

Multi-Year Forecasting

Presentation for Nonprofit Financial Managers



Presented by Julie Koo and Jake Evans

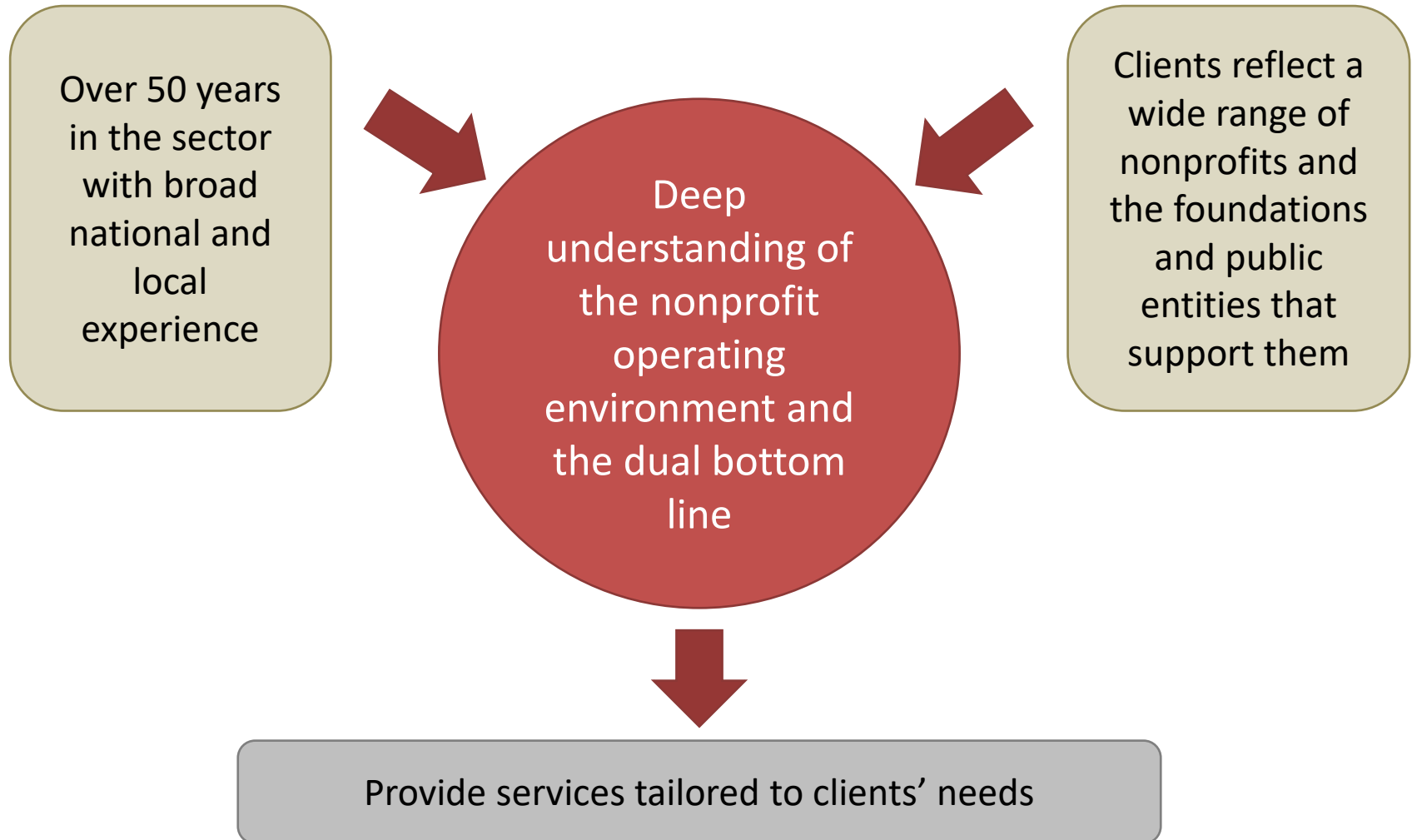
February 23, 2023

Agenda

- About TDC
- What is multi-year forecasting and why would you want to do it?
- Where do you start?
- Questions

