Planning during the Pandemic

Using scenario planning to make decisions during uncertain times

Prepared by Julie Koo, Vice President
For Hartford Foundation for Public Giving | May 18, 2021
 Agenda  

- Session/tech expectations
- Introductions
- The current context
- Planning and decision-making in the current context
- A hidden opportunity
Session/Tech Expectations

Please be prepared to:

- Stay on mute during presentation
- Use chat to ask questions or make comments
- Use polling and chat for interactive portions
Session/Tech Expectations

Please be prepared to:

- Stay on mute during presentation
- Use chat to ask questions or make comments
- Use polling and chat for interactive portions

I will:

- Pause for clarifying questions at section ends
- Address meatier questions during Q&A from 10:15-10:30
- Stay online for informal “after class time” from 10:30-10:45
Introductions
Introductions

- Me
Introductions

- Me
- Julie Koo
Introductions

- Me
- Julie Koo
- Vice President at TDC
Introductions

- Me
- Julie Koo
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- Nonprofit organization that offers consulting and research services to the nonprofit sector
Introductions

- Me
- Julie Koo
- Vice President at TDC
- Nonprofit organization that offers consulting and research services to the nonprofit sector
- Practice centered on strategic planning for BIPOC arts organizations and arts sector research
Polls
Introductions

- You!
Introductions

- You!
- What position do you hold at your organization?
Introductions

- You!
- What position do you hold at your organization?
- What subsector do you work within?
Introductions

- You!
- What position do you hold at your organization?
- What subsector do you work within?
- What is your organization’s budget size?
The current context
Poll
Since the onset of Covid-19, which of these financial issues have you had to manage?
Since the onset of Covid-19, which of these financial issues have you had to manage?

- Program cancellations: 52%
- Drop in utilization: 46%
- Delayed grant: 39%
- Cancelled fundraiser: 67%
- Drop in donations from individuals: 47%
- Covid-related expense: 58%

Source: CT Nonprofits & COVID-19: A Pulse Survey (September 2020)
Poll
To what extent have you been delivering your normal programs and services during the pandemic?
To what extent have you been delivering your normal programs and services during the pandemic?

- To a greater extent than usual: 23%
- Same as we always do: 7%
- In a moderately reduced capacity: 37%
- In a severely reduced capacity: 28%
- Not at all: 5%

Source: CT Nonprofits & COVID-19: A Pulse Survey (September 2020)
Poll
What are the pressing challenges your organization faces during this extraordinary time?
What are the pressing challenges your organization faces during this extraordinary time?

Source: CT Nonprofits & COVID-19: A Pulse Survey (September 2020)
Poll

Which activities are you likely to undertake within the next 3-6 months?
Which activities are you likely to undertake within the next 3-6 months?

- New/adapted program development: 91%
- Risk management assessment and planning for reopening: 89%
- Program policy and procedure development: 87%
- Diversity, equity, and inclusion initiatives: 86%
- Strategic planning: 86%
- Racial equity / justice initiatives: 82%
- Business planning: 80%
- Scenario planning: 79%

Source: CT Nonprofits & COVID-19: A Pulse Survey (September 2020)
Why plan in this context?

- Decide what is core to your organization
  - Understand the level of resource needed to conserve the core: Don’t cut too little or too much
  - Decide which opportunities to pursue
  - Decide which pandemic-related innovation to retain

- Start a conversation with supporters

- But, no need for overkill
Scenario planning
What is scenario planning?

