

BUDGETING DURING A CRISIS

"WHERE CAREFUL PLANNING MEETS REAL LIFE!"



PREPARED BY CHARLOTTE CANNON-SAIN MBA

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Charlotte Cannon-Sain has over 20 years in the nonprofit sector. She is currently the Vice President of Administration and Finance for the Center for Veterans Issues (CVI), the largest 501(c)3 community-based veterans services organization in the state of WI serving over 54 counties. She provides financial, operational, programmatic and technical leadership to a staff of 89 while managing an 8 million dollar budget. From 2018 to 2019 she served as the Interim President and CEO of the Center for Veterans Issues due to the sudden passing of then CVI President and CEO Brigadier General Robert Cocroft. Mrs. Cannon-Sain earned her Professional Certificate in Nonprofit Management, Bachelors in Finance and Accounting and her MBA at the University of WI-Milwaukee. She has also received a Professional Certificate in Strategic Management from The George Washington University and she is currently enrolled in the Master of Science Degree Program in Management, Strategy and Leadership at Michigan State University. Mrs. Cannon-Sain has proudly represented 7th District Alderman Khalif Rainey as his Treasurer for the past 8 years and has sat on many boards including YWCA, African World Festival, and Employ Milwaukee. Mrs. Cannon-Sain is a native Milwaukeean, married 27 years to former Milwaukee Fire Department Assistant Chief and former MPS School Board President Mark Sain. They have (4) daughters and nine grandchildren - 8 boys and one "Bella". In her spare time, Mrs. Cannon-Sain loves to travel, read, watch black and white movies and spend time with her family.

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Everyone including businesses know what life would look like if some or all of their income went away, but not many have a plan in place for if and when that happens.

Stock Market Crash, 1929

On October 24, 1929, panic selling occurred as investors realized the stock boom had been an over inflated bubble. Margin investors were being liquidated as every stock holder tried to liquidate. Millionaire margin investors became bankrupt instantly, as the stock market crashed on October 28 and 29.





HURRICANE KATRINA
AUGUST 23-31 2005

Costliest hurricane in the U.S. Nearly **106 billion** U.S. dollars. Damage caused by Superstorm Sandy, which struck in 2012, was approximately 71 billion U.S. dollars.

62 tornadoes in 8 states spawned from the storm

1,200 lives lost

maximum storm surge in Mississippi: **26 ft (8 m)**



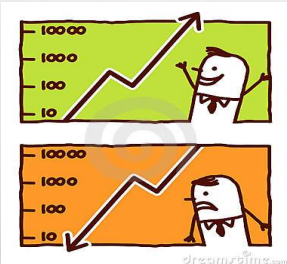





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WHY WE DON'T PLAN

The simplest and most obvious explanation for why we fail to plan for the future can be linked to basic human biology. We have **pleasure centers** in our brains that release a hormone called dopamine, which gives us a feeling of well being. So it shouldn't be surprising that we seek to maximize our dopamine fix in the present and neglect the future. The average American has no idea of how they are going to get out of debt, retire, or handle a simple emergency. Like people, unfortunately a lot of businesses have their own source of dopamine and it's called "success". When things are going well for businesses, no one is thinking about a downturn or a crisis. Everyone and every business should make sure that there is a plan in place for both good times and bad.



When we consider the worst that can happen in our organizations, we normally think of loss of funding from a major source, but there are other losses a business can incur that have nothing to do with funding that can be just as bad such as:

- The death of a key employee
- Lawsuits and legal issues
- Government regulations (new rules)
- Lack of a succession plan
- Loss of clients due to new entries into your industry
- Lack of vision or purpose
- Inefficient use of resources and capabilities (not doing what you do best)

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WHO IS RESPONSIBLE FOR BUSINESS PLANNING???



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HOW TO PLAN FOR UNCERTAINTY OR CHANGE

SO, WHAT ARE BUSINESSES TO DO IN AN ENVIRONMENT CHANGING SO QUICKLY THAT STRATEGIC PLANS END UP GETTING THROWN OUT THE WINDOW? ENTER SCENARIO PLANNING, A FORM OF PLANNING THAT LEVERAGES WHAT YOU DON'T KNOW TO BRING MULTIPLE HYPOTHETICAL FUTURES INTO VIEW. SCENARIO PLANNING ALLOWS YOU TO:

- **1. GAIN INSIGHT INTO THE KEY DRIVERS OF A SITUATION**
- **2. EMBRACE AND CONTROL UNCERTAINTY**
- **3. RECOGNIZE THE ASSUMPTIONS YOUR ORGANIZATION HAS BEEN MAKING**
- **4. EXPOSE YOUR FALSE SENSE OF SECURITY**

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SCENARIO PLANNING IS AN INVALUABLE TOOL IF YOU'RE TRYING TO DETERMINE WHAT THE FUTURE MIGHT LOOK LIKE FOR YOUR BUSINESS. HERE ARE FIVE STEPS YOU CAN TAKE TO PREPARE YOUR BUSINESS FOR UNKNOWN BEYOND THE PANDEMIC:



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HOW SCENARIO PLANNING HELPS THE BUDGETING PROCESS

Scenario planning can improve the overall performance of your budget by letting you plan for challenges and opportunities to securely meet your company's objectives.

Budgeting is basically an educated guess based on past performance and applied to future goals. For a growing business, though, how a company has performed in the past may provide little insight into how it will do when faced with new challenges.

Considering the current pace of business, challenges can arise quickly. Scenario planning can help companies keep their budgets on track to achieve their goals. Scenario planning analyzes possible situations and shows how those challenges and opportunities can impact an organization's budget and ability to achieve its strategic targets.



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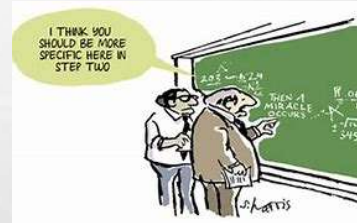
WHAT IS A BUDGET??

A budget is basically a tool. It is an estimate of revenue and expense or income and expenditures over a specified future period of time.

WHAT IS BUDGETING??

Budgeting is the process of planning future activities by establishing performance goals and putting them into a formal plan. In other words, budgeting is the process of making financial goals and creating a plan to achieve those goals. This also involves making assumptions, estimates and educated guesses about expected inflows and outflow of resources.

Budgeting is not an exact science and it is very important that during this planning process it's best to take the most conservative approach: underestimate revenue and overestimate expenses.



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5 COMMON TYPES OF BUDGETS

- Incremental Budgets (most common)
- Activity Based Budget (used by larger more mature businesses/organizations)
- Zero Based Budgets (no projections every item starts from “zero”)
- Base Budget (used by businesses facing critical cash crunches)
- Kaizen Budgets (continuous improvement budget design to encourage cost improvements)

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BUDGETING DURING A CRISIS



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HOW TO IDENTIFY POTENTIAL REVENUE AND ESSENTIAL COSTS

POTENTIAL REVENUE

IT CAN BE VERY DIFFICULT TO IDENTIFY POTENTIAL REVENUE DURING A CRISIS. IT WILL BE THE RESPONSIBILITY OF MANAGEMENT TO REVIEW ALL OF ITS REVENUE STREAMS FOR REALIZATION AND RECOGNITION AND IN SOME CASES ALLOCATE A PERCENTAGE – (BASED ON RISK) OF ITS COLLECTABILITY. FOR EXAMPLE:

DURING THE SAFER AT HOME MANDATE FOR THE CITY OF MILWAUKEE LANDLORDS WERE PREVENTED FROM EVICTING NON-PAYING TENANTS. THE PROBABILITY OF COLLECTING RENTAL REVENUE DURING THIS TIME WAS VERY LOW IF AT ALL. ONCE THE MANDATE IS LIFTED, THERE IS A HIGH EXPECTATION THAT MANY WILL DEFAULT ON THIS OBLIGATION BECAUSE THEY NO LONGER HAVE JOBS/AN ABILITY TO PAY.

MANY NON-PROFITS WERE IMPACTED NEGATIVELY DURING THE GOVERNMENT SHUT-DOWN. IF NO ONE IS AT WORK TO PROCESS INVOICES OR ISSUE CHECKS – THERE IS NO REVENUE

ESSENTIAL COSTS

- MORTGAGE/DEBT PAYMENTS
- RENTS
- LEASES
- PAYROLL (THERE ARE SOME EXCEPTIONS) – CAN BE REDUCED BY LAYOFFS OF NONESSENTIAL STAFF
- INSURANCE
- TAXES

CAN ANYONE THINK OF OTHER COSTS THAT MIGHT FALL INTO THIS CATEGORY???