About TDC

About TDC



Our Practice

Practical Experience

- Repositioning institutions for sustainable futures
- Building financial and operational roadmaps
- Launching new ideas and initiatives
- Leveraging strategic investments for the next stages of development
- Responding to market shifts in consumption and funding

Sector Thinking

- Capitalization
 - Balance sheet aligned to manage risk
 - Risk capital
- Market shifts
 - Changes in cultural consumption
 - Changes in philanthropic behavior
- Emergence from COVID-19 pandemic

Our Clients

Broad Experience

- Organizations
 - Arts and Culture
 - Education/Youth Development
 - Human Services
 - Environment
- Funders
 - Foundations
 - Major Individual Donors
 - Government Agencies

Specific Strategic Questions

- Clarifying foundational statements: mission, vision, and values
- Assessing current readiness for change
- Gauging likely reception of vision in the marketplace
- Identifying implications of foundational statements for operations
- Estimating financial impact for planned changes

Our Team

Julie Koo **Senior Vice President**

- Started at TDC in 2008
- MBA in nonprofit management
- Boston and MA clients
 - American Antiquarian Society
 - Historic Deerfield
 - Boston Center for the Arts
 - Boston Chinatown Neighborhood Center
 - United Way of Massachusetts Bay and Merrimack Valley
 - The Boston Foundation
 - Teen Empowerment
 - Community Music Center of Boston
 - Front Porch Arts Collective
 - BAMS Fest

Jake Evans **Senior Associate Consultant**

- Started at TDC in 2019
- BA in history
- Boston and MA clients
 - American Antiquarian Society
 - Historic Deerfield
 - Boston Center for the Arts
 - Barr-Klarman Arts Initiative
 - English for New Bostonians
 - New Art Center
 - Nativity Prep Boston

Multi-Year Forecasting

About You

- Who has tried multi-year forecasting?
 - What are issues that you ran into while forecasting?
- Who is considering it?
 - What are your concerns or questions?

What is multi-year forecasting?

What it is

- A tool for demonstrating in financial terms the implications of long-range planning
- An illustration of the major moving pieces of your business model over time and its impact on the balance sheet
- A place to size key assumptions and risks
 - Upside and downside
 - In your control and not

What it's not

- A replacement for budgeting
- An explication of every detail of your chart of accounts
- A crystal ball

When is it useful?

When to use it

- Testing options
- Understanding complexity
 - Getting it all in one place
 - Disagreement
- Shifting business models
 - Demonstrating that it can work
- Choosing where and when to invest limited resources

When not to use it

- Status quo
- No control over resources
- No need to think beyond a one-year time horizon
 - You only eat what you kill