- Articulation of possible choices and outcomes given different parameters
- Informed by hypothesis of external conditions and choices made in response
- Should be grounded in shared guiding principles (such as organizational values and mission)
- Projects 12 to 18 months at a high level
Factors at play in building scenarios

- **Guiding principles**
  - Core values
  - Needs of beneficiaries
  - Core programs

- **External uncertainties**
  - Public health conditions
  - Participation levels
  - Philanthropic priorities

- **Organizational response**
  - Program mix
  - Staffing levels
  - Infrastructure mix

- **Implications**
  - Financial
  - Non-financial
The planning process

- Articulate guiding principles
- Set the parameters
- Identify choices
- Estimate implications
- Assess scenarios
- Track results
Our example: HCYS

- Youth development organization serving predominantly Chinese American community
- Rents a 5,000 square foot space
- Program mix
  - Daycare for infants and toddlers
  - Afterschool program for elementary and middle school
  - Workforce development and cultural programs for teens
- Total annual operating budget of $3M
- Entering into FY22 (starting 7/1/2021) with $800K in cash
Start with guiding principles

- What is the core of your mission and vision you wish to preserve?
  - What do you see as your responsibility to beneficiaries?
  - What do you see as your responsibility to partners and others in the community?
  - What are your commitments to equity and justice? How will you preserve these?
  - Are there pieces of current strategy that are critical to preserve?

- What pieces of mission, vision, and values have been challenged?

- In a world of difficult tradeoffs, what pieces of the mission, vision, and values should be prioritized, and why?
HCYS: Guiding Principles

- Cultural representation and arts-infused learning to develop youth voice
- Community building to support youth social emotional development
- Family engagement

Implications
Set the parameters

- Estimate the potential parameters for each external uncertainty:
  - Might **public health conditions** continue to be an issue?
  - How might **need and participation levels** shift over time?
  - Are there issues of **timeline**?
  - Are there **unexpected factors** that have suddenly emerged?

- Define the worst case scenario
  - Highlights the implications of fixed costs
  - Clarifies the cash needed to start or restart programming
  - Provides a baseline sense of cash need
HCYS: External uncertainties

Guiding principles
- Cultural representation and arts-infused learning to develop youth voice
- Community building to support social emotional development
- Family engagement

External uncertainties
- **Public health**: Capacity limitations, cleaning cost
- **Client demand**: Childcare and afterschool program demand down during pandemic
- **Community issues**: Increase in anti-Asian hate incidents; sharp rise in unemployment during pandemic

Organizational response

Implications
Identify choices

- Given the parameters you identified and your guiding principles, identify the choices you might make to respond:
  - What **programming** would you offer?
  - What might you need to do to respond to **external uncertainties**?
  - What **staffing and infrastructure** do you need for **programming**?
HCYS: Program choices

- Childcare and afterschool programs reduced by 50% due to significant unemployment of parents from pandemic
  - Teen director developed idea for workforce development program for parents, training them to start family childcare programs
  - Long-term transition of childcare program focus to preschool
  - Expectation that afterschool demand will come back as economy returns
    - Offer free virtual programming until demand is back
  - Potential need to reduce childcare staffing
  - Reduced space need in morning

- Longer-term new program ideas
  - Community college space use
  - Additional workforce development for parents/other adults in community
  - Mental health support
  - Community engaged art projects to address anti-Asian hate
  - Collaboration with other BIPOC community organizations
HCYS: Organizational response

Guiding principles
- Cultural representation and arts-infused learning to develop youth voice
- Community building to support social emotional development
- Family engagement

External uncertainties
- **Public health**: Capacity limitations, cleaning cost
- **Client demand**: Childcare and afterschool program demand down during pandemic
- **Community issues**: Increase in anti-Asian hate incidents; sharp rise in unemployment during pandemic

Organizational response
- **Programming**: Reduced scale childcare combined with workforce development, reduced scale afterschool program, teen artist project on anti-Asian hate
- **Operations**: Potential staff reductions

Implications
Estimate financial implications

- What are the implications for **budget and operations** for base case?
- Are there any **one-time investment** needs?
- How do shifts in scale and timing of revenue, expense, and capital needed impact **cash flow**?
- Are there implications on **contributed revenue** for programmatic choices?
- What are implications for **cash position**?
## HCYS: Major program assumptions

