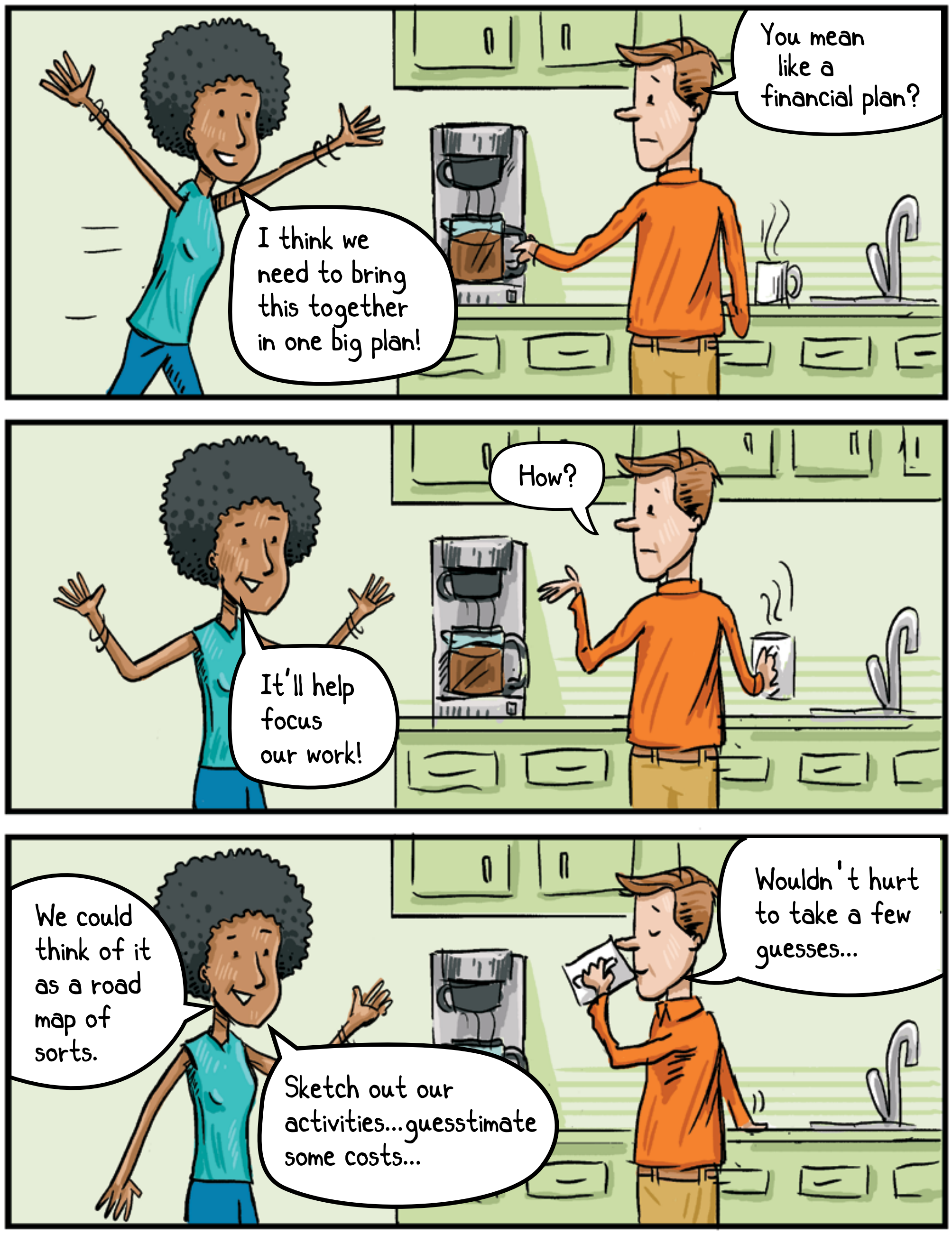
MODULE 4

How Much Will Your Dreams Cost (And How Do You Estimate Those Costs)?



Creating a financial plan sounds daunting, but it's really important (and painless, we promise!). You'll gain insight into your work just by trying. Don't worry if you don't know the numbers—just dive in!

How Much Will Your Dreams Cost (And How Do You Estimate Those Costs)?