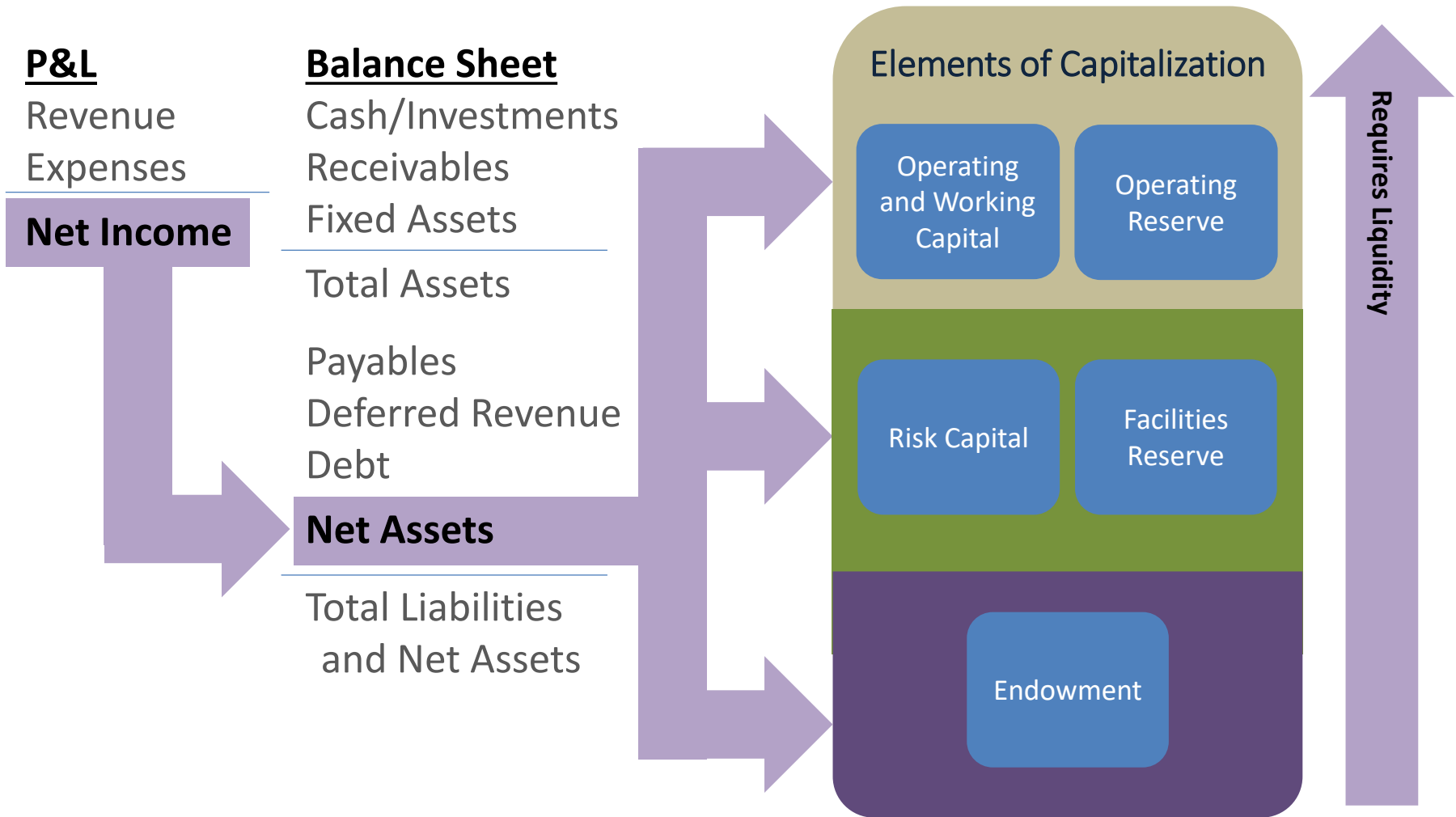
Where to start?

- Understand the key pieces of your business model
- Articulate decisions and choices
- Size financial implications of decisions and choices
- Size external uncertainties
- Assess the options
- Track results

Understand the key pieces of the business model

- Think about underlying drivers, and decide which are key to include in the model
- Identify the places where you have flexibility and where you are constrained
- Diagnose if there are “sins of the past” that need to be cleaned up and if the current business model “works”
- Quantify sources of cash that are available to invest
- Set the baseline
- Net impact of business lines
 - Types of offerings
 - Number of offerings
 - Pricing
 - Customers
 - Restricted contributions
 - Working capital needs
 - Overhead allocation
- Overhead
- Capital expenditures
- Debt service
- Reserves and windfalls

Does the model work?



What is your capitalization stage?

