Proposals for Distribution of Income between TPE Chapters & Chapter Support

14-June-2019    Scott Fulton, President

Background

For the past two years, the TPE Board has been considering issues and potential solutions regarding the financial sustainability of the organization, in particular funding for the staff and other activities in Chapter Support. The issue of most concern is clearly illustrated on the graph below of TPE’s total operating income for the last four years as distributed between the Chapters and Chapter Support, together with the corresponding annual operating expenses for both parts of the organization.

Overall operating income from all sources has been rising steadily over this period, going from $547,000 to $717,000. However, the income made available to fund the activities of Chapter Support using the policies currently in place has decreased over this period, from $265,000 to $210,000.

Total operating expenses for both Chapters and Chapter Support over this period have been well under total income, with the organization accruing a total of $209,000 in net operating income over the 4-year period. Chapters have consistently spent much less than their income. However, despite steadily decreasing both the operating expense budget and actual expenses (and generally coming very close to meeting budget), Chapter Support has run a total operating deficit of $46,000 over this four-year period.

One net result has been a steady drain on the cash available for operations of Chapter Support, which the Finance Committee and Board have been observing for some time. The graph to the left shows the cash available for operations as of October 31, 2018 (which was the low point of the year) for both the combined Chapter accounts and Chapter Support, together with the total operating expenses for 2018. Virtually all the cash reserves in the organization have ended up in the Chapter accounts, with Chapter Support having a cash balance of negative $8,300 at this point in the year.

Clearly this situation cannot continue. TPE needs to either fully fund what it spends each year on Chapter Support, or it needs to make even deeper cuts, which at this point will necessarily mean cutting staff. Discussions in the Board and with the leadership of Chapters during our visits this year have shown nearly universal support for fully funding Chapter Support and making the necessary adjustments to how income is distributed within the organization to make this happen. The following is a proposal for how to carry this out.
Key Objectives

During its discussions, the Board has agreed upon several key objectives for the new income distribution policy. These were presented to the Chapters during the visits and were widely supported:

1. The most important objective is to raise and spend as much as possible on the direct mission-related activities of TPE (land protection, land management and education). Land management is the largest mission-related operating expense for the organization. Under TPE’s very successful model, land management is almost entirely directed through spending locally by the Chapters.

2. The infrastructure services provided by Chapter Support (communications, membership administration, fundraising, financial management and general administration) are critical for the mission of the organization and for the Chapters to be able to carry out their mission-focused work. Thus, the budgeted operating expenses of Chapter Support need to be fully funded each year.

3. The policy for distribution of income should be as simple as possible, easy to understand by the Board, staff, Chapter leadership and donors, and fully transparent.

4. Fundraising should not be competitive between Chapters and Chapter Support. TPE needs a clear, unified message as an organization to its donors and funding agencies.

5. Any organization or business needs to have an appropriate operating cash reserve as a buffer for unexpected changes in income or expense. A typical rule of thumb is at least 3 months of annual operating expenses in cash available for operations at the minimum point of the year. TPE needs to rebuild an appropriate operating cash reserve for Chapter Support over the next several years.

Three major concerns were raised by the leadership in the Board and the Chapters during our visits this year:

1. Any income distribution policy that fully funds Chapter Support will almost certainly result in less income to the Chapters overall than under the current policy. One concern is that this reduction in Chapter income be fairly distributed so that one or more Chapters are not bearing an undue burden. Given the wide range of different funding sources for the Chapters and their dynamic nature from year to year, no distribution method can perfectly spread the burden. However, the effects of any new allocation on each Chapter should be carefully evaluated with fairness in mind.

2. In trying to rebuild the operating reserve for Chapter Support, it is tempting to consider the transfer of cash available for operations from the Chapters. However, these funds are not simply operating reserves for the Chapters – many Chapters have been saving money for specific projects for some time. These funds are often being set aside as seed funding for land protection projects, for the purchase of capital equipment or buildings, and for other critical, mission-related purposes. The Board should look to other means for building an appropriate operating reserve for Chapter Support.