Building a Financial Plan

According to ReThink Health's 2016 *Pulse Check on Multisector Partnerships* survey, only five percent of multisector partnerships have long-term financial plans. As part of a multisector partnership or organization, you might think that you don't really need a financial plan because you don't have the money yet anyway. But the process of creating a longer-term financial vision brings rewards just for the practice (and will help you figure out where to look for the money, and potentially help you get it), so why not get started?

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Before elaborating on the rewards of just diving in, let's define how we're using the term "financial plan." For those without a background in finance, the topic can be confusing because finance professionals throw around all sorts of related terms: budgeting, forecasting, financial projections, cash flow projections, sources, and uses. For population health, a financial plan could describe a regional investment portfolio, a multi-year plan for a particular intervention, and/or the funding for conducting integrative activities. All these possibilities make things seem far from simple.

In this workbook, we use "financial plan" as a generic term to describe a schedule of current and future intended uses of money and, ideally, predicted sources of that money. That is, *what do we need money for, how much, where from, and over what period of time?* Creating such a plan is useful at many different levels, whether planning for interventions taken on by multiple organizations across a region or for addressing key integrative activities within a single organization.

With this working definition, we can confidently say you already have the skills to create a financial plan. This workbook is designed to help you along the way. Starting where you are, right now, will help you build the skills, relationships, and conditions that will come in handy when you move on to more complicated financing structures in the future.

A Rewarding Practice

In addition to skill building, there are numerous other rewards just for engaging in the practice of creating a financial plan, including vision, relationship building, alignment, guidance, and greater awareness of opportunities. Consider these examples:

- If you have a long-term, personal financial goal in mind (such as funding your child's college education or your own retirement), then a plan, no matter how bare bones, can help you crystallize your vision. Research on saving for long-term care showed, for example, that even the act of estimating future financial needs on the back of an envelope put families ahead in their preparation for retirement.
- A financial plan—again, even a bare bones plan—can help guide and align decision making. A former budget director for the City and County of San Francisco recalls that the former deputy mayor for finance, for example, kept a small sheet of paper in his breast pocket. It outlined the major points of a plan for balancing the $2 billion budget. He referred to it often, using it to monitor and guide progress as the budget was developed.

> A plan can open your eyes to funding opportunities.

- A plan can open your eyes to funding opportunities. The Northside Home Fund in Minneapolis developed a portfolio to address a neighborhood ravaged by foreclosures (see "A Simple Example" on page 3). When costed out (very roughly), the plan totaled about $100 million. A consultant on the project recalls people scoffing at the sum at first, but the plan laid out the financial goals so clearly that, several years later, the Northside Home Fund had succeeded in raising almost that much. That's because the plan created focused priorities so the organization was ready to act when funding sources (such as federal grants, corporate contributions, and state and city housing funds) became available.
- When creating a financing plan you will make assumptions that (by definition) may or may not be true, and you will identify areas where you need more information. Being aware of those assumptions and information gaps will empower you to make more accurate plans and avoid pitfalls down the road. For instance, your intervention may call for community health workers, but their caseloads may already be too heavy to allow room for your intervention at the scale you want. In that case, you'll either need to fund more caseworkers or scale down your plans.

But What Exactly Is the Practice?

If you're just starting out, a financial plan doesn't have to be any more complicated than a household budget. If you're further along, you can create a more detailed and complex plan. Your choice will depend on where your multisector partnership or organization is in its development and the purpose of the plan. The process of preparing your plan can help you fine-tune your priorities as you develop a better idea of how much things cost and likely revenue sources. But the basic elements, as detailed below, are always the same.

1. **What do you need money for?** Name these items. If your plan describes an investment portfolio, the items would be the list of interventions you're investing in, such as lead poisoning prevention, prenatal care, and tobacco prevention programs. If you are doing a more detailed plan, you might identify the components of such interventions. For example, lead poisoning prevention could involve lead pipe replacement, blood testing, treatment in children, or lead paint abatement.
2. **How much money do you need (or want)?** Estimate spending amounts for each use you identified in question #1. Obtaining reasonably reliable estimates is easier than it might seem. Ask an expert, go to a source like the Washington State Institute for Public Policy, or simply Google it. Page 5 in this module provides more information on estimating costs.
3. **What are your sources of funding?** Name these sources, along with amounts. You can estimate, or if you don't know, leave it blank. The Northside Home Fund left it blank, but succeeded in raising nearly the $100 million the plan called for. See Module 3 for help identifying funding possibilities.
4. **Over what time frame?** Five-to-ten years is a good timeframe. Longer than that, the work gets too speculative. Shorter than that and you may be missing opportunities to use your short-term funding as a bridge to more sustainable options.

