


Note: This document is still a work in progress, but is refined enough for team visibility and feedback. Please provide feedback and comments if you think there's something we should improve below. Assume that this document reflects the current state of our team thinking for a framework in making decisions about cost reduction.

Guidelines for cost reduction due to budget shortage

General idea

The goal of this document is to help us make a plan in case our runway becomes dangerously short. It covers contingency scenarios like when to cut salaries, when to lay off team members, when to wind down the organization, and what principles to follow.

Source of truth for our funding situation


Use our  Budget Projections model to decide the salary cuts we need and when we implement them.

 **Here's an explainer about the budget model**

See this [budget model overview video](#) for a video explainer and overview of our budget and cost scenario model.

Cost reduction scenarios

Overview

- Use our  Budget Projections model to understand our runway.
- Use the **Active Contracts**, **Needs Admin**, and **Renewals** income to calculate runway.
- If our runway is less than 3 months, then choose one of the following goals and scenarios:
 - **Work level readjustment:** We need to collectively reduce how much we cost 2i2c without trying to change anyone's "employment status," while we slow down or stop some current work. Trigger [Furloughs](#) based on our anticipated areas of needed work.
 - **Buy some time:** We need more time for a critical piece of information to come in. Trigger [Salary cuts](#) to give us as much time as we need.

- **Reduce costs:** Our projected revenue is too low for our cost structure. Trigger [Lay-offs](#) to reduce our costs to match projections.
- Generally speaking, **prefer lay-offs** unless there is a critical piece of information we miss that can be obtained by temporarily reducing salaries.

Buy some time: Furlough

Purpose

Our initial approach to reduce cost without changing salary structure or pay packages. Furloughs allow employees to retain their employment status while reducing their “at-work” hours (with the exception of international work permits). This allows us to reduce how much we pay our staff for a temporary period of time, while also reducing the amount of work we do. Furloughs can be effective if we’re waiting for funding that will change our product delivery priorities.

Principles

- Everyone would be expected to reduce their billable weekly hours by 40% (3-working days per week).
- Managers will coordinate with their staff to ensure that all 5 working days are covered by at least one member of staff
- Team members who do not want to be furloughed will be laid-off and given at least one month’s severance to assist them to find a new job.
- We may furlough some areas of 2i2c more than others if there’s an expected imbalance in the kind of work needed.

Timeline

3-6 months at most.

Process

- ☐ Write down the timeframe for furlough, the information we need in that time frame, and the rationale for furloughs over lay-offs.
- ☐ Propose roles and a reduction amount for each.
- ☐ Have 1-on-1 conversations with each impacted team member to get their consent. If they do not consent, they may end their contract.
- ☐ Let CS&S know about our plans and do the prep work needed for them.
- ☐ Communicate the intent of furloughs to the team and begin them.

Buy some time: Salary cuts

Purpose

Salary cuts are a way to *temporarily* reduce our burn rate, without reducing the amount of work we do, in order to give us time to raise funds. They penalize many people at once, and are unsustainable for more than a short amount of time.

For this reason we should only use salary cuts if we believe it will buy us a short amount of time that is critical, and if we need the full capacity of everyone such that furloughs wouldn't work. For example, if we are preparing some major contract proposals and need a few weeks of time to complete the process and hear back.

Principles

- Be as consistent as possible - use objective role and level definitions to decide whose salary changes.
- Cut leadership salaries first, and only cut non-leadership roles only if we can't meet our cost reduction needs with leadership pay cuts.
- Cut leadership salaries more than non-leadership salaries.
- Reduce or avoid cuts for team members with lower salaries than others (e.g. bespoke intern salaries).

Timeline

3-6 months at most.

Leadership vs. non-leadership roles

Leadership roles are defined as any role that is L4 and above.

Process

- ☐ Write down the timeframe for salary cuts, the information we need in that time frame, and the rationale for salary cuts over lay-offs.
- ☐ Propose a cut % between leadership and non-leadership roles. If we need to make up a small difference to get to our funding target, cut an extra % salary from the Executive Director.
- ☐ Decide if these cuts are "no interest loans" (e.g. paid back in a bonus if we get more funding) or pure cuts.
- ☐ Have 1-on-1 conversations with each impacted team member to get their consent. If they do not consent, they may end their contract.
- ☐ Let CS&S know about our plans and do the prep work needed for them.
- ☐ Communicate the intent of salary cuts to the team and begin them.

