Prepared by
Nonprofit Finance Fund

Understanding the Revised General Operating Support 2013-14 Funding Formula

Developed for

cuyahoga arts & culture

Agenda

- Background: What Brought Us to this Point?
- Review Current Formula
- Understand CAC’s Goals & Explain Revised Formula
- Next Steps: Ensuring your Success

Background: What brought us here?

CAC's new mission statement

To strengthen and inspire *the community* through investing in arts and culture.

Vision: At the end of the first ten years of public arts funding, CAC will have *helped build stronger, more resilient arts and culture organizations*, helped created vibrant and energetic neighborhoods infused with culture, and helped establish Cuyahoga County as a hub of creative activities and destination for artists.

Current Calculation of Grant Size

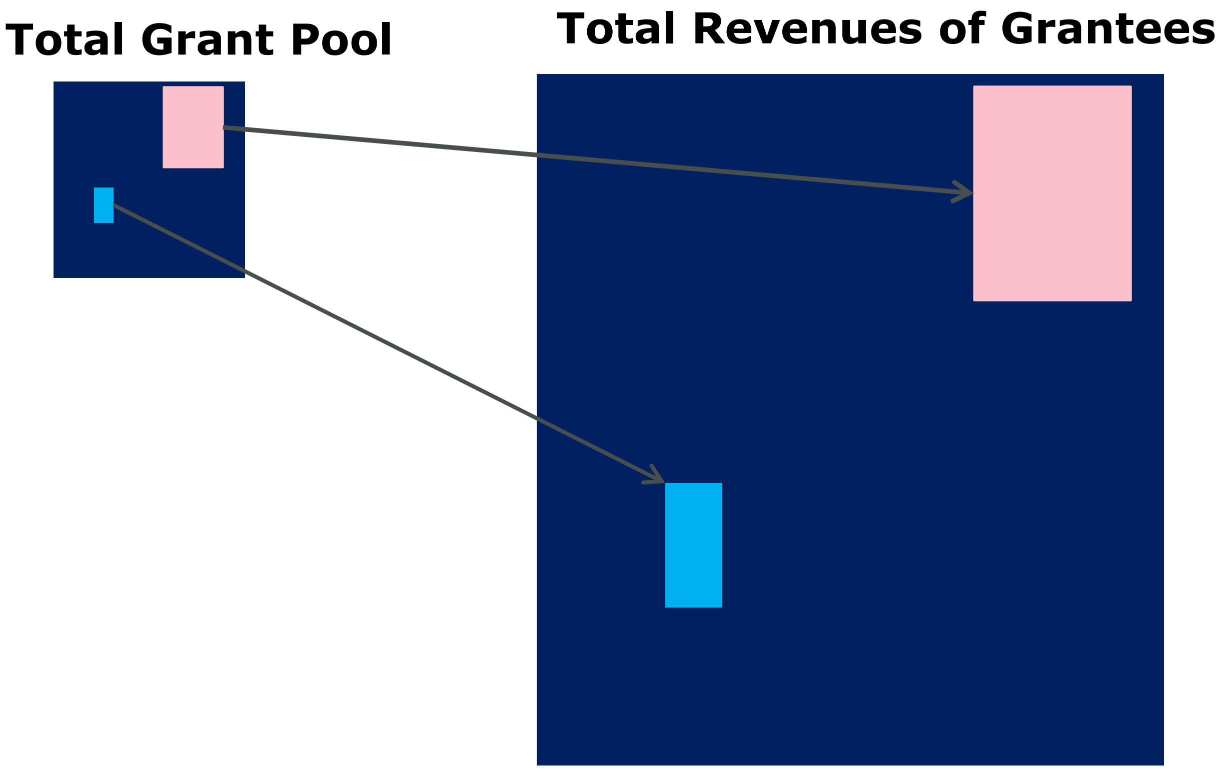
Two core values define how CAC distributes General Operating Support (GOS) grants:

- All organizations will be treated **fairly**, even very small ones.
- All organizations will receive a grant that is **meaningful** to them in real dollars, even the very large ones.

- To fulfill these values: CAC uses funding formula that accounts for organizational budget size.

Understanding the Current Formula

All organizations that score over 75 from the panel receive a portion of the total grant pool that corresponds to their portion of the total revenues of all grantees.



Understanding the Current Formula

- CAC calculates grant amount using 5 variables:
  - Adjusted organizational revenue net of CAC grant (ERS form)
  - Sum of organizational net revenue for all grantees
  - Number of grantees
  - Total dollars available in grant pool
  - An exponent factor makes distribution more equitable for smaller organizations.
- All organizations earning at least a 75 from the panel receive funding that is proportionate to their size.

