Learning from the Future:
A Resource for Planning Ahead

FIVE STORIES OF COMMUNITY FOUNDATIONS USING THE STRESS TEST
Acknowledgements

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* Confront the Brutal Truths task force members:
  - Peter Dunn – Central New York Community Foundation
  - Robin Ferriby – Community Foundation for Southeast Michigan
  - Doug Kridler – The Columbus Foundation
  - Ruben Orduña – The Boston Foundation
  - Alicia Philipp – Community Foundation for Greater Atlanta
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We also thank individual contributors from across the field for sharing their stories and insights from using the ESP Model:

- Paige Carlisle, Director of Finance, The Community Foundation of Shreveport-Bossier (LA)
- Debbie Gaffney, CFO & Chris Barge, Director of Philanthropic Services, The Community Foundation Serving Boulder County (CO)
- Brian Hussain, VP of Finance, Coastal Community Foundation of South Carolina (SC)
- Leslie Lilly, President and CEO, & Gloria Ortega Rex, VP of Finance and Administration, The Community Foundation for Palm Beach and Martin Counties (FL)
- Barry VanderKelen, Executive Director, San Luis Obispo County Community Foundation (CA)

And we especially hope that you’ll become part of a wave that will speed access to performance data across the field. You can help by visiting www.cfinsights.org to learn more, update the database with your most recent performance data, and download free tools for sustainability planning.
Introduction
In an uncertain economic environment, community foundations face questions such as:

- When might the foundation’s assets return to pre-recession levels?
- What level of grantmaking can we expect in the next few years?
- What happens to our economics if donors behave in different ways?
- What is the gap in operating revenues we are facing in future years?
- Will we have enough operating cash or are further budget cuts needed?

The Economic Scenario Planning (ESP) model ("stress test") helps community foundations answer these questions.

The ESP model is designed to help community foundations of any size and shape create five-year forecasts and plan for multiple scenarios. Community foundations using the model cite important benefits, often revising goals or making operating model changes as a result.

The stories that follow demonstrate how using the ESP model helps to:

- Integrate perspectives to create a common plan.
  Take a foundation-wide view – combine revenue forecasts, grantmaking, and development goals.
- Provide a reality check for future goals.
  Test future strategic goals alongside their economic reality.
- Structure a process to facilitate board discussions about the future.
  Inform discussions about the implications of future scenarios.
- Catalyze a new call to action.
  Energize a commitment to actionable goals.
- Track progress towards goals.
  Provide metrics and a tool to gauge performance and adjust targets as needed.

Stories from five different community foundations highlight differences in motivations for using the model, the way they see the future, and the decisions they are making. However, one benefit is common throughout – having a picture of the future grounded in data helps them create or change the dialogue about what defines sustainability for their foundation in the months and years to come.

Background

Though developed in August 2009 to help community foundations understand the implications of the market downturn, the model can be used in any economic environment. The model is a helpful resource in a world where the future is always uncertain, regardless of the economic climate. Visit www.cfinsights.org for more information.
Lessons from the Field
Five foundations across the country ranging in assets from $28M to $117M shared stories about using the ESP Model. These foundations include:

1. Integrating Perspectives to Create a Common Plan
The forecasting exercise provides a common long-term view of the entire foundation, a perspective that is broader than typical for annual budgeting or planning processes. The economic crisis challenged assumptions for growth, investment performance, grantmaking, and operational expansion previously built into budgets and plans. The ESP Model provides a means to test the connections between a recalibrated set of goals and strategies.

Users of the ESP Model not only studied past trends in every area of their foundation, but took a foundation-wide planning approach, integrating revenue forecasting, grantmaking planning and donor behavior analysis. Debbie Gaffney, CFO at the Community Foundation Serving Boulder County, says,

“The ESP Model helped me forecast on a foundation-wide basis rather than just from an operations perspective. It helps you understand what happens at the fund level and then build it from the ground up.”

How do budgeting, investment management, grantmaking and development perspectives connect?
By combining a traditional “backwards-looking” view with future forecasts, foundations uncover new insights to help plan for a sustainable future. Brian Hussain, VP of Finance at the Coastal Community Foundation of South Carolina, gained insights about the gap between gifts to and grants from his foundation:

“We touted every year how our contributions were increasing, but we didn’t study how grants were up too! We needed to look at this trend between gifts and grants to understand the impact on our economics.”