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KL SMITH INC. 2020 BUDGET

• ORIGINAL BUDGET

REVENUE	200,000.00
EXPENSES	
RENT	12,000.00
UTILITIES	1,200.00
WAGES & BENEFITS	90,000.00
INSURANCE	5,000.00
LEASES	7,000.00
OFFICE SUPPLIES	11,000.00
AUTO EXPENSES (GAS/REPAIRS)	15,000.00
DEBT SERVICING	30,000.00
TRAVEL REIMBURSEMENTS	<u>8,500.00</u>
TOTAL EXPENSES	179,700.00
DEFICIT/SURPLUS	20,300.00

• CRISIS BUDGET

REVENUE	120,000.00
EXPENSES	
RENT	12,000.00
UTILITIES	1,200.00
WAGES & BENEFITS (SEE NOTE)	81,000.00
INSURANCE	5,000.00
LEASES	7,000.00
OFFICE SUPPLIES	0.00
AUTO EXPENSES (GAS/REPAIRS)	5,000.00
DEBT SERVICING	30,000.00
TRAVEL REIMBURSEMENTS	<u>0.00</u>
TOTAL EXPENSES	141,200.00
DEFICIT/SURPLUS	21,200.00

NOTE: WAGES INCLUDE \$6,000.00 FOR INTERNS/TEMPORARY STAFF AND \$3,000.00 FOR GYM MEMBERSHIPS
 AUTO EXPENSE INCLUDES REPAIRS \$10,000 & GAS \$5,000, ALL LEASES ARE 12 MONTHS

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As you can see by the results, KL Smith Inc. is in trouble. After reviewing both its revenues and expenses – KL Smith is set to incur a deficit of \$21,000.00.....Or will they?? Here is where management begins the work of taking each expense item and breaking them down even further (or “peeling the onion”). During a crisis you need to keep revisiting each expense item to reduce it to the lowest amount possible by asking questions.

For example:

- In the case of rent, we should ask: when will the lease come up for renewal, do we have a good working relationship with the landlord to ask for a temporary reduction or deferred rent payments
- Can we reduce our utilities by a reduction in usage and or space?
- Same as rent, there needs to be a review of the terms on all leases, are all of the items under lease essential, would it be cheaper to buy them out or eliminate them by non-renewal
- Are all employees essential? Whereas letting go interns and temporary employees is a first step, management must look at current staffing to ensure everyone who is working in the organization during the crisis is essential. To some, the cleaning staff or the cook may not be essential but if you are running a homeless shelter these functions are essential.

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What are some other questions we could ask to discover new revenue sources or reductions in the expenses?

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So, lets assume, during this next round of discussions some new information has been discovered. Let's take a few minutes to analyze this new information and determine its potential impact on the crisis budget.

New information

- Landlord agrees to forego 3 months rent worth \$3,000.00 to be added back upon the renewal of the lease in 6 months
- One of the leases with a payment of \$1,000.00 had expired
- Insurance reduction of \$2,000.00 due to change in insurance to liability only coverage on 2 of the vehicles
- Ink for office cannot be eliminated \$500.00
- Maintenance of \$1,000.00 needed immediately on vehicles
- An employee was eaten by the compliance monster during the budget meeting, resulting in a reduction of \$15,000.00 in wages and benefits



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KL SMITH INC. 2020 BUDGET

• CRISIS BUDGET

REVENUE	120,000.00
EXPENSES	
RENT	12,000.00
UTILITIES	1,200.00
WAGES & BENEFITS	81,000.00
INSURANCE	5,000.00
LEASES	7,000.00
OFFICE SUPPLIES	0.00
AUTO EXPENSES (GAS/REPAIRS)	5,000.00
DEBT SERVICING	30,000.00
TRAVEL REIMBURSEMENTS	0.00
TOTAL EXPENSES	141,200.00
DEFICIT/SURPLUS	21,200.00

• CRISIS BUDGET-2

REVENUE	120,000.00
EXPENSES	
RENT	9,000.00
UTILITIES	1,200.00
WAGES & BENEFITS (SEE NOTE)	66,000.00
INSURANCE	3,000.00
LEASES	6,000.00
OFFICE SUPPLIES	500.00
AUTO EXPENSES (GAS/REPAIRS)	6,000.00
DEBT SERVICING	30,000.00
TRAVEL REIMBURSEMENTS	0.00
TOTAL EXPENSES	121,700.00
DEFICIT/SURPLUS	1,700.00