Understanding the *Current** Formula

small group discussion

*** GOS 2011-12**

Goal #1:
Assess More than Revenue Growth

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Current Situation:

- To treat grantees fairly, budget size matters.
- If your revenue increases, so does your grant.
  If it decreases, so does your grant.

Limitations:

- Growth does NOT equal nonprofit sustainability.
  Undesirable consequence - the **formula favors growth**.
- 1 year of revenue data: **susceptible to anomaly years**.
  Big + and – will affect your grant amount.

Goal #2:
Make Score Matter

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Current Situation:

- Formula treats all grantees *the same* regardless of panel score.

Limitation:

- Does NOT recognize organizations that were rated highly by the panel.
- No incentive for high performance.

Goal #3:
Reward Financial Health

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Current Situation:

- Organizations with same size budget receive same funding - regardless of financially sustainability.

Limitation:

- Formula rewards organizations that are growing *even if that growth threatens the viability of the organization*.

Revised Formula Component #1
Lessen the Impact of Growth on Grant Award

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Goal: Make sure that the size of the organization – at a fixed point in time - isn't the *only factor* considered in calculating grant award.

Solution: Average it. Smooth it out.
Use 3 years of revenue data to calculate the Net Revenue.

Revised Formula Component #2
Make the Score Matter

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Goal: Make the Score Matter. Reward strong applications.

Solution: Build off existing formula, using panel score as "adjuster" to net revenue.

Step 1- Use panel score as 'adjuster' to net revenue

a) (Score x Net Revenue)= Adjusted Net Revenue

b) Adjusted Net Revenue/ Sum of Adjusted Net Revenue= % of Total Adjusted Revenue

Example: ABC, Inc.

94.67 x $384,207= $36,371,596

$36,371,596 / $22,311,136,700= .16%

Step 2- Use the % of Total Adjusted Revenue, rather than % of Total Revenue, and the existing Factor to calculate the New Exponent

a) % of Total Adjusted Revenue raised to the Factor= New Exponent

.16 ^.7651=.00736352

Step 3- Plug this New Exponent into the existing formula to calculate grant amount

a) New Exponent x Constant x Grant Pool /Number of Grantees

.00736352 x 33.10 x $14,000,000 / 67 = $50,925

Revised Formula Component #3
Reward Financial Health

Goal: Reward responsible financial performance, in part, to offset inherent bias of formula to reward growth.

Solution: Integrate 3 indicators of financial health into scoring system.

These measures include:

a. Trajectory

b. Operating performance

c. Risk tolerance

a. Trajectory (Panel)

- **Tell your story.** Applicants address financial challenges in narratives explaining what actions have been taken or will be taken to improve financial health.
- **Panels rank** organizations as "In decline", "Holding steady," or "Improving" in relation to financial health.

  Score: 0 – 5 points
- **The formula uses averages** to ensure that every applicant has the opportunity for the same maximum number of points.

$$\frac{0 * \# decline + .5 * \# steady + 1 * \# improving}{TotalVotes} * 5pts$$

b. Operating Performance (CDP)

- **Account for Surplus & Deficit.** Measured by calculating cumulative unrestricted operating surplus or deficit relative to operating expenses over prior 3 years.

  Sometimes deficits are intentional. Averaging 3 years makes sure not to punish purposeful management decisions.

- **Score:** 0- 5 points
  Depending on surplus/deficits over last 3 years

$$\frac{Surplus1 + Surplus2 + Surplus3}{Expenses1 + Expenses2 + Expenses3} * \frac{1}{10\% surplus} * 5pts$$

c. Risk Tolerance (CDP)