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<tr>
<th></th>
<th>Daycare</th>
<th>Workforce</th>
<th>Afterschool</th>
<th>Teens</th>
<th>Public Art</th>
<th>Space</th>
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<td>• 50% down&lt;br&gt;• Grants may reduce&lt;br&gt;• Layoffs?</td>
<td>• New&lt;br&gt;• Seeking grant&lt;br&gt;• $50K for curriculum</td>
<td>• 50% down&lt;br&gt;• Could come back</td>
<td>Add public art program</td>
<td>• New&lt;br&gt;• Seeking grant</td>
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- **Overhead:** $1M revenue - $1.325M expense = ($325K) net  
  - Included $100K increased cost for cleaning

- **Worst case:** ($250K) cash shortfall
Deploying your own capital

- How can your board-designated reserves support working capital?
  - Maintain at least one month of unrestricted operating cash (sized to future need, not current footprint)
  - Do not include deferred revenue in your working capital calculation

- Can you self-fund change capital?
  - Consider the benefits and risks of the maximum investment draw

- Should you use a facility reserve for working capital?
  - Is your facility core to the mission and vision you are trying to preserve?
  - If so, preserve these funds—the needs are real, and the capital is often hard to come by

- What are appropriate uses of debt?
  - Long-term debt with low rates
  - Line of credit that supports cash flow
    - Only appropriate in circumstances where your annual budget resolves and you have a plan for payback
  - Campaign financing only for the amount of pledges received to date
HCYS: Implications

Guiding principles
- Cultural representation and arts-infused learning to develop youth voice
- Community building to support social emotional development
- Family engagement

External uncertainties
- Public health: Capacity limitations, cleaning and screening practices, ability to get PPE
- Client demand: Willingness of families to bring children to care
- Hate-motivated violence: Increase in anti-Asian incidents

Organizational response
- Programming: Reduced scale childcare combined with workforce development, maintain hybrid afterschool program, teen artist project on anti-Asian hate, community college partnership
- Operations: Potential staff reductions

Implications
- Financial: Potential need for $250K loan or cost reduction
Assess scenarios

- What are the **potential financial risks** associated with each scenario?
- How does each scenario respond to the organization’s **guiding principles**?
- Is the organization set up for **sustainability**?
## HCYS: Worst case

<table>
<thead>
<tr>
<th>Risk</th>
<th>Total</th>
<th>Overhead</th>
<th>Daycare</th>
<th>Workforce development</th>
<th>Afterschool</th>
<th>Teen</th>
<th>Public art</th>
<th>Extra space capacity</th>
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TDC 43
## HCYS: Best case

### Risk Total Overhead Daycare Workforce development Afterschool Teen Public art Extra space capacity

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Total</th>
<th>Overhead</th>
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### Net Income

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### Ending cash

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<th>Workforce development</th>
<th>Afterschool</th>
<th>Teen</th>
<th>Public art</th>
<th>Extra space capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>600,000</td>
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## HYCS: Long run

### Risk

<table>
<thead>
<tr>
<th>Description</th>
<th>Total</th>
<th>Overhead</th>
<th>Daycare</th>
<th>Workforce development</th>
<th>Afterschool</th>
<th>Teen</th>
<th>Public art</th>
<th>Extra space capacity</th>
</tr>
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<tbody>
<tr>
<td><strong>Revenue</strong></td>
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<tr>
<td>Fees</td>
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<td>Rent</td>
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<td><strong>Earned Revenue</strong></td>
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<td>Institutional</td>
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<td>150,000</td>
<td>100,000</td>
<td>250,000</td>
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<tr>
<td>Government</td>
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<td>300,000</td>
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<td>200,000</td>
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<tr>
<td>Contributions</td>
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<td>1,000,000</td>
<td>350,000</td>
<td>150,000</td>
<td>300,000</td>
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<td><strong>Total Revenue</strong></td>
<td>2,750,000</td>
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<td>550,000</td>
<td>150,000</td>
<td>700,000</td>
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<tr>
<td><strong>Expense</strong></td>
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<tr>
<td><strong>Total Expense</strong></td>
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<td>1,325,000</td>
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<td>572,500</td>
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<td><strong>Net Income</strong></td>
<td>20,000</td>
<td>(325,000)</td>
<td>82,500</td>
<td>27,500</td>
<td>127,500</td>
<td>97,500</td>
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<tr>
<td>One-time investment</td>
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<td>Starting cash</td>
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<tr>
<td>Ending cash</td>
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<td></td>
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</tr>
</tbody>
</table>
HCYS: Non-financial benefits