Looking to the future with a more comprehensive view of the foundation was a mark of success in these foundations.

2. Providing a Reality Check for Future Goals

In addition to a more comprehensive view of the dynamics affecting the foundation’s business model, the process also quantifies and grounds future goals in data. Often strategy and economics are considered separately; however, the ESP Model provides the means to test future strategic goals alongside economic reality. Barry VanderKelen of the San Luis Obispo County Community Foundation noted the value of this, saying:

“We wanted to match our mission with our economic reality. It made us think about our growth trajectory.”

Taking action, VanderKelen made a list of what the foundation hoped to accomplish in the next five years, then worked backwards to figure out the implications of revenue required to meet these goals.

Likewise, the Community Foundation Serving Boulder County is using the model in conjunction with its strategic planning efforts. Chris Barge, Director of Philanthropic Services, notes:

“The model grounded us from wishful thinking. We were coming to the end of a 5 year strategic plan with a $50M endowment goal. With the market downturn, we slid from $40M to $30M. This exercise helped us appreciate how hard it was to reach the $50M goal.”

After seeing these economic realities, these foundations are setting more realistic goals with better insight and clarity into what will be required to accomplish them.

3. Structuring a Process to Facilitate Board Discussions about the Future

The ESP Model provides a format and forum to catalyze conversations about future scenarios. For the foundations interviewed, the messages and methods of delivery varied, but the outcome was the same: the model helped get everyone on the same page about the need to think about the future. Barry VanderKelen describes his experience with his board:
“We had the scenarios on the projector at our board planning meeting and made real-time adjustments. That way we could see the impact of our actions. We had to assess our goals with real-time economic data in front of us.”

In another approach, the Community Foundation for Palm Beach and Martin Counties created distinct scenarios for its board, highlighting the implications of assumptions in each forecast for fee revenue, operating expenses, and the overall impact on the administrative endowment.

While foundations presented optimistic, pessimistic and more middle-of-the-road “expected” scenarios, the “expected” was often the centerpiece of most discussions. With a strong grounding in the quantitative data provided by the model, boards were confident that they should work towards a single “expected” scenario, providing guidance on the issues to address as the foundation pursues that path. The more optimistic and pessimistic views help to highlight the sensitivities of future goals to changes in variables like donor giving patterns or investment returns, deepening the foundations’ understanding of how future goals may need to be recalibrated with changing circumstances.

4. Catalyzing a New Call to Action
Scenario outcomes are creating a sense of urgency and call to action around key goals for each foundation. As Leslie Lilly of the Community Foundation for Palm Beach and Martin Counties describes, the tool came at an opportune time:

“Forecasting gave us an urgency to get started thinking about future sustainability. If we had let this simmer for 5 years, we’d wind up somewhere we don’t want to be! We need to start thinking about this now.”

At San Luis Obispo County, the board felt increased urgency around fundraising after seeing the required revenue necessary to accomplish their strategic goals. Similarly, Boulder County developed a sustainability index to analyze what percent of their budget was covered by fees and other revenue sources, highlighting additional advocacy efforts requiring more operating support.

And in the case of Palm Beach and Martin Counties, the work of existing staff and board committees was refocused as a result of learnings from the ESP model. Leslie Lilly describes this movement toward new action:

“Previously, our various committees had some ideas, but there was never an overall discussion where everyone can put their arms around it. This was a watershed moment when we brought it all together.”

Overall, the model helped focus the foundations on actionable goals that were supported by a realistic picture of the operating context.

5. Tracking Progress Toward Goals
Not only are foundations re-focused on realistic goals, they are also integrating the ESP Model into their annual budgeting and planning cycle. They are committed to measuring their progress towards realistic, quantifiable goals.

