November 2023 Board Retreat
Cedars Financial Sensitivity Pre-Read

Goals:

- **<u>Education</u>** and context-setting around key drivers and risks to long-term financial security.
- **<u>Discussion</u>** will focus on sensitivity to funding levels and other inputs.
- **<u>No decisions</u>** or calls to action are expected.

Refresher & Definitions:

- We will assume "Earned Income" is 100% state reimbursements (it's very close).
- "Operating Reserves" are held for near-term needs, both expected and unforeseen (like a personal savings account). Cedars targets 3 years expected capital needs be held here.
- "Quasi-endowment" is a long-term investment account from which Cedars spends 4% per year. Cedars has built this account from bequests and other "one-time" surpluses. (an analogy might be a 401(k), IRA, or other investment account for an individual).

First Observation:

Condensed Income Statement *All Amounts in $1000s*	**2024 Budget**
INCOME	
Earned Income (state reimbursements)	12,165
Donations excluding bequests	887
Draw from endowments	468
TOTAL OPERATING INCOME	**13,520**
EXPENSES	
Personnel	10,928
All other (program, facilities, admin)	2,354
TOTAL OPERATING EXPENSES	**13,282**
Recurring Operating Income (Loss) Before Capital Expenses	**238**
Capital Expenditures	700
Operating Income & CapEx, before Bequests (negative denotes a draw from reserves)	**(462)**

State reimbursements are 90% of total income.

Wages & related expenses are 82% of total expense.

Therefore

<u>Wages cannot grow faster than reimbursements</u> for very long without having critical implications for other areas of the organization.

- To fund a 1% increase in wages that is not paid by the state, we need to:
  - → **grow donations by an extra ~10%**, or
  - → **cut program expenses by 3-5%**, or
  - → **defer 20% of our CapEx** (facilities maintenance/refresh).

At the retreat, we will discuss various scenarios to illustrate the impact on Cedars long-term financial security. A high-level overview of several of these are put forth below.

Base Case projection

- *A "goldilocks" scenario*
- 2025
  - 12% increase in state reimbursements as the last tranche of the rate study takes effect.
  - Wages grow 9% as Cedars "level-sets" with rate study.
  - Bequests run at 50% of recent average (conservative to account for "lumpiness" of receipt).
- 2026 & beyond
  - DDS take a one-year "holiday" from rate increases.
  - Otherwise, assumes a study state of 3% growth in wages, reimbursements, and other items.

Scenario #	1		
	Base Case		
All Amounts in $1000s			
	2025 (F)	2030	2035
TOTAL OPERATING INCOME	16,640	17,106	19,810
TOTAL OPERATING EXPENSES	14,402	16,696	19,355
Operating Income/(Loss) Before CapEx	**2,238**	**410**	**455**
Capital Expenditures	(700)	(601)	(697)
Bequests	237	275	318
Total Income (incl. CapEx & Bequests)	**1,774**	**83**	**77**
EOY Balances			
Operating Reserves	2,236	3,050	3,536
Quasi-Endowment	7,911	10,346	11,842

Operating surplus partially funds capital needs.

Modest bequests fund remaining capital needs and leaves $77K for reserves

Other Scenarios…

Scenario 2: Base Case, but an extra rate holiday (2 years with no rate increases)

Scenario 3: Same as 2, but with average historical bequests that increase 5%/year

Scenario 4: Base Case, but reimbursements lag inflation by 1%

Scenario 5: Same as 4, but we double fundraising over 10 years

These scenarios after five years…

All Amounts in $1000s					
2030 Values under scenario #:	1	2	3	4	5
	Base	Base + 1 yr rate holiday	#2 + grow bequests	Base + 1% lag in rate inflation	#4 + Double fundraising
	2030	2030	2030	2030	2030
TOTAL OPERATING INCOME	17,106	16,640	16,674	16,511	16,774
TOTAL OPERATING EXPENSES	16,696	16,696	16,696	16,696	16,696
Operating Income/(Loss) Before CapEx	**410**	**(56)**	**(21)**	**(185)**	**78**
Capital Expenditures	(601)	(601)	(601)	(601)	(601)
Bequests	275	275	616	275	549
Total Income (incl. CapEx & Bequests)	**83**	**(383)**	**(6)**	**(511)**	**27**
EOY Balances					
Operating Reserves	3,050	1,867	2,958	1,894	3,050
Quasi-Endowment	10,346	9,748	10,650	10,059	11,305

Scenario 2:
A single year without a rate increase costs $1.8MM after just a few years (see lower reserve balances). Deficits running ~$400K/year

Scenario 3:
Continued strong bequests can offset this.

Scenario 5:
Fundraising can help, but overreliance becomes a concern.

Scenario 4:
Continued lag in reimbursement rate increases can drive an even bigger hole in finances. Losing > $500K/year.

There will be greater details and time for discussion and questions at the retreat. Some of the main takeaways include:

- → Wages cannot grow faster than reimbursements for very long.
- → Fundraising can help but can't plug the hole forever.
- → We are in a very secure place and can remain so with diligent planning and prudent budgeting.