A lot of people get hung up on number two, estimating costs. But here's a tip: Do not worry about nailing down precise cost estimates. There are simply too many assumptions that can swing the bottom line one way or another. A far better use of time is to identify key assumptions that make a big difference to your bottom line, and make sure your estimates around these are reasonable. For example, a former director of the Saint Paul, Minnesota Budget Office recalls a staff member there developing a cost estimate for an alternative fire department staffing pattern. The staffer came back with a range (a good idea!), but his range was something like: $8,561,344 to $23,869,864. Why create an estimate down to the dollar when the range is so great? $8 million to $25 million would have sufficed! But more than that, the large scope of this range suggested that he failed to investigate and nail down key underlying assumptions. A range that big indicates you don't have a clear idea of how it might actually play out: in that case, you have some decisions to make!

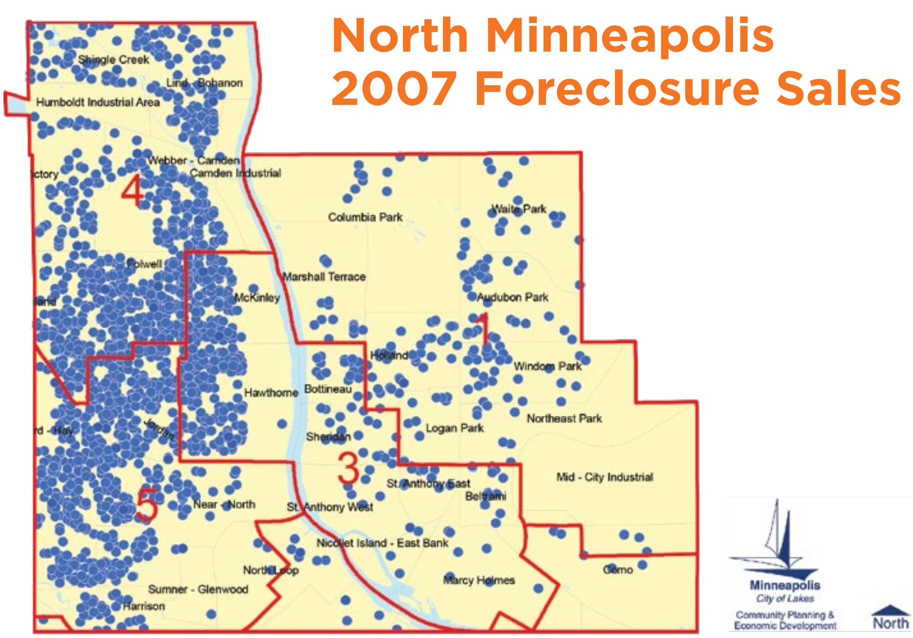
Do not worry about nailing down precise cost estimates.

A Simple Example

The Northside Home Fund is a multisector partnership created to address blight and disinvestment in North Minneapolis—one of the symptoms of which is illustrated in the map below, where each red pin represents a foreclosure during 2007!

A group from within the city's housing agency drafted a plan and shared it with the broader partnership. The purpose of the plan, the group decided, was simply to outline action steps and how much each might cost.

First, the planning group members decided on a list of objectives that would help achieve their mission of "adding value to existing neighborhood, city, and other private and public efforts to support safe, vibrant, and sustainable neighborhoods in North Minneapolis." (See Table 1 on page 4) Then, they set numerical goals for each strategy, using their intuition and experience as experts about what was needed, and considering implementation capacity and lead time. These things were tough to pin down at first, but over time group members were able to get more specific and accurate in articulating what they hoped to accomplish and how much of it.