The five stories that follow share more detail about each foundation’s experience of using the ESP model; the “word cloud” for each is a graphical representation of the benefits each community foundation cited in discussing the scenario planning process. The stories are followed by overall best practices and next steps.
Stories from the Field

The Community Foundation for Palm Beach and Martin Counties
Moving beyond basic budgeting to new levels of communication and committee cohesiveness

Why did you use the model?
- To enhance budgeting to include strategies beyond 1 year
- To communicate the importance of long-term planning to the board during leadership transition

What do you now understand about your operating model?
- The quantitative impact across all areas of the foundation of “what might be coming down the road”
- Weakness of operating model: fee dependence

What changes were made as a result of using the model?
- Created urgency around sustainability planning – got the board’s attention and re-energized committees to put together plans of action
- Re-thinking fees and evaluating new revenue sources, including partnerships with private foundations, fundraising events

We went back five years, so we created a continuum that showed shortcomings in our model and it illuminated the fact that we could not keep doing business this way in this economy. - Leslie Lilly

We have a dependence on fees. Our plan of action is to be conservative on expenses and fundraise additional dollars so we don’t erode our unrestricted funds. - Leslie Lilly

The Community Foundation Serving Boulder County
Grounding future growth goals in data

Why did you use the model?
- To complement a strategic planning process
- To reassess growth goals set 5 years ago

What do you now understand about your operating model?
- How to take a “foundation-wide” approach to forecasting, beyond just operations
- Weakness in operating model: inability to raise direct operating revenue through grants

What changes were made as a result of using the model?
- Prioritizing fundraising goals – making them more realistic and strategic, rather than just choosing a target – to develop a more sustainable path to growth
- Implementing a sustainability index for budget analysis that illustrates sources of revenue needed to take on new initiatives

We are building in better and more transformational ways of doing our work. It’s better than clamoring to just get anything. We are looking at our unrestricted funds, endowment, advocacy and more than just grant making. - Chris Barge

We had always assumed we would grow, and then the world was on its head! Now we are in this boom/bust economy and we had to know the firm ground we’d be on moving forward. - Chris Barge
San Luis Obispo County Community Foundation  
Matching Foundation goals with economics

**Why did you use the model?**

- To take a ‘forward-looking’ rather than ‘backward-looking’ approach to forecasting to gauge implications of future goals on operations

**What do you now understand about your operating model?**

- Weakness in operating model: the need for endowment
- The type of growth to pursue – types of assets and funds
- The ability to ‘stretch’ a little farther than they thought for the status-quo, though the foundation would need new sources of revenue for new initiatives or goals

**What changes were made as a result of using the model?**

- Committees re-energized to re-assess growth goals and future paths for growth based on economic realities
- Greater board involvement in pursuing fundraising goals

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Coastal Community Foundation of South Carolina  
Formalizing the budget-planning process to take a long-term view

**Why did you use the model?**

- To formalize long-term budgeting and then communicate results foundation-wide

**What do you now understand about your operating model?**

- Insights about past trends, such as the gap between giving to and granting from the foundation
- Implications of optimistic, pessimistic and expected market returns on revenues and the accompanying expense reductions needed

**What changes were made as a result of using the model?**

- Revised budget to maintain a three year reserve
- Changed annual budgeting process to incorporate annual scenario planning

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I started with what we wanted to accomplish, then we worked to figure out how much it will cost and what it meant in terms of the revenue side. How aggressive do we need to be in our investments and in our fundraising? - Barry VanderKelen

It helped us focus on the long term financial benefit for different kinds of growth. It helped us understand (1) what kind of assets we need and (2) what kind of activities we should spend our time on. - Barry VanderKelen

We have a small reserve and once it hits zero, we’d have to cut staff. So we built a budget that would give us a 3 year reserve when assuming the worst case scenario. - Brian Hussain

We are actually going to take five months to go through the budget planning process, as we think scenario planning is so important. - Brian Hussain
The Community Foundation of Shreveport-Bossier
Testing fee changes relative to the big picture

Why did you use the model?
- To provide the board with an analytical view of the next five years
- To test change in fees from 0.9% to 1%

What do you now understand about your operating model?
- 12 quarter rolling average for spending policy and fee calculation offers sufficient smoothing to help ride out the economic crisis
- Greater clarity about the diversity of funds managed and the variance in work required

What changes were made as a result of using the model?
- Not currently raising fees, as some unique things such as large new funds helped weather the storm
- Started conversations about the economic viability of the various fund types offered

Do we really want to create more pass through funds?
Realistically, we may not know if our ways in the past are really a good idea or not. This opened doors to those conversations.
Paige Carlisle
Best Practices

In addition to the larger lessons learned, interviews with the foundations completing the ESP Model also illuminated several best practices.

