

## ICAOS Finance Committee Dues Recommendation 2022

### History of the Commission's Dues Revenue

The Commission approved a three-year dues increase of 6% per year at the 2007 Annual Business Meeting. This increase was intended to fund ICOTS, permit one DCA from each state to attend the annual business meeting, and establish a reserve fund; however, the increase was not required in 2010 due to cost-cutting measures implemented by the third year.

Despite rising program and operational expenses resulting from a 33% cumulative inflation rate between 2010 and today, the Commission's annual dues assessment has remained unchanged since 2010. Consequently, revenue increased only marginally after two states moved to higher dues tiers following the decennial Census review.

### Long-term Investments

In 2011, the Commission started a long-term investment fund. It funded the investment portfolio actively until 2015.

### Annual Budget Forecasting

Roughly a third of the Commission's budget goes directly to ICOTS, which fulfills a statutory requirement while also being crucial to the organization's day-to-day operations. The Commission spends approximately \$500k per year on system upgrades, maintenance, and hosting. With a system upgrade or rewrite, the Commission anticipates the need for financial adjustments to ensure stability and solvency of the Compact's finances.

In addition to capital expenditures for ICOTS, the Commission's total annual operating expenses have begun to exceed available dues and interest income. As the commissioners are aware, the Commission has already implemented significant cost-cutting measures such as disaffiliating with the Council of State Governments, transitioning to remote work environments, and proactively reducing administrative costs. The only remaining alternative to ensure the Commission's continued financial stability is a dues increase.

Figure A depicts annual dues income versus annual expenses, demonstrating how the Commission's cash balance continues to decline as it covers the shortfall between income and expense. In addition, under the Commission's by-laws, we must keep \$500k in the cash balance to cover operating expenses. When the balance falls below that threshold, funds are transferred from the long-term investment fund (LTI). According to current projections, and assuming no additional major expenses, the first transfer could occur around FY2025.

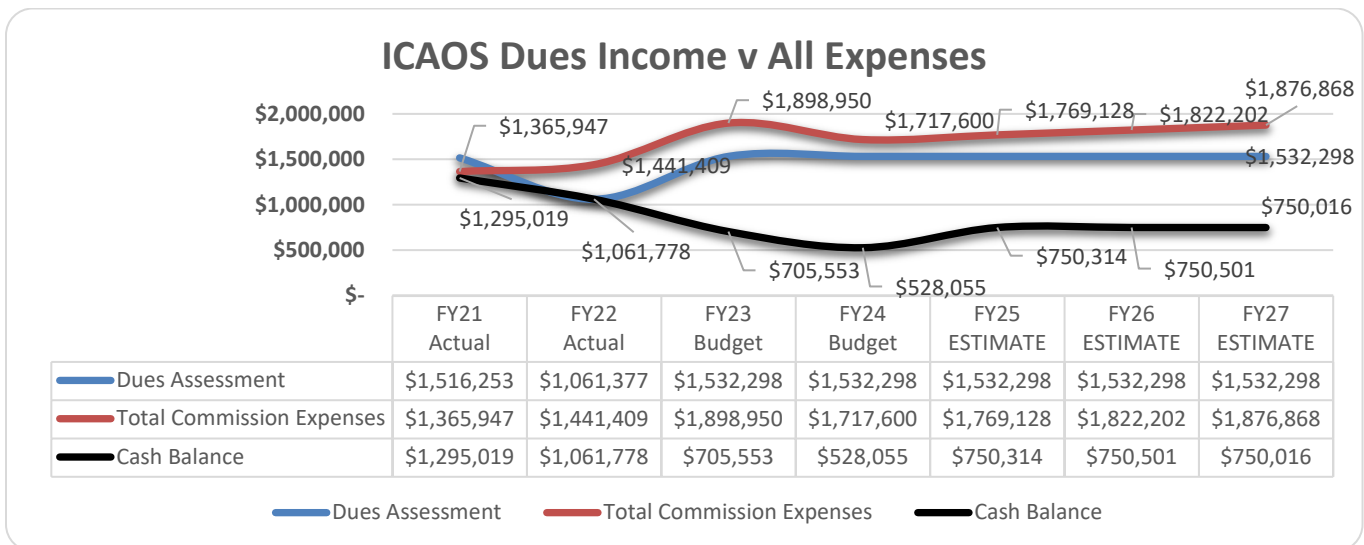


Figure A

Figure B depicts the long-term investment fund as it is used to balance the Commission’s budget. Juxtaposed with the declining LTI balance is a long-held Executive Committee position to maintain one full year’s expenses in reserve. The fund transfers to maintain operating expenses (as shown in Figure A) cause the LTI fund to drop below the annual operating expense threshold between FY2025 and FY2026. Please note that this projection does not include any major system upgrades or changes to ICOTS.