Source: Community Planning and Economic Development Research with data from Hennepin County Sheriff's Office. January 11, 2008

Table 1: Northside Home Fund Work Plan[1]

5 Year Work Plan for North Minneapolis Overall goal: To recreate attractive, safe neighborhoods and a healthy housing market that is sustainable in the private market.					
Objectives, in annual number of homes	2007	2008	2009	2010	2011
1. Redevelop/rehab all vacant and boarded properties in three years	75	100	100	25	25
2. Prevent properties from becoming vacant & boarded or problem properties	75	75	75	35	35
3. Prevent foreclosures	350	350	300	100	100
4. Attract higher income homeowners to live and stay	200	200	200	200	200
5. Promote reinvestment in North Minneapolis homes and neighborhoods	200	200	200	200	200

Once the planning group members—now participants in a multisector partnership—had set out its objectives and estimated costs, they identified specific interventions to accomplish it (such as refinancing assistance, a marketing campaign, and housing rehabilitation loans) and estimated the unit costs of doing so, again relying on the partnership members' experience and expertise. The final step was simply to total the costs from all the strategies into a spreadsheet (see Table 2). In this case, the financial resources included both loan funds, indicated in the "loan pool" column, and "grants, program, and subsidies," shown in the column "Funds." If more detail was desired, the plan might have indicated the year the loan funds would be distributed, interest rates, and repayment dates. But the purpose of this plan was not analyzing cash flow. The goal was to lay out an effective plan of action and to estimate the costs of that plan.

Table 2: Resources Needed for Northside Home Fund's Interventions[1]

Resources Needed (in thousands)								
		Grants, Programs, and Subsidies						
		FUNDS						
	Loan Pools	2007	2008	2009	2010	2011	Subtotal	Total
1-A. acquisition loan pool @ $125k/home	$25,000							**$25,000**
1-B. subsidies @ $75k/home		$5,625	$7,500	$7,500	$1,875	$1,875		**$24,375**
2-A. acquisition loan pool @ $125k/home	$14,000							**$14,000**
2-B. holding/transaction costs @ $35/home		$2,625	$2,625	$2,625	$1,225	$1,225		**$10,325**
3-A. additional funding for Home Ownership Center		$100	$100	$100	$100	$100		**$500**
3-B. refinancing assistance @ $7k/home		$2,450	$2,450	$1,400	$700	$700		**$7,700**
4-A. purchase incentives of $10k for 125 homes/yr		$1,250	$1,250	$1,250	$1,250	$1,250		**$6,250**
4-B. forgiveable purchase/rehab loans @ $20k for 75 homes/yr		$1,500	$1,500	$1,500	$1,500	$1,500		**$7,500**
4-C. marketing campaign		$50						**$50**
5-A. rehab loan pool @ $10k/home	$10,000							**$10,000**
5-B. subsidies @ half loan pool		$1,000	$1,000	$1,000	$1,000	$1,000		**$5,000**
Total	**$49,000**	**$14,600**	**$16,425**	**$15,375**	**$7,650**	**$7,650**	**$61,700**	**$110,700**

1 Stacy Becker. 2005. Unpublished manuscript.

What was the result?

- The city's director of housing said, "Every time I would get called to the floor to respond to a City Council issue, I would simply remind the council members that we have a five-point strategy, and read each strategy and rationale—it was like magic."
- The director of community development said, "It looked audacious then—some banks even said so. And few neighborhood organizations could have predicted that funders would join with banks to feel like a part of the solution instead of an isolated or powerless cog in an investment picture that made no sense."[2]

> **The reason such a simple plan worked is that it focused action and resources, even in unforeseen circumstances. For example, a tornado ripped through the neighborhood, threatening to set back the entire effort. When a few corporations came forward and asked how they could help, the staff was able to respond, "Here's how." The corporations donated a total of $3.1 million.**

Estimating Costs

If you are developing a new intervention, trying to determine how much to invest in an intervention, or taking on new integrative activities, estimating costs can seem daunting. How do you know how much something might cost?