- What are the non-financial benefits new programs would generate?
  - Addressing unemployment
  - Addressing cost of childcare
  - Addressing anti-Asian hate
  - Adding college education onsite with unused space

- How do the intangible (non-financial) benefits respond to guiding principles? What unspoken principles might they reveal?
  - Family engagement
  - Cultural representation
HCYS: Considering cost and benefit

- What is the financial result of the scenario?
  - In worst case, HCYS would need to take on debt or reduce daycare staff to meet cash needs
  - In long run, HCYS needs to reduce daycare staff or find other revenue stream to balance budget

- Do the intangible benefits merit the risk of financial loss?

- What are the comparative costs and benefits of other options?
  - Is there another programmatic option that would result in a smaller net loss?
  - Is there another option that has the same net financial result but could respond more strongly to guiding principles?
  - What are the costs and benefits of not taking on the new programs?
Is new programming worth it?

- What are the costs?
  - One-time investment to develop and launch
  - Ongoing direct costs
  - Implications for other efforts
  - Opportunity cost

- What are the benefits of the programming, both financial and non-monetary?
  - Earned revenue
  - Implications for contributed revenue
  - Mission imperative
  - Community obligation
  - Awareness or presence in the market
  - Testing new ideas

- Taken together, do the costs merit the benefits?
  - Is this the experience you want to offer your community?
HCYS: Implications

Guiding principles
- Cultural representation and arts-infused learning to develop youth voice
- Community building to support social emotional development

External uncertainties
- **Public health**: Capacity limitations, cleaning and screening practices, ability to get PPE
- **Client demand**: Willingness of families to bring children to care
- **Hate-motivated violence**: Increase in anti-Asian incidents

Organizational response
- **Programming**: Reduced scale childcare combined with workforce development, maintain hybrid afterschool program, teen artist project on anti-Asian hate, community college partnership
- **Operations**: Potential staff reductions

Implications
- **Financial**: Potential need for $250K loan or cost reduction
- **Non-financial**: Addressing immediate community need, develop cheaper childcare option
Tracking against your plan

- Use the tools of cash flow analysis and rolling quarterly projections to track results

- **Cash flow analysis**
  - Regularly updated analysis of the cash coming in and going out in current state
  - Projects 6 months to 1 year, accounting for:
    - Sources of cash
    - Uses of cash
    - Associated timing of each

- **Rolling quarterly projections**
  - Alternative to detailed annual budget
  - Informed by key milestones and major moving pieces in the operating model
  - Projects 1 year forward on a rolling basis
    - Tracking in the short term against key metrics
    - Level of detail decreases as projections move further out
Roles and responsibilities

- Scenario planning should be a joint enterprise between staff and board leadership
  - Board members should help set principles and parameters
  - Staff should drive the development of scenarios

- Assessing and monitoring risk is a critical responsibility of the Board

- Assuring long-term fidelity to the mission is also the Board’s responsibility
  - Staff can articulate and share the difficult choices raised through this process; the Board needs to decide

- Results of scenario planning should inform ongoing transparent conversations with funders and supporters
  - What are the choices you have made, and why?
  - What are your critical needs?
A hidden opportunity

Disrupting norms at the sector level
Why reimagine now?

- The sector continues to be undercapitalized
  - Organizations lack cash to manage and take risks
  - Business models do not adequately or sustainably support mission delivery
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- Revenue sources often prioritize service or program expansion rather than overall organizational health
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- Sweat equity continues to be pervasive
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- Many organizations do not fully reflect the communities they wish to serve
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- Sweat equity continues to be pervasive

- Many organizations do not fully reflect the communities they wish to serve

- How can we use this moment as an opportunity to address these issues?
  - How is this moment an opportunity to improve your service delivery, rather than going back to usual ways of doing business?
Julie Koo, jkoo@tdcorp.org