Recovery

Broken Business Model

Negative URNA

Structural Deficits

Negative Cash

Transition

Weak Operating Model

Thin Balance Sheet

Breakeven or Deficit

<1 Month Cash

Strengthen

Working Operating Model

Thin Balance Sheet

Breakeven or Better

Undercapitalized

Deploy & Maintain

Stable Operating Model

Healthy Balance Sheet

Regular Surpluses

Well capitalized

Articulate decisions and choices

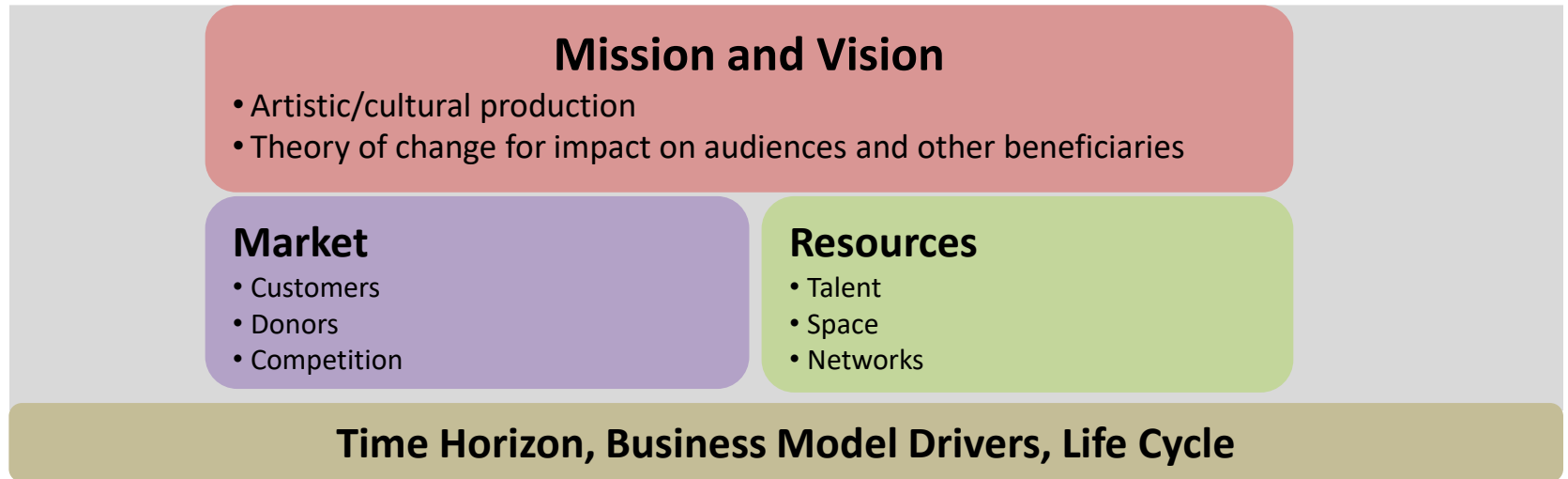
Decisions

- What has already been decided?
- What are your mission, vision, and values, and what do you need to do to better live up to them?
- What are your strategic goals, and on what time horizon are you executing them?
- What are the non-negotiables?
- What promises have you made?

Choices

- What options are you using the forecast to test?
- Examples of choices:
 - Starting or ending programs
 - Staffing hires
 - Pay equity initiatives

Integrated planning



Integrated Strategy

- **Programmatic strategy** maximizes artistic quality and impact, scaled to demand and available resources
- **Organizational strategy** includes adequate human and other resources to manage program and support activities (e.g. marketing, development, finances, facilities)
- **Capitalization strategy** articulates size and shape of capital needs to support programmatic and organizational strategies

Size financial implications of decisions and choices

For decisions

- Do you know the dollar amount of the financial impact, or can you estimate it?
- Will it require re-allocation of resources, or do you need to expand?
- Do you have the money for an expansion?
- Are there interdependencies to consider?

For choices

- Is this a yes/no question or multiple choice?
- Is there a high/medium/low spectrum that should be modeled?
- What are the boundaries of feasibility?
- Are there interdependencies to consider?

