

To: Policy Council of the System Dynamics Society

From: Eliot Rich, VP Finance
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Subject: VP Finance Narrative Report—Part II
OR
“Updated Summary of Transition Costs from UAlbany to Cap Hill”

Date: 17 July 2018

This is the second of three parts to the VP Finance Report for 2018. The first part describes what happened in 2017. The second part reports on the financial aspects of the transition to CHMS. The third presents the proposed budget and asset designations for 2019 and 2020.

***Summary:** Last year, we projected that the Society would need as much as \$216,299 to cover one-time non-recurring transition costs associated with the move of our Home Office from the University at Albany to Capitol Hill Management Services. Many of the details about the transition were not fully in focus last year. We now have much more clarity about many of these details and project that the total transition costs will be **\$205,487**, within the ‘Pessimistic Scenario’ approved by the PC in 2017. The Society currently maintains a designated “rainy day fund” of \$361,440 (including an “Operating Buffer” of \$100,000) at the end of 2017. Hence, we believe that we have sufficient funds to easily manage this transition.*

Sadly, this transition plan includes the release of three of our long-time Home Office staff. We seek to structure responsible packages to support their next steps and fulfill our commitment made last year. In addition, the Society has executed a half-time contract with Roberta Spencer to work on special projects for two years through 2020. This contract with Ms. Spencer, considered separately from other transition costs, was approved previously and is designed to launch work on new initiatives not covered by our current contract with CHMS.

Overview of How the Society Will Pay for Transition Costs

Transition costs are one-time, non-recurring costs associated with the transition of the Home Office activities of the System Dynamics Society from its current base at the University at Albany to Capitol Hill Management Services (CHMS/Cap Hill). In July of 2017, the Policy Council approved a transition budget that projected total costs to be \$216,299 for the period 2017 to 2019. Table 1 below reproduces information presented in the July 2017 VP Finance Report.

| Summary of Transition Costs July 2017 | | | | |
|---------------------------------------|----------|-----------|---------|-----------|
| Budgeted Costs from July 2017 | 2017 | 2018 | 2019 | Total |
| CHMS Contract | \$42,500 | \$48,571 | | \$91,071 |
| Continuity of Employment | | \$107,008 | \$9,220 | \$116,228 |
| Overlap of Executive Director | | \$9,000 | | \$9,000 |
| | \$42,500 | \$164,579 | \$9,220 | \$216,299 |

Table 1: Transition Costs as Projected in July 2017 Budget

For the past two decades, the Society has been building a “rainy day fund” to pay for a transition such as this one. As of December 31, 2017, the Society is holding \$318,940 in designated funds to cover our transition costs. So overall, we are well-prepared to fund a smooth transition.

Updated Projections of Costs Associated with a Smooth Transition

Table 2 below is an updated version of Table 1 reflecting our current best estimates of what will be the total transition costs. While these figures may still vary a bit, we believe that total transition costs will come in right about as budgeted overall. The last two columns in Table 2 contrast the differences between our current best estimates and the budget presented last July. The first four columns in Table 2 repeat the format used in Table 1 and can be used to identify specific differences between our projections of July 2017 and July 2018. Much about the transition that was not fully in focus last year has now become much clearer. The reasons for differences, if any, are discussed on a line-by-line basis below.

| Budgeted Costs | 2017 | 2018 | 2019 thru 2020 | Total Updated Costs | Budgeted Costs from July 2017 | Difference July 2017 to July 2018 |
|-----------------------------------|----------|-----------|----------------|---------------------|-------------------------------|-----------------------------------|
| CHMS Contract | \$42,500 | \$40,000 | | \$82,500 | \$91,071 | -\$8,571 |
| Fees from CHMS | \$1,367 | \$2,000 | | \$3,367 | \$0 | \$3,367 |
| Continuity of Employment | | \$71,672 | | \$71,672 | \$107,008 | -\$35,336 |
| Support for Ph.D Student Employee | | | \$30,098 | \$30,098 | \$9,220 | \$20,878 |
| Overlap of Executive Director | | \$17,850 | | \$17,850 | \$9,000 | \$8,850 |
| Totals | \$43,867 | \$131,522 | \$30,098 | \$205,487 | \$216,299 | -\$10,812 |

Table 2: Updated Projection of Transition Costs Supporting Move from UAlbany to CHMS as of July 2018

CHMS Contract. The Society’s main contract with CHMS begins on September 1, 2018. During 2017 the Society signed supplemental contracts with CHMS to work on specific areas to ensure a smooth transition. Our final supplemental contract with CHMS in 2018 was \$8,571 less than originally budgeted.