3. Whatever policy is adopted needs to be reviewed periodically and adjusted as needed to ensure that it continues to meet the objectives as conditions change.
Proposed Income Distribution Policy

The proposed income distribution method incorporates three basic concepts:

1. All revenue received by TPE from any source will be initially pooled. However, all revenue transactions also will be attributed to either a specific Chapter or Chapter Support. Memberships and donations would be attributed by the Chapter membership of the contributor (or to a different place if the donor specifies and to Chapter Support if the contributor is not a member of a Chapter). Other types of revenue (restricted donations for projects or land management, grants, USDA payments and land rental, fee for service, events and product sales) would also be attributed as appropriate. Income from endowment funds spent by Chapters would not be included in this combined pool, as a 0.5% management fee is already applied to all endowment funds.

2. All revenue attributed to Chapter Support (including endowment fund management fees) would be used to cover the expenses of Chapter Support. All remaining expenses for Chapter Support (including for some period a budgeted annual amount to rebuild the Chapter Support cash reserve) would be covered from the overall revenue pool.

3. The remaining revenue in the pool (after Chapter Support expenses have been fully covered) would be distributed to each Chapter as income. The amount each Chapter receives would be equal to the amount of revenue attributed to the specific Chapter minus a common percentage to cover the Chapter Support expenses.

The following spreadsheet (sent separately) and graphs illustrate how this policy would have worked in 2018, had this policy been in place. The actual income distribution for the year under the current policies and actual expenses are shown for comparison.

### Proposed Income Distribution Applied to 2018

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Revenue Generated</th>
<th>Proposed % Chapter Support Fee</th>
<th>Proposed Income</th>
<th>Actual 2018 Income</th>
<th>Actual % Chapter Support Fee</th>
<th>Actual 2018 Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chippewa Savannas</td>
<td>$ 10,680</td>
<td>26%</td>
<td>$ 7,956</td>
<td>$ 4,563</td>
<td>57%</td>
<td>$ 800</td>
</tr>
<tr>
<td>Coulee Region</td>
<td>$ 14,646</td>
<td>26%</td>
<td>$ 10,910</td>
<td>$ 7,428</td>
<td>49%</td>
<td>$ 3,625</td>
</tr>
<tr>
<td>Empire-Sauk</td>
<td>$ 275,599</td>
<td>26%</td>
<td>$ 205,301</td>
<td>$ 205,734</td>
<td>25%</td>
<td>$ 190,118</td>
</tr>
<tr>
<td>Glacial Prairies</td>
<td>$ 8,411</td>
<td>26%</td>
<td>$ 6,265</td>
<td>$ 3,066</td>
<td>64%</td>
<td>$ 1,473</td>
</tr>
<tr>
<td>Many Rivers</td>
<td>$ 9,966</td>
<td>26%</td>
<td>$ 7,424</td>
<td>$ 7,126</td>
<td>29%</td>
<td>$ 2,981</td>
</tr>
<tr>
<td>Minnesota Driftless</td>
<td>$ 2,537</td>
<td>26%</td>
<td>$ 1,890</td>
<td>$ 709</td>
<td>72%</td>
<td>$ 1,932</td>
</tr>
<tr>
<td>Northwest Illinois</td>
<td>$ 248,688</td>
<td>26%</td>
<td>$ 185,254</td>
<td>$ 233,118</td>
<td>6%</td>
<td>$ 129,484</td>
</tr>
<tr>
<td>Prairie Bluff</td>
<td>$ 52,646</td>
<td>26%</td>
<td>$ 39,217</td>
<td>$ 35,470</td>
<td>33%</td>
<td>$ 21,029</td>
</tr>
<tr>
<td>Prairie Sands</td>
<td>$ 4,125</td>
<td>26%</td>
<td>$ 3,073</td>
<td>$ 1,840</td>
<td>55%</td>
<td>$ 1,385</td>
</tr>
<tr>
<td>Southwest Wisconsin</td>
<td>$ 54,695</td>
<td>26%</td>
<td>$ 40,744</td>
<td>$ 26,728</td>
<td>51%</td>
<td>$ 29,173</td>
</tr>
<tr>
<td>St. Croix Valley</td>
<td>$ 38,235</td>
<td>26%</td>
<td>$ 28,482</td>
<td>$ 24,727</td>
<td>35%</td>
<td>$ 19,825</td>
</tr>
<tr>
<td><strong>Total Chapters</strong></td>
<td><strong>$ 720,228</strong></td>
<td><strong>26%</strong></td>
<td><strong>$ 536,515</strong></td>
<td><strong>$ 550,507</strong></td>
<td><strong>24%</strong></td>
<td><strong>$ 401,824</strong></td>
</tr>
<tr>
<td><strong>Chapter Support</strong></td>
<td><strong>$ 40,378</strong></td>
<td><strong>-</strong></td>
<td><strong>$ 224,090</strong></td>
<td><strong>$ 210,099</strong></td>
<td><strong>-</strong></td>
<td><strong>$ 224,090</strong></td>
</tr>
<tr>
<td><strong>Total TPE</strong></td>
<td><strong>$ 760,606</strong></td>
<td><strong>-</strong></td>
<td><strong>$ 760,606</strong></td>
<td><strong>$ 760,606</strong></td>
<td><strong>-</strong></td>
<td><strong>$ 625,914</strong></td>
</tr>
</tbody>
</table>
The following is an explanation of each of the columns in the spreadsheet:

**Revenue Generated:** This is the total amount of revenue coming in to TPE attributed to the specific Chapter or to Chapter Support before any of the amount allocated by the current policy to Chapter Support was taken out. Note that this is not what the Chapter actually received into its own account in 2018 under our current policies (that’s the **Actual 2018 Income** column).

**Proposed % Chapter Support Fee:** This is the percentage of the Revenue Generated by each Chapter used to fund the staff and other services of Chapter Support. It is equal to the **Actual Expenses** for Chapter Support minus the **Revenue Generated** by Chapter Support divided by the total **Revenue Generated** by the Chapters. This would be $(224,090 - 40,378)/720,228 = 26\%$ for 2018. This percentage fee would be applied equally to all Chapters and all forms of income (except endowment income as noted above). Note that the Chapter Support Fee percentage is expected to vary from year to year, depending upon the expenses budgeted for Chapter Support and how much total revenue TPE generates as an organization. For example, in 2017 the percentage would have been 33\%, and based on the current budget the estimated percentage in 2019 would be 35\%.

**Proposed Income:** This is the total income the Chapter would have received in its own account in 2018 under the proposed new income distribution policy. It is equal to all the **Revenue Generated** by the Chapter less the percentage for the **Chapter Support Fee**.

**Actual 2018 Income:** This is the total income from all sources that actually went into the Chapter’s account in 2018 under the current policies.

**Actual % Chapter Support Fee:** This is the actual percentage of the **Revenue Generated** by the Chapter contributed to funding Chapter Support under the current policies in 2018.

**Actual 2018 Expenses:** This is the total of all expenses shown for reference. Note that under the proposed income distribution policy, all Chapters would have had more income than expenses.

Under the current policies, the Actual % Chapter Support Fee varies widely from Chapter to Chapter, depending upon their mix of revenue types, since each revenue type is distributed very differently under the current policies. Under the proposed income distribution policy, the % Chapter Support Fee is the same for each Chapter (26\% for 2018) and is applied equally to all types of revenue (except endowment income).
This approach is certainly simple, hopefully easy for everyone to understand and is fully transparent. It also appears to be reasonably fair. However, the effects of the change to the new approach will vary considerably between the Chapters, largely because of the inequities and quirks in the current policies and the wide variation in revenue types Chapters employ. In 2018, for example, most Chapters would have seen an increase in income and Empire-Sauk Chapter would have been essentially the same (because its % to Chapter Support happened to be almost exactly at the required rate).