There are different approaches to itemizing costs. The best approach for you will depend on the level of detail in your financial plan, the need for accuracy, and the availability of information. **Be aware that no matter which approach you choose, the estimates will be based on numerous assumption**s (e.g., assumptions about salaries, miles traveled, caseloads, or number of people served). One of the most important things you can do is to identify the key assumptions—meaning those that will have the biggest financial impact, such as staffing—and test them out in some way, even if you do something as simple as checking in with colleagues.

Below we outline different approaches to estimating costs, which include: current budget, databases and cost benefit analyses, unit cost estimates, and comparables (if you're not familiar with those terms, don't worry, we'll explain what they mean).

Current budget

A useful starting point is your current budget, which can be projected forward and added to over time—giving you an idea of how big your dreams are compared to your current pocketbook and capabilities. Most organizational budgets are "line-item" budgets, meaning they list specific expenditures: staff salaries, benefits, travel, rent, etc. What's often missing from such a budget is the set of assumptions behind it, such as workloads for staff or market rental rates. If this information is not available, it can be difficult to develop cost estimates for new interventions.

Databases and cost benefit analyses

For some interventions, you will be able to find published cost-benefit analyses that list total programmatic costs. For example, the Washington Institute for Public Policy lists total program costs per person, based on costs for the state of Washington. Again, check to see which assumptions are used that may not apply in your state—wage rates, for example, might vary considerably. (For a list of resources, see Module 5.)

[2] Elizabeth Ryan. Personal correspondence with Stacy Becker

Unit costs

Sometimes you must estimate costs from scratch. An easy way to do this is to use a unit cost method. Unit costs are the cost for each of something, such as the cost per community health worker. Estimating costs using the unit cost method requires you to identify "how many do we need?" for each component, and "what is the cost?" for a single item. For example, in our *Financing Wizard*, we feature a case study around lead abatement. If we want to remove lead from 100 homes per year at a unit cost of $10,000 per home, our annual cost would be $1 million (100 homes x $10,000 per home = $1 million).

Here are a few tips for using the unit cost method:

- Identify whether your components are fixed or variable. Fixed means that it's a set cost that won't get bigger as more people are served, such as purchasing a software program. Variable means that the expenditures depend on the amount of service provided—typically the number of people served, but it could be other things as well, such as the number of homes. Let's use the lead abatement case study as an example again: the number of tests for lead poisoning increases with the number of people you wish to serve; the number of lead paint inspections or case worker visits will increase with the number of homes you wish to include in the program. Sometimes, there may be a hybrid. For example, rent is fixed until the number served exceeds available space. Software might come with 10 free licenses, after which they must be purchased.
- For the variable costs, take an educated guess about the level of service you will provide, such as how many people you'll serve each year or the number of affordable housing units. Then identify any assumptions linked to this service level. For example, if you are serving people through community health workers, you'll want to identify assumptions such as the caseload per community health worker, or the cost of reimbursing workers for travel expenses. This will tell you how many units of something you need. For example, if you're serving 200 people and community health workers can each serve 50 per year, you'll need four community health workers.
- There are readily available resources for estimating unit costs and related assumptions. One source is the internet. If we were building out the lead abatement case study, we could try searching, "cost of lead abatement" or "salary of a community health worker," for example. Tougher questions, but still available from the internet are things like "what is the annual caseload of a community health worker?" Another approach is to consult those in the community with experience in such matters.

Comparables

In real estate or human resources, appraisers use comparables, or comps, to set prices for a building or land, or for salaries or wages. In some cases, you might want to search out comps to identify an appropriate range of costs. Can you think of a comparable type of good or service? How is it priced? Here are some examples:

- If you are conducting integrative activities, you might compare them to the work done by a grant-making foundation, where five-to-ten percent of total budget is devoted to managerial and administrative activities.
- Perhaps you are offering a service similar to one already provided internally by a payer? For example, some health plans offer community-based services such as case management and community health workers. Knowing their costs can give you a sense of the price range that potential payers might find acceptable. Often, the best way to do that is to contact that organization and ask.

Final Tips

Before you get started, we want to acknowledge that we may have made things sound simpler than they really are—but that's on purpose, because we don't want you to get too caught up in trying to make it perfect; **it's fine to keep it really simple.**

"A first pass should be simple—treat the plan as a discovery process.