- **Conducting due diligence on model inputs**

  All of these foundations invested time in gathering detailed historical data to make forecasts accurate. This exercise also helped to identify trends in the foundation that may have been overlooked in the past. One foundation used their investment consultant to help determine appropriate market forecasts, which gained credibility with their board. Lastly, these foundations had clear forecasting approaches and didn’t use too many change factors to easily isolate what is impacting sustainability.

- **Finding the right level of Board presentation & involvement**

  Some foundations opted to only present the expected scenario to their boards, while others involved the board directly in the forecasting exercise. All of these foundations had a clear approach as how to best communicate the forecast results to their board, which led to action around necessary changes.

- **Involving all departments and many staff**

  Taking a foundation-wide approach to forecasting meant many departments and staff were involved. This also created buy-in around changes to be implemented.

- **Sharing with and learning from peers**

  No one has all of the answers, but your peers can be a sounding board to test new ideas. All of the foundations featured in this article participated in some kind of peer learning, which provided credibility in their forecasts and interpretations.

- **Always keeping the big picture in mind**

  As noted at the beginning of this article, all of these foundations decided to use the ESP Model for different reasons. But they all had the longer-term big picture at the forefront of their approach. Whether it is modeling strategic goals, determining what business to be in, or testing a new revenue mix, all of these foundations were matching their mission to economic realities.
Next Steps

Visit [www.cfinsights.org](http://www.cfinsights.org) to download the ESP Model toolkit. This toolkit includes:

### Downloadable ESP Tool-Kit Components

- **Pre-Populated Model:** ESP model with illustrative data so you can see what the model looks like when completed
- **Pre-Populated Presentation:** ESP presentation with illustrative data so you can see how the model translates into findings
- **User Guide:** Detailed step-by-step guide for using the model, thinking about forecasting, and approaching the presentation
- **Blank Model:** ESP model template that you can use to create three five-year forecasts for your foundation
- **Blank Presentation:** ESP presentation that you can use to present your findings to your stakeholders

In addition to these tools, educational opportunities are available to help you use the ESP Model. A recorded webinar providing an overview of the toolkit is also available. Peer learning communities are also being held to connect you to your peers currently using the model. Contact [CF Insights](http://info@cfinsights.org) for more information.
what we are

The idea behind CF Insights is simple: What if each community foundation could know what all community foundations collectively know?

CF Insights is a unique resource helping community foundations use information to improve decision making, performance, and sustainability

about us

Created by community foundations.

We share one goal: improving our performance and sustainability—individually and collectively.

For community foundations, growing impact in the communities we serve begins with strong decision making. CF Insights was initiated in response to a shared hunger among U.S. community foundations for more accurate, timely, and complete information to inform our actions and drive improved performance.

Propelled by FSG.

As nonprofit consultants dedicated to social impact, FSG combines deep knowledge of the community foundation field with world-class research, strategy, and evaluation capabilities.

In partnership with the Council on Foundations’ Community Foundations Leadership Team, FSG has been a driving force for CF Insights since its inception.

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For the Community Foundation Field

CF Insights offers specialized resources to serve the community foundation field, including:

- **Information**—CF Insights provides access to field-wide financial data and tools for use by any community foundation (e.g., Cost-Revenue Study; Economic Scenario Planning (ESP) Model, Columbus Survey).

- **Ideas**—CF Insights research for community foundations is available to the entire field via publications, webinars, and conference presentations.

Additional Benefits For Members

CF Insights members gain comprehensive benefits, featuring:

- **Benchmarking**—CF Insights members have full access to the primary database on U.S. community foundations; they learn about field norms, practices, and trends; and have the ability to compare individual performance with peers.

- **Advice**—CF Insights assists members in applying and interpreting performance metrics, helping produce customized analyses and dashboards that inform decision making.

- **Insights**—CF Insights members receive relevant, timely, research-based offerings.

- **Connections**—CF Insights members have ready contact with peers in common interest areas, and share knowledge through learning events and opportunities.
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