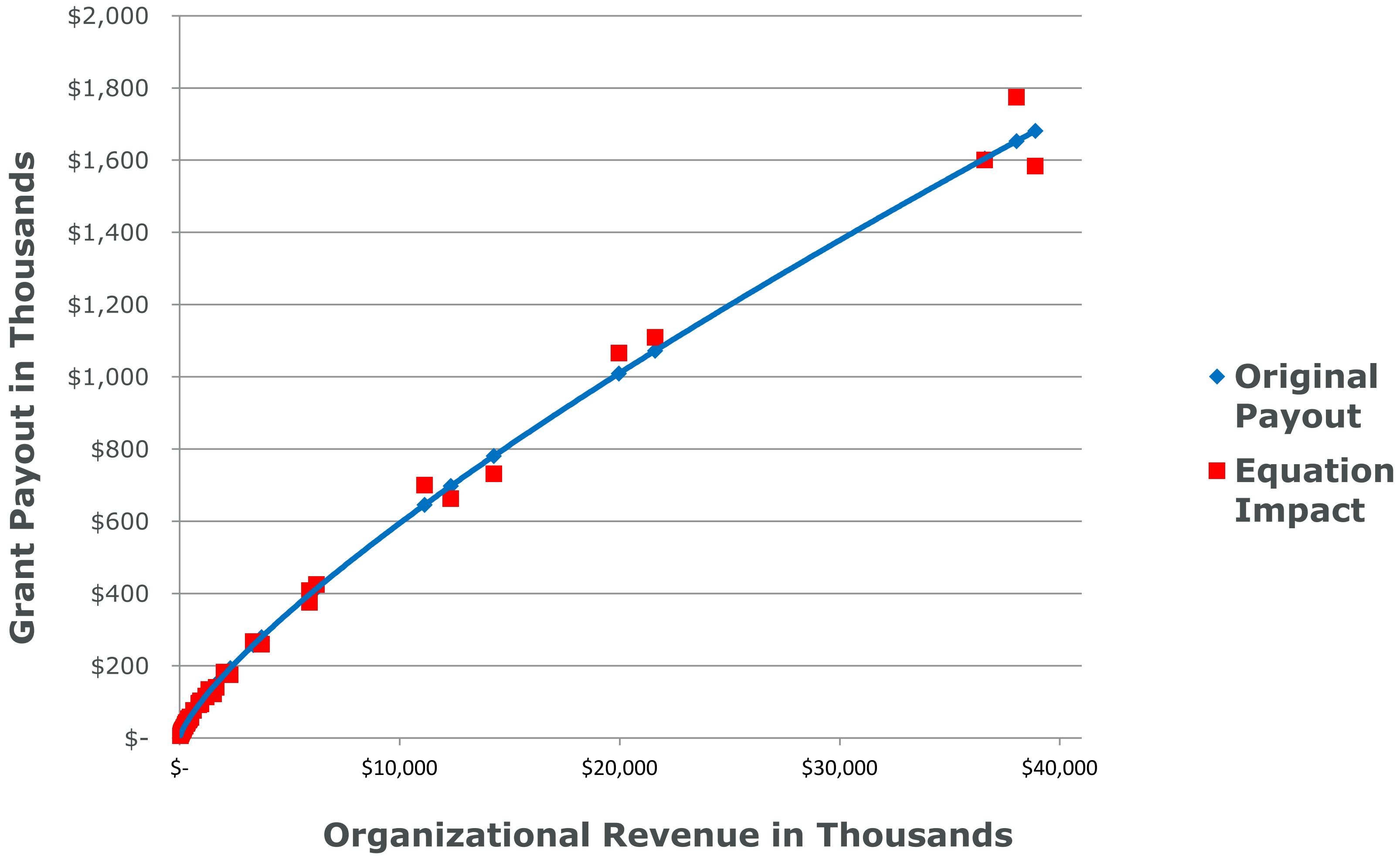
- **Working Capital and Liquidity Matter.**
  Measured by calculating unrestricted liquid net assets at the last fiscal year end as a percent of that year's operating expenses.

  Score: 0 – 5 points

- NFF recommends that organizations aim to have enough unrestricted liquid net assets to cover **3 months** of operating expenses. Three months of operating expenses, or one quarter, is 25% of the annual budget.

$$\frac{UnrestrictedLiquidNetAssets}{OperatingExpenses} * \frac{1}{.25 yearrecommended} * 5pts$$

Overall Impact of Revised Equation (Simulation)



Revised Formula
Sample SMALL organization

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$150,000 budget

- **Current GOS formula $23,956**

Panel Score: 76/100
Financial Health: 9/15
Total: 85/115

- **Grant award: $22,085**
  Change: $(1,871)

Panel Score: 96/100
Financial Health: 9/15
Total: 105/115

- **Grant award: $26,481**
  Change: $2,525

Revised Formula
Sample MEDIUM organization

$1,000,000 budget	• **Current GOS formula $102,278**
Panel Score: 76/100 **Financial Health: 9/15** **Total: 85/115**	• **Grant award: $93,793** **Change: $(8,485)**
Panel Score: 96/100 **Financial Health: 9/15** **Total: 105/115**	• **Grant award: $109,250** **Change: $6,972**

Revised Formula
Sample LARGE organization

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$11,500,000 budget

- **Current GOS formula $662,705**

Panel Score: 76/100
Financial Health: 9/15
Total: 85/115

- **Grant award: $606,222 Change: $(56,843)**

Panel Score: 96/100
Financial Health: 9/15
Total: 105/115

- **Grant award: $706,411 Change: $43,706**

Understanding the *Revised** Formula

small group case studies

*** GOS 2013-14**

Questions & Answers

Maria M. Miranda
program manager - GOS
mmiranda@cacgrants.org
216.515.8303 x 103

Jill M. Paulsen
director of grant programs
jpaulsen@cacgrants.org
216.515.8303 x 104