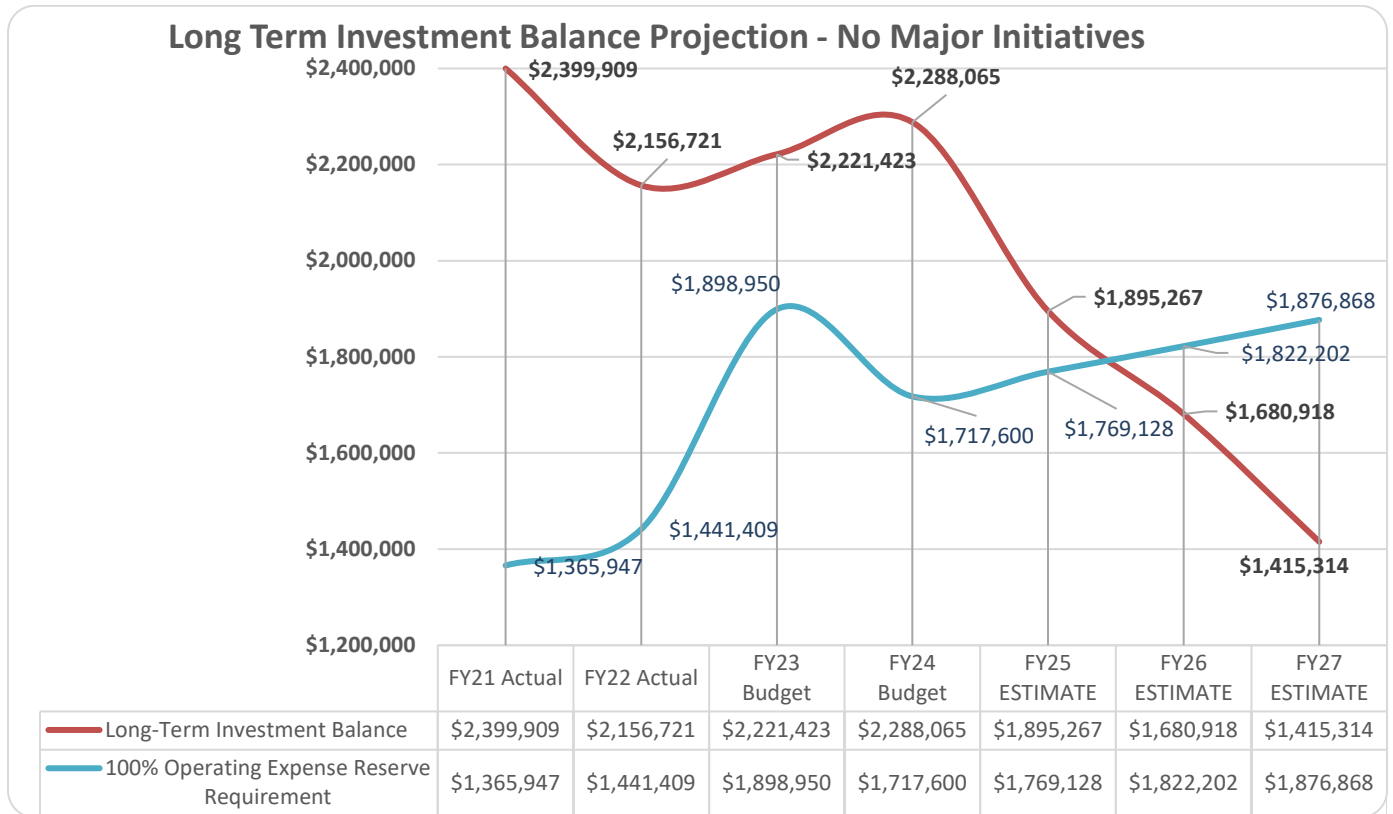


Figure B

Figure C adds context by showing budget projections with an emphasis on the effect of Undedicated Reserves. Here, annual dues and expenses are reflected with accompanying projected shortfalls that must be paid through the Commission’s cash balance.