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OTHER BUDGETING TIPS

- **LOCK DOWN SPENDING – CASH FLOW IS CRITICAL**
- **OVER-COMMUNICATE WITH YOUR TEAM – IT'S DIFFICULT TO UN-RING THE BELL WHEN RUMORS START**
- **REFORECAST AND DEFER COSTS – PUT OFF MAJOR INVESTMENTS/EXPENDITURES/START-UPS**
- **INCREASE ACCOUNTABILITY AND RESPONSIBILITY – LET THE TEAM KNOW WHETHER YOU SINK OR SWIM YOU DO IT ALL "TOGETHER!"**
- **IF POSSIBLE, OUTSOURCE & COLLABORATE – ARE THERE OTHER ORGANIZATIONS THAT ARE EXPERIENCING WHAT YOU ARE EXPERIENCING (CAN YOU LEVERAGE CAPACITIES TO HELP ONE ANOTHER)**
- **IN AN EFFORT TO SAVE THE BUSINESS – EVERYTHING, EVERY OPTION SHOULD BE ON THE TABLE**

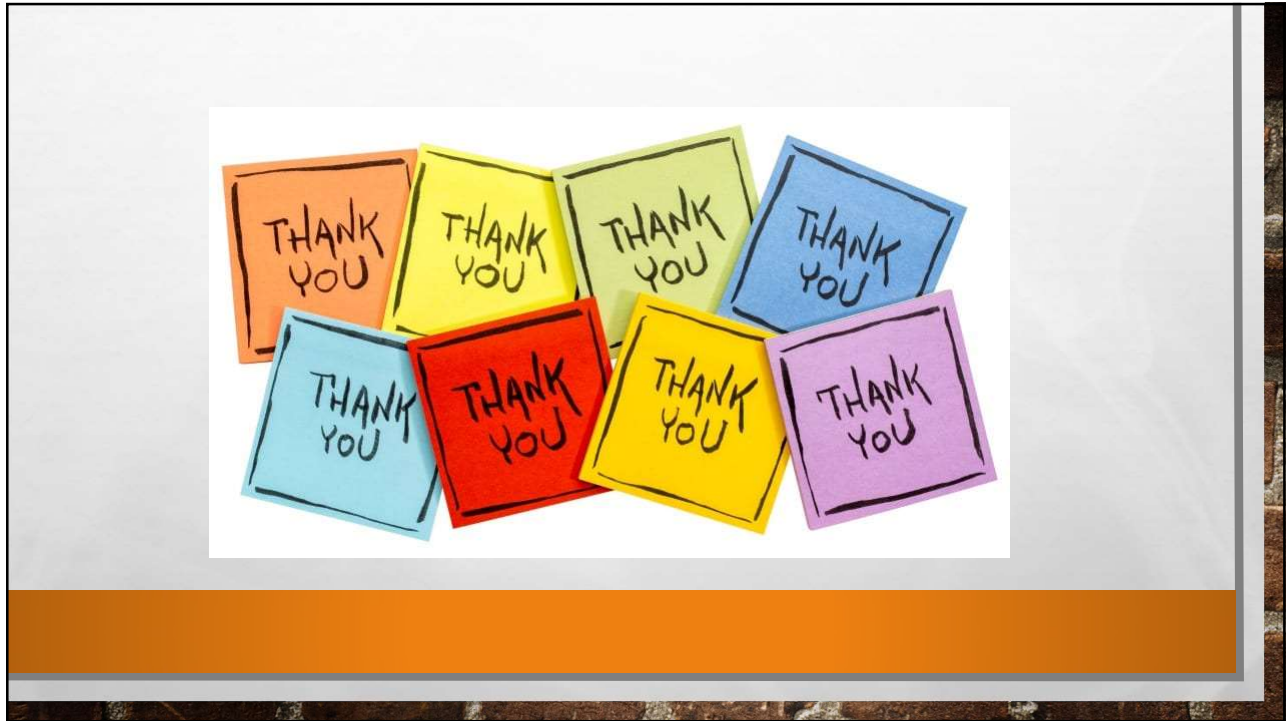
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THINGS TO CONSIDER

- **Develop strong relationships with your creditors/suppliers/employees**
- **Respect and value your employees - Tell it first, tell it all and tell the truth**
- **Creation of an emergency reserve account**
- **Take advantage of improving “indirect cost rates”**
- **Line of credit, if possible, of at least 3-6 months worth of expenses, governed by your BOD**
- **Be agile – Go with the flow. Proper planning takes much of the anxiety out of a crisis situation**
- **Regular planning meetings to review the overall health of the business and make needed and timely adjustments – not just information gathering and distribution**
- **Manage your risk**
- **Embrace “worst case scenario” options**
- **Involve as many stakeholders as you can in the process**

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