REQUEST FOR BOARD OF DIRECTION ACTION
for meeting on July 28-29, 2017

Topic:	Approval of fiscal 2018 budgets
Background:	Annual budget process
Issues:	See budget information in agenda
Organizational Entities Impacted:	All, see budget information in agenda
Budget Impact:	This is a break-even budget after using $915,000 of long-term investment earnings. If the Board eliminates the $5 dues increase, an additional $225,000 of long-term investment earnings would be used if no other budget adjustments were made.
Action Requested:	Motion to approve the fiscal 2018 operating budget, based on a $5 dues increase, with operating revenue of $48,977,000 and expense of $48,977,000, as shown in the Program & Finance Committee's (PFC's) budget submission – Schedules A and B. Motion to approve the fiscal 2018 budgets for each of the Institutes as shown on Schedule D of the PFC's budget submission. Motion to concur with the CEC fiscal 2018 budget as shown in the PFC's budget submission – Schedule E. Motion to concur with the ASCE Foundation fiscal 2018 budget as shown in PFC's budget submission – Schedule F. Motion to approve the fiscal 2018 capital budget as shown in the PFC's budget submission – Schedule G.
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Presenter:	Randy Perkinson, Treasurer

INTRODUCTION

ASCE continues to have significant financial issues: lack of revenue growth and increasing expenses. As we discussed at the March 2017 board meeting, based on the current operating environment, we will continue to have negative cash flow resulting in declining cash and investment balances along with declining reserves. This is not sustainable over the long term.

Our largest expense, labor (46% of total expense), continues to grow as competitive wage requirements dictate. Over the past few years, we have minimized labor and other expenses to compensate for lack of revenue growth. Fortunately, we have reserves that produce investment earnings that we can tap for operations and a Foundation that provides supplemental support for programs. Using a measured portion of our long-term investment earnings is prudent if we do not become overly dependent on using an increasing amount. The Foundation is working to expand its donor base and increase ASCE program support.

To moderate negative cash flow, we approached the fiscal 2018 budget with the understanding that we had to reduce expenses. That involved using a 90%-of-fiscal-2016 overall target for PAES activities instead of a percentage of the 2017 budget, reducing labor costs, and generally minimizing expenses. These currently are the only practical ways to deal with our annual excess of expense over revenue.

The following table shows the Net Before Additional Funding, which excludes the Foundation contribution and long-term investment usage, the reported net from Line of Business (LOB) operations, and gross long-term investment earnings. We have become dependent on the Foundation contribution and increased funding from our investments. The 2017 and 2018 numbers represent our estimate for 2017 and budget (as proposed) for 2018.

	Net Before Additional Funding	Foundation	Investment Earnings	Net LOB Operations	Long-Term Investment Earnings
2009	$308,000	$0	$0	$308,000	$248,000
2010	(170,000)	454,000	0	284,000	1,818,000
2011	(1,325,000)	569,000	640,000	(116,000)	88,000
2012	(2,286,000)	750,000	590,000	(946,000)	4,194,000
2013	(3,148,000)	1,050,000	700,000	(1,398,000)	4,091,000
2014	(2,393,000)	1,350,000	1,000,000	(43,000)	3,499,000
2015	(3,249,000)	1,350,000	1,250,000	(649,000)	(452,000)
2016	(4,646,000)	1,400,000	2,450,000	(796,000)	3,350,000
2017Est	(4,170,000)	1,300,000	2,070,000	(800,000)	TBD
2018B	(1,565,000)	650,000	915,000	0	TBD

Please note that we have committed $1.5 million of reserves to fund Dream Big and continue to have significant capital expenditures to maintain and improve our corporate infrastructure, e.g. updating the Personify association management systems. These use cash. Capital expenditures are shown in our capital budgets and result in annual depreciation expense over the lives of the assets.

We have built an organization – that's programs and organizational infrastructure – based on our old revenue levels and expectations, but revenues are not what they used to be. Development of new revenue sources is an ongoing topic of discussion, but new opportunities have not been forthcoming. If we cannot find ways to significantly increase revenues we will have to restructure the organization to operate with the resources we have.

Many professional societies are having problems like ours. It may be time to reconsider our operating structure, what the Society does, and how we should serve the profession in the future. This may be a business model that is much different than what we've grown to be.