- General rule of thumb: the more you guesstimate your inputs, the simpler you should keep the rest of the details. It doesn't do any good, for example, to work really hard on nailing down the price of a $15,000 piece of software if you have no idea of how much it might cost to remove lead from houses.
- A first pass should be simple—treat the plan as a discovery process. The process of trying to complete a plan helps you understand where you need better information, and to which variables your plan is most sensitive.
- Even a simple plan can contain vital information—part of the idea of putting numbers down on paper is to begin to convey to others the financial resources needed for success, and to secure the necessary commitment to acquiring those resources.

When you have all the costs totaled up, don't shrink from the price tag. Go back and revisit your plan if necessary. But remember this: while your long-term plan might look daunting and you might fall short, you definitely can't get there if you don't strive for it.

The ReThink Health Financing Wizard

Ready to explore financial plans a bit more? The ReThink Health *Financing Wizard* is for you!

While the "Financial Planning Template (Basic)" on pages 8 and 9 is a good way to get started on a financial plan, if you want to go into more detail after completing that (or even dive right into the details), the *Wizard* has a robust template you can use to do much more specific planning and projection.

Available for download from our website (https://www.rethinkhealth.org/financingworkbook/Financing-Wizard), the *Financing Wizard* is a tool with two key features:

- A population health case study that gives you some context and the opportunity to create a financial plan around it. It's an easy way to practice estimating costs and putting them in the context of a financing plan.
- A Microsoft Excel-based financial plan template that allows you to practice creating a plan for your organization's activities.

Our *Financing Wizard* takes some of the uncertainty out of creating a financial plan and allows you to experiment. It's an easy way to get in some of the practice that is so essential to financing!

If you have any questions about the *Financing Wizard*, please email ThinkWithUs@rethinkhealth.org.

MODULE 4

WORKSHEET
Financial Planning Template (Basic)

OBJECTIVE: To begin assembling a basic financial plan.
TIME: 30-60 minutes, depending on how many activities are associated with your intervention
MATERIALS: One copy of this worksheet (for leading the exercise)
PARTICIPANTS: A few members of your multisector partnership or organization who are familiar with the activities around a particular intervention, or who are working together to plan an intervention.

Directions

Use the table below to draft your basic financial plan. Don't focus too much on getting it right—just get something down. You can refine and build it out as you go. This template is set up similarly to the Northside Home Fund example shown from earlier in this module.

In Part 1, below, list out your **Key Assumptions**. Begin by writing the goal of the intervention in the first row. Underneath that list out the specific activities you'll engage in to accomplish that goal. For example, your activity might be to rehabilitate houses. To the right, in the Year 1–Year 5 columns, list out how much of those activities you'll be doing. For example, if your activity was to buy plots of land for community gardens, you'd estimate how many plots you'd buy each year. Part 1 is to give you a space to start to think about the scope and scale of your intervention, before you try to estimate costs in Part 2.

In Part 2, estimate the uses (costs) and sources (revenue) associated with your activities listed in Part 1. Under **Uses,** get more specific on the major costs or expenses required to bring your intervention to life—e.g., hiring, acquiring land or equipment, training, or communications. **Start Up** costs are costs that you estimate you'll incur just to get the program off the ground. **Year 1–Year 5** are costs you think you'll incur as you deliver the intervention. Under **Sources,** make ballpark estimates of revenue sources, again categorizing them into revenue that might be available in your start-up phase and revenue that will be available over the duration of your activities.

Part 1: Key Assumptions

Goal:						
Key Assumptions						
Activities	Year 1	Year 2	Year 3	Year 4	Year 5	Total
1.						
2.						
3.						
4.						
5.						
6.						
7.						
8.						
9.						
10.						

Part 2: Uses and Sources

Uses	Start Up	Year 1	Year 2	Year 3	Year 4	Year 5	Total

Sources	Start Up	Year 1	Year 2	Year 3	Year 4	Year 5	Total

Congratulations! You've developed a basic financial plan!

When you're ready to get more detailed, move on to our Financing Wizard at:
www.rethinkhealth.org/financingworkbook/Financing-Wizard

Learn more at ReThinkHealth.org/FinancingWorkbook and contact us with questions and comments at ThinkWithUs@ReThinkHealth.org.