

## Preparing the Annual Budget in Uncertain Times

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CAPLAW Financial Management Conference Call

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## What Uncertainty?

- Current fiscal year awards & contracts?
- Awards & contracts for new fiscal year?
- Individual, business, & foundation contributions?

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## Your Level of Uncertainty

- About current fiscal year?
- About possible federal shut-down?
- About major agreements for next fiscal year?
- About survival?

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## Federal \$\$ at Risk?

- Fully obligated 2010 funds will not be impacted by potential cuts
- 2011 federal \$ that have been fully obligated to states should not be impacted

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## Immediate Prep for 2011 Cuts

- Review lease & contract termination requirements
- Avoid automatic renewals
- Keep employees informed
- Identify any state notification of lay-offs requirements

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## Federal Shutdown Prep

- CAA's need not shut down if they have adequate cash
- Determine if your state has adequate cash on hand for pass-through programs: CSBG, LIHEAP, etc.

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## Federal Shutdown Prep

- Accelerate submission of cost reimbursement requests
- Process federal draw downs more frequently
- Be sure your Line of Credit is in good standing

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## Fed Shutdown & Employees

- Provide clear information
- Be sure payroll, tax, & benefit obligations are met on time
- Identify other cash priorities to avoid program disruption

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## Get Ready for the New Normal

- Identify process & timeline for prep of next fiscal year budget
- Build budget template to test multiple scenarios
- Free Budget Template:  
<http://www.terrymiller.biz/Downs.html>

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## Annual Budget Elements

- All sources & uses of resources
- CAA's fiscal year
- Integrates multiple grants & contracts
- Cost allocation plan or Indirect Rate

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## Award Budget Worksheet

Line Item	Total Award/Contract	Prior FY portion	Current FY portion	Next FY portion
Personnel				
Fringe Benefits				
Travel				
Equipment				
Supplies				
Contractual				
Other				

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## Scenario Planning

- Identify "known" factors
- Identify "unknowns"
  - Best case
  - Worst case
  - Most likely case

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## Relatively “Known” Elements

- Multi-year awards
- Well established fee-generating programs
- Well established private fund raising
- Other?

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## Nature of Uncertainty

- Reduction in \$\$
- Elimination of program
- Change in eligibility, deliverables, tracking, etc.

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## Agency- wide Budget Model

- Linked worksheets rolling up into master budget
- Worksheet for each major funding agreement feeds into..
- Worksheet for each major program

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## Funding Agreement Scenario

- **Document assumptions**

- Funding level
- Deliverables/service volume
- Direct costs: staffing, supplies, travel, etc.
- Indirect costs: info is drawn from master indirect schedule & reflects impact of agency-wide shifts

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## Dealing with Indirect Costs

- **Review Indirect Cost Rate or Cost Allocation Plan**
- **Determine which indirect costs can be reduced if direct costs are cut significantly**
- **Difficult to reduce indirect costs as rapidly as direct costs**

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## Direct costs may be reduced more rapidly than indirect costs

	Pre-Cuts	Post-Cuts
Direct Expenses	20,000,000	16,000,000
Indirect Expenses	3,000,000	2,750,000
Indirect as % of Direct	15%	17%

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## Indirect Cost Models

- Identify options for reducing indirect costs:
  - Reduce/eliminate positions
  - Outsource functions
  - Terminate leases and contracts
- Construct Indirect worksheets for multiple scenarios

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## Cost Allocation Plan ???

- Identify potential for **budget amendments** for open awards
- **Increase** allocation of indirect costs to remaining programs
- Requires **reducing** direct costs within the amended budget

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## Negotiated Indirect Rate ???

- Test **actual** indirect rate in comparison to **approved** rate
- In most contraction scenarios, the **actual** indirect costs will **exceed** the negotiated rate
- Beware **potential distortion** through actual indirect cuts

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## Full Cost of Downsizing

- Unemployment claims
- Accrued vacation issues
- Lease and contract termination penalties
- Stress, burn-out, error, & turn-over

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## Cost Saving Strategies

- Outsourcing
- Sub-leasing
- Vendor negotiation
- Staff reconfiguration

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## Outsourcing

- Graphics, newsletters, brochures
- IT
- A/P, Payroll, Benefits
- Maintenance, transportation

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## Sub-leasing

- Legal review
- Tenant vetting
- Property management costs
- Collections

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## Vendor Negotiation

- Request for discounts
- Payment plans
- Joint effort to reduce costs
- Re-bid or seek alternatives
- Broker services

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## Staff Reconfiguration

- Employment policies
- Union contracts
- Unemployment benefits
- Discrimination issues
- Internal resource sharing opportunities

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## Sustaining Core Admin Functions

- Controls & quality assurance
- Transition planning, training, support
- Timeliness of financial info
- Identify & resolve time drains

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## Next Steps

- Immediate prep for **fed shut down**
- Scenarios for potential **2011 cuts**
- Review timeline & strategy for **next fiscal year budget**

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