OVERVIEW OF THE BUDGET PROCESS

There are many steps in preparing ASCE's budget. The following is a summary of the process:

- The five Standing Society Committees and three Standing Strategic Initiative Committees, collectively referred to as PAES Activities, compile detailed information on their projects and programs and submit their budget request. To provide the staff Program Team (PT), staff Senior Leadership Team (SLT) and Program & Finance Committee (PFC) with the alternatives to make priority-based cuts to the proposed budget, PAES Activities present their budgets by grouping their projects in various funding levels.
- The PT (the Managing Directors for the PAES areas, the ASCE Foundation, and the Executive Office) holds a series of meetings with the staff of all PAES activities to gain background on programs and budget requests. The PT then provides a recommended PAES budget to the SLT.
- Financial staff works with all departments and Institutes to produce a budget for the whole organization, including the budgets requested by PAES Activities.
- The SLT does a detailed review of the budget for the whole organization and agrees on adjustments to submitted budgets (April 19). Any modifications that the SLT proposes to programs or external revenue sources are highlighted for consideration of the PFC.
- The Executive Leadership Team (ELT) meets after the SLT meeting to address any remaining budget issues (April 20-21).
- The Finance Department presents the draft budget produced by the above process to the PFC for its review.

- The PFC evaluates the budget, makes modifications, and submits their recommended budget to the Board for review and approval at their July meeting.

OVERALL BUDGET PARAMETERS

- The labor portion of the budget has been prepared assuming an overall 2% labor cost increase, as approved by the Executive Committee. It is based on actual current salaries plus a 25% fringe benefits rate. Human Resources has current surveys and analysis nationally and for the DC Metropolitan Area that show an average increase of approximately 3.5%. Labor is 46% of our budget, which is typical for nonprofit professional societies.

  To reduce the trajectory of increasing costs and use of cash we propose a 2% overall salary increase and a reduction of staff of $1,453,000. With these adjustments, the salaries and benefits budget totals $22,948,000 for fiscal 2018, as compared to the $23,198,000 actual for fiscal 2016. Usually, actual labor cost is below budget due to vacancies. A one-percent salary increase results in approximately $230,000 of additional expense.
- ASCE programs submitted budget requests totaling 99% of the 2017 budget and 109% of the 2016 actual net expense. The SLT proposed that the budget include program expense reductions bringing the 2018 budget to $2,554,000 or 90% of the 2016 actual net spending amount. The reductions total $532,000 and are reflected in the PAES budget recommendation that follows (see Schedule C).
- The Foundation board approved a $650,000 contribution to ASCE for program support in addition to $247,000 raised for specific ASCE programs. The amount is lower than prior years due to decreased Foundation office rental revenue, both from ASCE and tenants. ASCE's office space lease expired on January 1, 2017 and will enter a 10-year lease at a lower sq. ft. rate. That will reduce ASCE rent expense and ASCEF rental revenue by approximately $930,000.
- Investment earnings of $915,000 from the long-term investment fund are included in General Revenue to produce a balanced budget. As of April 30, 2017, we had a $37.5 million balance in our long-term investment fund. Our Rules state that we can use up to 6.5% (our portfolio average annual return for the past ten+ years) of our investment balance to support operations – a total of $2,284,000. To slow our negative cash flow, we do not recommend using the full computed amount.

BUDGET ASSUMPTIONS – REVENUE-PRODUCING DEPARTMENTS

Please refer to Line of Business Budget Details – Schedule B

Member Services – Although we are focusing on attracting new members and retaining those we have, keeping and recruiting members and demonstrating member value have been challenging in recent years. We continue to have small annual declines in dues-paying membership – total dues are approximately $15 million.

We increased dues by $15 for calendar 2017 and that should result in increased dues revenue. However, when dues are increased we expect a decline in membership that cannot be quantified at the time of the decision. At the date of this memo, our dues collection dollars are 1.7% above last year's and the number of paying members is down by 3,000, or 4.7%. With the same membership level as last year, our dues would be up by 6.7%. We continue to find that our current and potential members are increasingly price sensitive.

Dues history is as follows:

2000	$140	**2004**	$185	**2008**	$205	**2012**	$210	**2016**	$225
2001	170	**2005**	195	**2009**	205	**2013**	225	**2017**	240
2002	175	**2006**	205	**2010**	205	**2014**	225	***2018***	*245*
2003	180	**2007**	205	**2011**	210	**2015**	225		

Member Benefits consists of revenue for member affinity products, such as insurance and credit cards – over $4 million. Our largest affinity program, life insurance, is under stress due to our aging policyholders and a very competitive market. This could result in a decline in the program over time. We are looking at expanding the professional liability product and risk management services, which may increase revenue.

