Webinar #7

Strategic Budgeting and Scenario Planning

Facilitated by
Annie Chang, Director
Nonprofit Finance Fund

May 18, 2021
1 pm ET
Acknowledgment of Indigenous Territories

“We invite you to share in the chat the Indigenous Territory you are joining us from:

https://native-land.ca/
Nonprofit Finance Fund: Where money meets mission

NFF envisions a society where money and knowledge come together to support just and vibrant communities.

Help mission-driven organizations achieve their communities’ aspirations through

- **Tailored capital**
- **Strategic Advice**
- **Accessible Insights**

Guided by our Core Values →

Leading By Doing
Rigor Without Attitude
Equity in Action
Responsiveness
Generosity of Spirit
What’s This Session All About?

There are many ways this year could go. How do I plan?

I’m not sure what the impact will be if we don’t bring in as much with our virtual fundraiser.

At what point should I think about increasing staff to meet demand?

Other questions? What questions are your thinking about coming into this session?
Today's Learning Goals

1. Use your budget strategically to identify & prepare for risks and opportunities
2. Enhance visibility to enable nimble decision-making across stakeholders
3. Navigate through scenario planning
Poll:

On a scale of 1 – 5, how comfortable are you working with your organization’s budget?

1 = beginner level
5 = advanced/proficient
Key Considerations in Strategic Budgeting

**Build A Budget That...**
- Reflects your strategic goals
- Sets realistic expectations
- Accounts for revenue restrictions
- Includes surpluses to support longer-term needs

**Account for Uncertainty**
- Discount revenue based on reliability and predictability
- Know what it takes to reach your goals

**Know Your Options**
- Identify your fixed vs. variable expenses
- Be clear about the trade-offs when considering scenarios

**Iterate**
- Compare budget to actuals regularly
- Update projections when new information comes in
- Make decisions, when necessary, in response to change
- Communicate to your team and stakeholders about decisions
What Informs My Budget?

- Funding & expenses already committed
- Prior year’s outcomes
- Strategic goals
- Program and management staff input
- Strategic goals
Identifying Risk and Opportunity in Budgets

**Budget**

### Revenue
- Earned
- Contributed
  - Private Sources
  - Government

### Expenses
- Personnel
- Professional Fees
- Occupancy
- Program Costs
- Support
- Other

### Surplus / Deficit

1. **Articulate your assumptions**
2. **Identify your key risks or potential swings**
3. **Identify what you do and do not have control over**
How can we account for the uncertainty of different revenue sources as we plan out our budget?

- Make a list of all of the confirmed and potential sources of revenue
- For potential sources of revenue, assess the likelihood of receiving funding from them and how much they might fund
- Use this information to make a data-informed projection of potential revenue

### Assessing Your Revenue Potential from a Funder

<table>
<thead>
<tr>
<th>Question</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>How aligned are we with what this funder funds?</td>
<td>E.g. issue area, geography, target demographics served, etc.</td>
</tr>
<tr>
<td>What types of things have they funded in the past?</td>
<td></td>
</tr>
<tr>
<td>What do we know about the amounts they have granted to others in the past?</td>
<td></td>
</tr>
<tr>
<td>What is our relationship with them?</td>
<td>E.g. did they reach out to us? How many times have we met with them? Are we responding to an open RFP?</td>
</tr>
</tbody>
</table>
Incorporating Revenue Probabilities into Budget
Budgeting for unpredictable revenue

Start by ranking revenue according to probability.
BEL ow IS AN EXAMPLE (you can use your own percentages based on your confidence)

<table>
<thead>
<tr>
<th>Grade</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>A: committed</td>
<td>100% secure</td>
</tr>
<tr>
<td>B: proposal submitted, high probability</td>
<td>90% historically reliable</td>
</tr>
<tr>
<td>C: proposal submitted, Somewhat likely</td>
<td>60% moderate</td>
</tr>
<tr>
<td>D: in discussions, moderate</td>
<td>25% in design phase</td>
</tr>
<tr>
<td>E: new or no relationship</td>
<td>10% speculative</td>
</tr>
</tbody>
</table>
## Discounting Revenue: Discount Method
### Example: ABC Organization

<table>
<thead>
<tr>
<th>Source</th>
<th>Status</th>
<th>Probability</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Agency</td>
<td>Contract signed, will be paid via reimbursement</td>
<td>100%</td>
<td>$25,000</td>
</tr>
<tr>
<td>Reliable Foundation</td>
<td>Strong alignment, has been reliable in the past, no major concerns</td>
<td>90%</td>
<td>$20,000</td>
</tr>
<tr>
<td>Sometimes Major Donor</td>
<td>Strong alignment, has supported on and off, interested in renewing, hasn’t given a timeline</td>
<td>60%</td>
<td>$1,000</td>
</tr>
<tr>
<td>New Corporation</td>
<td>Engaged, in the learning process, final scope TBD</td>
<td>25%</td>
<td>$5,000</td>
</tr>
<tr>
<td>Prospects</td>
<td>Researching and contacting potential donors</td>
<td>10%</td>
<td>$5,000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
<td><strong>$56,000</strong></td>
</tr>
</tbody>
</table>
Discounting Revenue: Cutoff Method
Example: ABC Organization

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<td>$5,000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
<td>$56,000</td>
</tr>
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</table>
Check-in on Chat:

Do you think you can this methodology be in your revenue projections? Why? Why not?
Forecasting Expenses: Direct vs. Indirect, Variable vs. Fixed

Operating expenses are often more directly within our control than revenue. When building a budget, keep these types of expenses in mind:

- **Direct**: directly tied to program (e.g. program advertising costs)
- **Indirect**: organization-wide expenses (e.g. utility bill)
- **Fixed**: do not change when we do more or less (e.g. mortgage or rent on year-round facility)
- **Variable**: increase or decrease based on activity level (e.g. office supplies)

Important to understand how changing your expenses will impact your mission delivery.
A Strategic Budget Quantifies Risk & Aids in Decision Making

**Illustrates ‘What happened?’ and ‘Why?’**

- Shows variance between Actuals and Projected numbers
- Tracks year-to-date performance
- Includes notes and states assumptions
- Clearly shows what restricted revenue is available this year and for future years

**Budget Data Supports ‘Real Time’ Decision Making**

- In light of performance short falls, or unexpected events, what can leadership do?
- Given what we know, how can we adjust today? What can we do to adjust tomorrow?
Poll: How are you planning for this year?

1. Planning to stay mostly remote for most of 2021

2. Planning to re-open programs in person on a set date and have decided on what it will likely look like

3. Planning to re-open programs in person, but don’t know when or what it will look like

4. Already operating programs primarily in-person
Defining the Scenarios to Explore (ABC Organization Example)
Permission to Make Your Best Guess

<table>
<thead>
<tr>
<th>Low Financial Impact (Client Demand, Funder Support)</th>
<th>Fast-Paced Re-Opening</th>
<th>Slow-Paced Re-Opening</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Financial Impact (Client Demand, Funder Support)</td>
<td>Fully remote in 2021 and phased return in Jan 2022. Funding decline in some areas.</td>
<td></td>
</tr>
</tbody>
</table>

Pick the scenario(s) that will help you plan your way forward.
### Sample Scenario Budgets

Considering multiple potential operating results

<table>
<thead>
<tr>
<th>FY 2021 Budget 1/1/21 - 12/31/21</th>
<th>FY 21 BUDGET</th>
<th>SCENARIO A</th>
<th>SCENARIO B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td></td>
<td>Programs fully re-open by September; growing service demand</td>
<td>Programs go fully remote; moderate/declining service demand</td>
</tr>
<tr>
<td>Earned Income</td>
<td></td>
<td>Budget</td>
<td>Notes</td>
</tr>
<tr>
<td>County Contracts</td>
<td>500</td>
<td>600</td>
<td>Increased service delivery</td>
</tr>
<tr>
<td>State Contracts</td>
<td>700</td>
<td>850</td>
<td>Increased service delivery</td>
</tr>
<tr>
<td>Contributed Income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual Donations</td>
<td>750</td>
<td>750</td>
<td></td>
</tr>
<tr>
<td>Foundation Grants</td>
<td>585</td>
<td>635</td>
<td>Rapid response funding ($50K)</td>
</tr>
<tr>
<td>Net Assets Released</td>
<td>1,503</td>
<td>1,503</td>
<td></td>
</tr>
<tr>
<td>Total Revenue</td>
<td>4,038</td>
<td>4,338</td>
<td></td>
</tr>
<tr>
<td>Expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personnel</td>
<td>2,694</td>
<td>2,755</td>
<td>Increased staffing costs</td>
</tr>
<tr>
<td>Contract Services</td>
<td>149</td>
<td>149</td>
<td></td>
</tr>
<tr>
<td>Support &amp; Supplies</td>
<td>460</td>
<td>500</td>
<td>Increased supply costs</td>
</tr>
<tr>
<td>Occupancy</td>
<td>679</td>
<td>754</td>
<td>Additional rental space for services</td>
</tr>
<tr>
<td>Volunteer Expenses</td>
<td>94</td>
<td>94</td>
<td></td>
</tr>
<tr>
<td>Total Expenses</td>
<td>4,076</td>
<td>4,252</td>
<td></td>
</tr>
<tr>
<td>Surplus (Deficit)</td>
<td>(38)</td>
<td>86</td>
<td></td>
</tr>
</tbody>
</table>

**Baseline budget** – reflects current operations with limited re-opening

FY 21 BUDGET

- **Programs fully re-open by September:** growing service demand
- **Programs go fully remote:** moderate/declining service demand

- FY 2021 Budget 1/1/21 - 12/31/21
- $ in thousands

- **Baseline budget** reflects current operations with limited re-opening
Implications of the Scenario Plan

- **Strategic Implications**
  - Engage staff, board, and funders in data-driven strategic conversations
  - Understand the implications of the decisions you make as to the best path forward

- **Identify Options**
  - Developing explicit contingency plans
  - It is difficult when you are forced to take drastic action without a thoughtful plan

- **Articulate Triggers**
  - Determine the triggers that lead to Scenario B, Scenario C, etc.
  - For example: if X% of revenue doesn’t arrive by Y, we will cut Z% of expenses
A Sample Scenario Planning Tool with Step-by-Step Instructions is Available at: https://nff.org/covid-19-tools-and-resources-nonprofits#tools
Check-Out

Please share via chat your response to any of all of the following questions:

**Head**

What did you **learn** from today’s session?

**Heart**

How did today’s session make you **feel**?

**Feet**

What **actions** will you take to bring this back to your organization and community?
Up Next

Understanding Your Mission/Money Mix

May 25, 2021 1 – 2 pm EST

To make informed decisions, nonprofit leaders must understand how their programs contribute to both financial and mission objectives. You will use NFF’s Program Economics Analysis to see how your mission can inform financial decisions, explore where well-placed subsidy can maximize your organization’s impact, and determine how to adapt your programs in response to the current moment.
Thank You!

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