Northwest Illinois Chapter, however, would have seen a considerable reduction in income under this distribution method. This Chapter has a unique and highly effective business model based on providing land management services and selling seeds to local conservation organizations and private landowners as a non-profit business. This business saw significant growth in 2018, resulting in almost 2/3 of the Chapter’s very considerable revenue being of these types. Under TPE’s current policies, these revenues went entirely to the Chapter as income. One of our concerns in implementing any new income distribution method is that the “pain” of the transition be fairly spread across the organization, and we will need to seek a solution between this Chapter and the Board to address this issue.

Implementation Plan

The proposed new income distribution policy is a significant change for TPE, and we will need to proceed carefully in its implementation. The proposal is to begin implementing the policy in the second half of 2019, starting on July 1 (Note that some of the accounting will need to be done retrospectively). This will provide a bit of a transition period and will enable us to see what unexpected issues may arise and to set up and refine the new accounting and reporting procedures required.

One issue with implementation is what factors to use to distribute the income to Chapters as it arrives. The annual budget can be used to make an estimate of the overall % of revenue distributed to Chapter Support, but the final figure for that factor can only be determined after the complete Chapter Support expenses and revenues and revenue attributions are determined for the fiscal year.

The initial proposal is to use the annual budget to calculate working % Chapter Support Fee (35% for 2019) so that revenue can be distributed to Chapters immediately as it arrives. Immediately after the end of the fiscal year, a final factor can be calculated, and a final distribution will be performed to reconcile the budget-based distributions with the actuals. We can test this approach during the second half of this year to see how well it works. Note, however, that going forward there will need to be more emphasis on accurate budgeting to avoid “nasty surprises” at the end of the year.

The Finance Committee and Board clearly will also need to perform an annual assessment of this policy to see how well it is meeting our objectives and what unexpected issues may arise, recommending changes as needed. TPE is growing rapidly, and many Chapters and Chapter Support are experimenting with new approaches for raising revenue and making our conservation work more economically sustainable. We can expect this to be an exciting and dynamic period, and hopefully this new income distribution policy will help us be even more effective as an organization in the future.
Development of the Proposed Income Distribution Policy

The Finance and Executive Committees have been considering and working on this issue for the last two years, and the entire Board has had extensive discussions on the topic at several meetings. The connections between income distribution and the overall strategic plan for TPE over the next 3-5 years quickly became obvious, and the Board retained the services of the Conservation Consulting Group under a LEAP grant from Gathering Waters (the association of land trusts in Wisconsin) to assist us with our deliberations. Several activities arose from this, including interviews with six other chapter-based conservation organizations to look for ideas and the first TPE Leadership Retreat in September, 2018, at which time the finances of TPE were discussed.

We also realized that there was not a good understanding within the organization about what services Chapter Support and its staff provide to the Chapters, so this was analyzed in some detail in a written report, which was summarized in a Prairie Promoter article and during 2017 Chapter visits. During the 2018 Chapter visits, a summary financial picture of the organization’s finances was presented as part of a discussion of this issue with the leadership of each Chapter.

Several different methods for distributing income between Chapters and Chapter Support were carefully considered and analyzed in detail, using actual income and expense figures from the prior year to better understand the consequences. The Board approved an overall concept for a distribution method at its March 2019 meeting, and appointed a subcommittee (Scott Fulton, Chris Kirkpatrick, Alice Mirk, Jerry Newman and Jim Rachuy, with assistance from Jerry Pedretti, our bookkeeper and Winnie Bade, our consulting accountant) to negotiate and work out details. This proposal is the result of the subcommittee’s work.

Next Steps

With this document, the proposed income distribution policy is being shared with both Board members and Chapter chairs at the same time. The objective is for the policy and its effects on each Chapter to be understood and discussed by the leadership in each Chapter, and any concerns raised in time for consideration at the next TPE Board meeting on July 21, 2019. The intent is to vote on (and hopefully approve) a final version of this policy at that meeting.