means the group attempts to get 200 percent or more of the project amount matched through challenging subscribers. Thus, a \$2,000 fund-raising effort would gross \$6,000. But there are two public relations problems. First, the group may look greedy if they over subscribe a challenge/match process. Second,

if the group fails to attain the stated goal, people may wonder if it has the internal commitment from its membership or the leadership capability to run the organization. Failures at goal attainment and public knowledge of the failure may make future fund-raising difficult. Caution should be used in over-subscribing matching organizations for challenge grants.

6. Can the challenge/match grant procedure be flexible?

The challenge grant procedure can be stimulating and can also lead to greater interest and commitment in the organization or group. Flexibility in developing the fund-raising project and the challenge grant is necessary, and membership participation is a must.

One example of flexibility occurred in North Dakota. A girl's gymnastics team was offered a double premium on one brand of soft drink cans in an aluminum can collection for a fund-raising drive. The members then concentrated collection on more of that brand of cans. Instead of \$1,500, the group received almost \$2,500.

Another group in Minnesota approached a community fraternal organization on a challenge to match a quarter for each dollar the group collected. The leaders of the fraternal organization offered the group a counter challenge. They would match each dollar the group could collect from members of a rival community fraternal organization on a dollar for dollar basis up to \$1,000. This type of internal challenge/match is good publicity for all parties involved.

## Conclusion

Community leaders should give more thought to challenge grants. They provide a stimulating process for raising funds for projects while motivating increased involvement and teamwork by members of the group. With the emergence of charitable gambling in North Dakota, a source of local revenue is available to many communities through fraternal organizations that have gaming operations. If community leaders are interested in learning the rules of receiving gaming revenue, they should contact the North Dakota Attorney General's office in Bismarck.