Technical Publications – Publications, which generates $18 million in revenue, will not attain their net budget of $10 million for fiscal 2017 and we expect a net of approximately $9.3 million. This is about the same as fiscal 2016 and is our projection for the fiscal 2018 budget. We will raise prices to offset higher expenses and the late-fiscal 2017 launch of ASCE 7 will provide additional revenue for 2018 and beyond. The newly developed ASCE 7 Online and Hazard Tool products should also provide additional revenue.

Member Publications and Web – This area includes production and sale of CE Magazine, maintenance of our web presence, and production of web content. Advertising revenue from CE and the Web are included in the Sales and Marketing area. We produce CE in both hard copy and electronic form and over time expect to decrease print and increase electronic. In total, we earn approximately $1.1 million of revenue from the magazine with $2 million of expense. We are making several improvements to CE.

Our digital presence, including the web and social media, is becoming increasingly important, especially as we relate to younger members. We have made much progress improving functionality and establishing best practices and continue to move forward. This involves increased resources for web and social media management and development, and evolution to a digital mindset throughout ASCE. Web labor has increased as we have added content and user experience experts. Web Operations decreased funding for outside expertise as our staff can handle more complex tasks.

Continuing Education – This area continues to lag pre-recession nets and growth. So far, fiscal 2017 results have been well below budget and could be $500,000 below budget by year end. Revenue continues to be impacted by an intensely competitive market and cuts in organizations' training budgets. We are and will continue to be working on implementing Guided Online Courses and Certificate Programs based on the recommendations of the Blue-Sky Taskforce. We expect success with these new products but, as with any new product, there is risk and it takes time for consumer acceptance. The fiscal 2018 budget net of $861,000 is below the 2017 budget and slightly above the 2016 actual.

Conferences – With the departure of our conference department director, we are in process of reorganizing our conference administration. It will take some time to work out the details of the department and institute budgets and we have made overall estimates for the 2018 budget. Both Institute and TAC conferences have held up very well over the past several years. The OTC, Brazil, and Arctic conferences, for which we receive substantial revenue, have seen lower revenues due to reduced crude oil prices, so we expect a decline in our revenue share for fiscal 2018.

As background, the Conferences Department runs conferences for the Institutes, CTA, the Annual, and others. The department charges the conferences for their labor. This results in redistribution of the expenses to the conferences, including those of the Institutes. This process will change for fiscal 2018 as the Institutes will take more responsibility for conference operations.

Sales and Marketing – This department manages advertising sales revenue in CE Magazine and on the web. The cost of producing CE is included in Member Publications. The department also provides central marketing for various other areas. Advertising sales revenue should meet our fiscal 2017 budget and we expect slightly improved sales for fiscal 2018.

BUDGET INFORMATION – OTHER DEPARTMENTS AND ACTIVITIES

Please refer to Line of Business Budget Details – Schedule B

Member Communities – This area serves all member groups and ensures they receive maximum value from their member experience with continued quality programs and effective communications. Included in the group and supporting constituent committees are: Leader Training; Geographic Services; Younger Members; Student Members; and Global Programs.

Customer Service – Our Customer Service Department is critical to maintaining our relationships with members and other customers. They take calls, process orders and payments, resolve problems, answer questions, direct callers to appropriate staff, to name a few of their tasks. They are heavy users of our association management system, Personify. We use industry-standard call center management techniques to maintain and improve customer service, including ongoing surveys, and expect our new phone system to improve performance. Merchant charges in this area are for credit card processing. We have negotiated low rates for that service. The customer service budget has remained stable over the past few years. As we have expanded our use of technology, we have been able to reduce staff.

Sections and Regions – These are costs to support our Sections and Regions, including the Region and Section allotments. We have discussed establishing a process to evaluate Section financial needs. The SLT reduced the region allotment from $90,000 to $45,000 and the PFC moved it back to $90,000 in the proposed budget.