Fees from CHMS. Our base contracts with CHMS stipulate that the Society will be charged fees for some types of specified services. Such fees are an on-going feature of our future contracts with CHMS. Examples of such fees include payments if an employee of CHMS is

required to travel or work over a weekend, or graphic design work for a brochure or web page. During the transition period, our estimated fees will be \$3,367. Future costs are part of the regular budgeting process.

Continuity of Employment. This line has an important double meaning. On the one hand, these funds were intended to be used to ensure that the Society would experience smooth and continuous employment through August 31 of 2018, without experiencing costly and disruptive separations, re-hiring, and retraining expenses in its last 18 months of operations at UAlbany. By providing assurance of continued employment through 2018, independent of CHMS's employment decisions, we have been successful in maintaining a smooth and continuing operation without losing staff during the transition.

We now know that three of our legacy employees' services are no longer required because their activities are redundant to services provided through the CHMS contract. Based on the assurances made in 2017 when our staff agreed to stay on through August 31, we are in the position of supporting their transition from our service. One of our full-time employees, Michael Breslin, has been offered employment by CHMS. Roberta Spencer will continue for two years to work on special projects on a half-time basis. We are structuring a set of retainers and temporary extensions to service with UAlbany to meet the transition commitments made by the Society to the other three employees. Overall, we expect that fulfilling our continuity of employment commitment will cost \$71,672, \$35,336 less than we had projected last year at this time. We thank CHMS for taking the time to meet and consider the merits of all our staff as we worked together on the transition.

Please note that the final costs of the continuity plan will not be known for a few months, as our full-time employees will work through their contracted use of accumulated leave, and there is a retroactive University-wide contract adjustment being ratified at this time. As before, we have budgeted for a 'worst-case' scenario.

Support for Ph.D. Student Employee. For over twenty years, the Society has benefited from the work of one half-time Ph.D. student who was both completing her or his dissertation in System Dynamics while working on mostly technical support for the Society. Our current such student is Babak Bahaddin. Our 2019 budget projects \$30,098 in support for Babak through 2020, the outside date that his academic committee has determined he will need to complete his dissertation. This amount is \$20,878 more than we had projected last year.

Babak's assigned work for the Society, under the aegis of the ED, may fall outside of the current scope of work for CHMS or if it falls within the scope of the contract, the Society and CHMS will arrange an appropriate adjustment in its base contract. There is some chance the Mr. Bahaddin could take a paid leave of absence to pursue a paid internship relevant to his dissertation work. If this were to occur, the Society is prepared to defer its remaining support until he returns to campus to complete his dissertation. Because a significant portion of the funds needed to support Mr. Bahaddin will involve tuition and because of technical issues relating to international visa and student work papers, funds to support Mr. Bahaddin will still flow through a UAlbany account through 2020.

Overlap of Executive Director. Our transition budget from last July projected that a new Executive Director would overlap with Roberta Spencer part-time for the months of July and August. This is exactly what is happening with our new ED, Mark Nelson. However, Mark asked that he work more hours in July and August to begin his transition with the existing staff, and as his base salary is slightly higher than we had projected one year ago, we underestimated this amount by \$8,850.

Roberta Spencer’s Retirement from Full Time Service and Continuing Part Time Employment

Late in 2017, the Policy Council approved a special contract for Roberta Spencer to work half time for two years after her formal retirement from UAlbany, working on special projects for the Society. The total cost of this contract including fringe at CHMS is \$125,292. Technically, these are not transition costs because they represent an on-going line of new activity that will benefit the Society in the long run and will, hopefully, be associated with some income-generating activities.

As part of the contract approval, the Society voted \$20,431 to cover this effort in the 2018 budget and designated \$104,861 from our assets to invest in Roberta’s work. This designation is discussed in the final part of our report, where the 2019 budget is presented.