	FY21 Actual	FY22 Actual	FY23 Budget	FY24 Budget	FY25 ESTIMATE	FY26 ESTIMATE	FY27 ESTIMATE
Annual Dues Assessment	\$1,516,253	\$1,061,377	\$1,532,298	\$1,532,298	\$1,532,298	\$1,532,298	\$1,532,298
Total Commission Expenses	\$1,365,947	\$1,441,409	\$1,898,950	\$1,717,600	\$1,769,128	\$1,822,202	\$1,876,868
<b>NET INCOME</b>	<b>\$150,307</b>	<b>(\$380,032)</b>	<b>(\$366,652)</b>	<b>(\$185,302)</b>	<b>(\$236,830)</b>	<b>(\$289,904)</b>	<b>(\$344,570)</b>
<b>Designated Funds</b>							
Dedicated Cash Balance	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000
Dedicated Long Term Investment	\$1,365,947	\$1,441,409	\$1,898,950	\$1,717,600	\$1,769,128	\$1,822,202	\$1,876,868
<b>Total Designated Funds</b>	<b>\$1,865,947</b>	<b>\$1,941,409</b>	<b>\$2,398,950</b>	<b>\$2,217,600</b>	<b>\$2,269,128</b>	<b>\$2,322,202</b>	<b>\$2,376,868</b>
<b>Cash Flow Minus Funds</b>	<b>(\$1,715,640)</b>	<b>(\$2,321,441)</b>	<b>(\$2,765,602)</b>	<b>(\$2,402,902)</b>	<b>(\$2,505,958)</b>	<b>(\$2,612,105)</b>	<b>(\$2,721,438)</b>
<b>Reserve Balances</b>							
Cash Balance	\$1,295,019	\$1,061,778	\$705,553	\$528,055	\$750,314	\$750,501	\$750,016
Long-Term Investment Balance	\$2,399,909	\$2,156,721	\$2,221,423	\$2,288,065	\$1,895,267	\$1,680,918	\$1,415,314
<b>Total Reserves Available</b>	<b>\$3,694,928</b>	<b>\$3,371,193</b>	<b>\$2,926,976</b>	<b>\$2,816,121</b>	<b>\$2,645,581</b>	<b>\$2,431,419</b>	<b>\$2,165,330</b>
<b>Remaining Undedicated Reserves</b>	<b>\$1,979,288</b>	<b>\$1,049,752</b>	<b>\$161,374</b>	<b>\$413,219</b>	<b>\$139,623</b>	<b>(\$180,686)</b>	<b>(\$556,108)</b>

Figure C

## Recommendation

In FY2024, the Commission should increase dues by a standard 5.25% for five years. In FY2029, the standard annual increase reduces to 3%. This recommendation was approved by the Finance Committee on June 22, 2022 and the Executive Committee on July 20, 2022.

### Total Increase Per Year FY24-FY29

	<b>Tier 1</b>	<b>Tier 2</b>	<b>Tier 3</b>	<b>Tier 4</b>	<b>Tier 5</b>	<b>Tier 6</b>
Current Dues	\$10,315	\$20,629	\$28,652	\$36,674	\$44,697	\$52,719
5.25% Increase FY24	\$542	\$1,083	\$1,504	\$1,925	\$2,347	\$2,768
5.25% Increase FY25	\$570	\$1,140	\$1,583	\$2,026	\$2,470	\$2,913
5.25% Increase FY26	\$600	\$1,200	\$1,666	\$2,133	\$2,599	\$3,066
5.25% Increase FY27	\$631	\$1,263	\$1,754	\$2,245	\$2,736	\$3,227
5.25% Increase FY28	\$665	\$1,329	\$1,846	\$2,363	\$2,880	\$3,396
3% Increase FY29*	\$400	\$799	\$1,110	\$1,421	\$1,732	\$2,043

\*The 3% increase implemented in FY29 would be ongoing and applied to all future years.