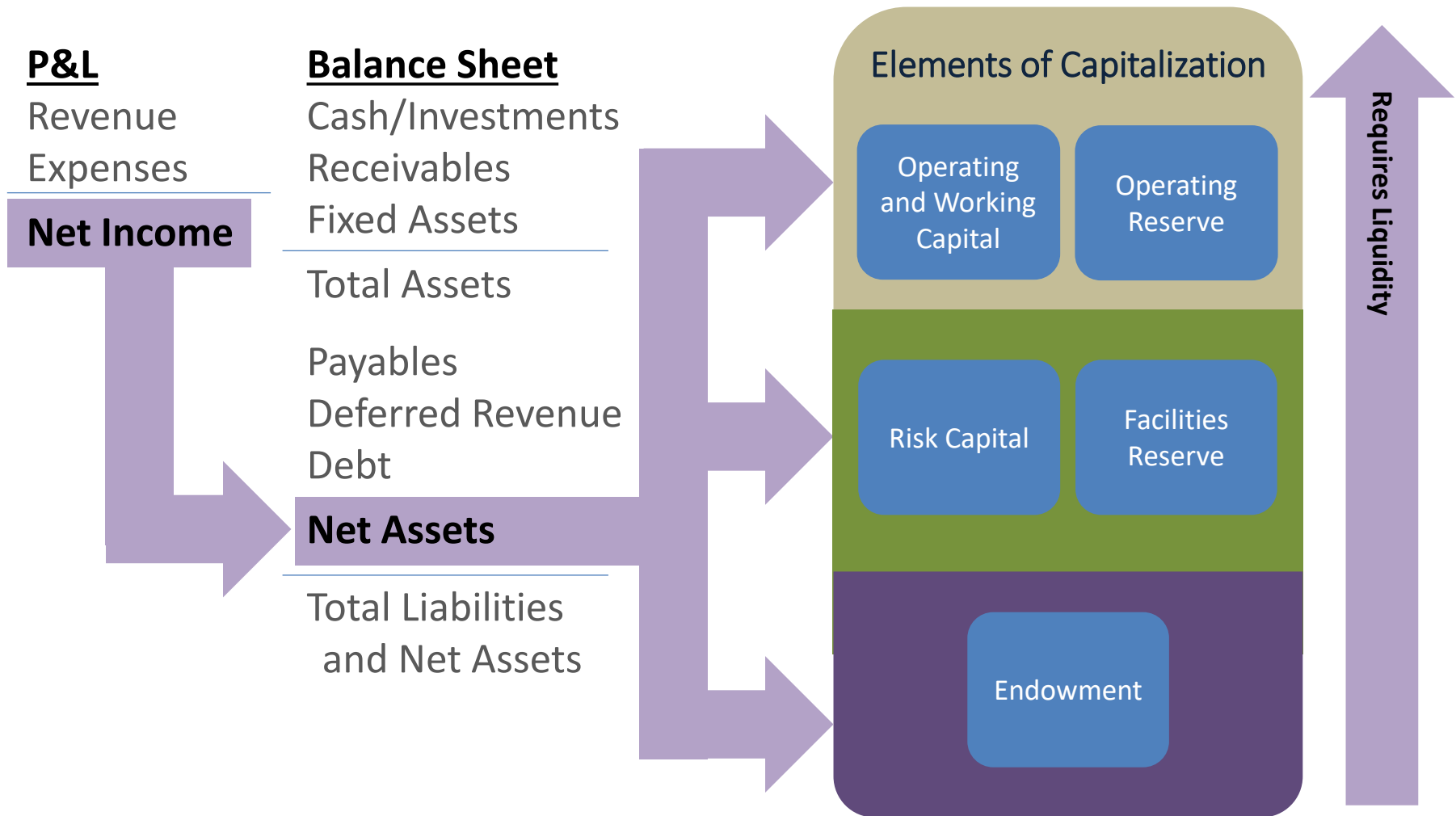
Size external uncertainties

- There are often elements beyond the organization's control that should be considered
- Strategic risk: These are assumptions that underpin a decision that turn out to be wrong
 - Examples: customer demand, donor interest, sizing of costs
- Environmental risk: These are events that you have no control over
 - Examples: pandemic shutdowns, stock market downturn that impacts endowment returns, high inflation
- A model can't include everything but should include the risks most material to your financial situation

Assess the options

- What is the definition of success for the model?
- Under what conditions is it successful?
 - What is feasible?
 - How long will it take to get to a surplus budget that generates enough cash toward working capital and needed reserves?
 - Are there certain choices that we have to/should pass up?
 - Can we follow through on all our decisions and obligations?
 - Do we have enough reserves to bridge to a business model that “works”?
 - If not, can we raise change capital?
- What's Plan B?

Does the model work?



Transitional capital funds

Recovery Capital

- Pays off past debt
- Provides interim working capital
- Moves URNA out of the red
- “Can’t function until you clean it up” capital
- Funded by people who love you

Change Capital

- Required to test a new business model
- Required to execute new business model
- Funded by people who love you

Track results

- This is often the hardest part
- Are systems set up to collect data to track results?
- What are the most important indicators to track?
- Whose job is it to track results?

Questions

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