Reduce costs overall: Lay-offs

Purpose

If we believe that our revenue projections will not be able to support our current cost structure, we reduce costs by ending the contracts of roles that are not critical for our short- to medium-term operations and goals.

Principles

- Remove roles that are not critical for meeting the needs of any pre-existing grants, unless they are critical for our goals.
- Where multiple team members are serving in a role, remove team members that are underperforming relative to their peers.
- When a role is selected for lay-offs, a manager gets to decide which team member this applies to.
- Give team members at least one month's severance to find a new job if their contract is ending.

Process

- ☐ Decide if lay-offs are the correct action to take given our budget predictions.
- ☐ Choose the roles to be laid off.
- ☐ Communicate this with the managers of each role, ask them to select specific people for lay-offs as well as their last day with 2i2c.
- ☐ As soon as possible:
 - ☐ Communicate the decision with CS&S.
 - ☐ Communicate the decision with the people whose contracts will end.
 - ☐ Execute the contractual changes needed.

Appendix: Information gained from CS&S

Pay cuts, furlough, and unpaid leave

Regarding proposed pay cuts you should be keeping the job duties and compensation parallel so that there is clear and legally compliant justification for such a significant cut.

If this is not the case, furloughing those employees that you can, while retaining other key staff, perhaps with reduced hours as well, might be a more clear-cut way to reduce personnel spending.

Something else to note about significant pay cuts is that you must abide by the minimum wage for full-time employees in each state, and likely in this case, the pay cuts would result in reclassifications as part-time employees, meaning they would lose healthcare coverage.

Another project that was in a similar budget squeeze in the past year put their project lead on unpaid leave (furlough would be similar) and they worked as a volunteer for about 6 months. When funding eventually came in, they were returned from leave and received retro pay for the unpaid period in the form of a bonus.

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About Furlough:

- A temporary suspension of compensation and benefits, without requiring any sort of termination/rehiring process.
- Furloughed employees are eligible for unemployment through their state.

Timeline implications:

- No limit to the length of a furlough, the only requirement is that a furlough period begin on the Monday of a workweek
- No notice requirement for an employee returning from furlough, and it can be processed retroactively (though of course, advanced notice is preferred if possible).
- Benefits implications:
 - If the employee is enrolled in medical, dental or vision insurance through TriNet, coverage continues through the end of the month, at which time the employee will be required to use COBRA to continue benefits during the furlough period.
 - Supplemental policies (AD&D, etc.) run through the end of the month and are suspended for the remaining duration of the furlough period.

UK employees

- There is no furlough option in the UK via remote.com
- A reduction in pay cannot fall below the National Minimum Wage requirements for the hours worked: For a 40-hour working week, the minimum salary required is

£23,900 GBP. However, to ensure that the employees maintain their current benefits including the salary sacrifice pension scheme, Remote has adjusted their minimum salary required to remain compliant and keep their current pension rates.

- Remote can legally issue a salary decrease in the UK for "loss of funding resulting in the need for reduction of employee wages for the business to remain viable". However, to make this effective, they require the employee's consent by signing the contract amendment with the salary reduction (this is the standard process for change in the salary or other condition of employment).
- **Timeline:** contract amendment requests must be submitted 10 days prior to the 1st of the month in which the change is effective (i.e. if the change is effective August 7, the request should be submitted to CS&S by July 21).

US employees

- The minimum full-time, exempt salary requirement in California is **\$66,560** and it is **\$67,725** in Washington. These are the minimum salaries to have no impact on benefits eligibility.
- Best practice is to document (i.e. email to hr@) why you are making the change and when/how it was communicated to the employees. The justification being "funding shortage" is sufficient.
- **Timeline:** salary change requests should be submitted 10 days prior to the payroll date of the period in which the change is effective (as payroll is processed on the 15th and last day of the month, that means by the 5th for changes effective in the first half of the month, or by the 20th for the second half).

International work permits and visas

- Salary changes would not affect a PERM application because the PERM is for a full-time future job offer. CS&S would just need to maintain the terms of employment in the PERM application after an employee gets their green card.

- A salary change *would* impact the H-1B status. Lowering a salary would require an H-1B amendment because the LCA requires that the employer pays the salary listed in the petition.
- If there is a furlough, then an employee loses their H-1B status, in which case they have 60 days to find new sponsorship or leave the US. If they do leave the US, then CS&S can always file a new H-1B when you are ready to hire them back, and they can re-enter once that is approved.