PAES Activities – PAES Activities submitted a total budget request of $3,086,000 which was 99% of their previous year's approved net budget and 109% of the actual net spent in fiscal 2016. This was first reviewed by the Program Team, a smaller working group of select SLT members. As the result of its deliberations and considering the budget constraints, the Program Team recommended a total reduction of $532,000, reducing the total PAES budget to $2,554,000 at 90% of the 2016 actual and 82% of the 2017 approved net budget. In their budget meeting, the SLT reviewed the Program Team's recommendations and accepted their adjustments. The PFC reviewed the staff's process and results and was satisfied with their conclusions.

To review the PAES work, refer to the PFC PAES 2018 Budget Recommendation – Schedule C. The bar graph shows original requested and proposed reduced budget amounts as a percentage of 2016 actual net expenditures by PAES activity.

In preparing their budget proposals, the PAES Activities segmented their budgets into funding levels, with one being highest priority. The Funding Level Data table below the graph in Schedule C shows the number of funding levels each PAES Activity produced and the funding levels selected by the budget review groups for each. The budget review groups made adjustments within the funding levels for the final proposed budget. They are described below the table.

The PAES Program Adjustment Details table presents individual original budget requests with recommended funding.

Special Activities:

- ASCE provides administrative services to the American Association of Engineering Societies (AAES) for a fee that that approximates our associated direct costs. They are currently not able to fully pay for ASCE services. This could result in a write-off of over $120,000.

- We rent space in the Bechtel Conference Center to outside organizations and use conference rooms for our meetings. Rentals have improved and we are projecting increased revenue. To save meeting costs, in the future we should consider holding more meetings in our facility.
- We contribute $100,000 to EWB for operations each year and expend $10,000 for travel.
- The Industry Leaders Council (ILC) uses old CEFI funds to support its activities. The CEFI funds are restricted for that purpose. We have approximately $2.1 million held in the ILC fund and at the current spending rate that could last a few years.

General Revenue/Expense – The investment revenue in this area represents earnings on short-term investments of cash and long-term investment funds allocated to support operations. The returns on cash investments are very low and we have budgeted $30,000 for fiscal 2018. The SLT budgeted use of $915,000 of long-term investment earnings.

The ASCE Foundation will contribute $650,000 to ASCE to support its program activities. Contributions from the Foundation will be ongoing beyond fiscal 2018. The Foundation is also working on building a donor base, increasing contributions, and providing additional program funding for ASCE. On January 31, 2016, our 5th floor tenant vacated the entire 5th floor. The Foundation has rented one third of the space and is seeking tenants for the remainder. Current rental rates are much lower than the former and that impacts rental revenue going forward. ASCE rents its office space from the Foundation and the rental rate decreased on January 1, 2017 due to lease expiration and renegotiation of the terms based on market rates. This significantly decreased ASCE's rent expense. Vacancy and lower rental rates affect the Foundation's annual program contribution to ASCE.

Support Services – When preparing these budgets, staff took into consideration of the challenging budget situation and reduced expenses where possible. Overall, we reduced non-labor expenses by $700,000. Of that decrease, $509,000 was from lower depreciation as assets have become fully depreciated and replacements cost less.

Institute Allocations – The Institute allocation increased for fiscal 2018 due to the launch of UESI. In addition, the positive net from the Pipelines Conference will be earned by UESI instead of ASCE. That moves approximately $250,000 of net conference revenue to UESI.

Institute Budgets – The Institutes independently prepare their budgets, including labor that ASCE provides and charges the Institutes for. Their budgets include the revenue from the institute allocations. The PFC did a brief overview of the budgets.

DESCRIPTION OF BUDGET REPORTS

2018 DRAFT BUDGET

- **Draft Budget Summary – Schedule A**
  Shows a comparison of the 2018 proposed budget to 2016 actual results and the 2017 budget by lines of business along with the budgets for the Institutes.
- **Line of Business Draft Budget Detail – Schedule B**
  This is the detail budget that was used in the SLT and PFC's review of the budget. It shows a greater level of budget detail for ASCE's lines of business, including labor.

PFC PAES 2018 BUDGET RECOMMENDATION – Schedule C
Information on PAES budget and proposed budget adjustments.

2018 INSTITUTE DRAFT BUDGETS – Schedule D
This shows a more-detailed breakdown of the Institutes' revenue and expense budgets

2018 CEC DRAFT BUDGET – Schedule E

2018 ASCE FOUNDATION BUDGET – Schedule F

2018 DRAFT CAPITAL BUDGET – Schedule G
Shows capital expenditures expected for fiscal 2018