Preparing the Annual Budget in Uncertain Times

March 23, 2011
CAPLAW Financial Management Conference Call
Workshop Leader: Kay Sohl

What Uncertainty?

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

Your Level of Uncertainty

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

Immediate Prep for 2011 Cuts

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

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.
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

Fed Shutdown & Employees

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

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](http://www.terrymiller.biz/Downs.html)
Annual Budget Elements

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

Award Budget Worksheet

<table>
<thead>
<tr>
<th>Item Type</th>
<th>Total Award/Contract</th>
<th>Prior FY portion</th>
<th>Current FY portion</th>
<th>Next FY portion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fringe Benefits</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Travel</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Equipment</td>
<td></td>
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</tr>
<tr>
<td>Supplies</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Contractual</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
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</tr>
</tbody>
</table>

Scenario Planning

- Identify “known” factors
- Identify “unknowns”
  - Best case
  - Worst case
  - Most likely case
Relatively “Known” Elements

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

Nature of Uncertainty

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

Agency- wide Budget Model

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

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

Direct costs may be reduced more rapidly than indirect costs

<table>
<thead>
<tr>
<th></th>
<th>Pre-Cuts</th>
<th>Post-Cuts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Expenses</td>
<td>20,000,000</td>
<td>16,000,000</td>
</tr>
<tr>
<td>Indirect Expenses</td>
<td>3,000,000</td>
<td>2,750,000</td>
</tr>
<tr>
<td>Indirect as % of Direct</td>
<td>15%</td>
<td>17%</td>
</tr>
</tbody>
</table>
**Indirect Cost Models**

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

**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

**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
Full Cost of Downsizing

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

Cost Saving Strategies

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

Outsourcing

- Graphics, newsletters, brochures
- IT
- A/P, Payroll, Benefits
- Maintenance, transportation
Sub-leasing
- Legal review
- Tenant vetting
- Property management costs
- Collections

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

Staff Reconfiguration
- Employment policies
- Union contracts
- Unemployment benefits
- Discrimination issues
- Internal resource sharing opportunities
Sustaining Core Admin Functions

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

Next Steps

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