# AFWA Business Plan 2015

**EXECUTIVE SUMMARY**

The purpose of this business plan is to support the long-term sustainability of AFWA as the *Voice of Fish & Wildlife Agencies* and to marry AFWA's strategic objectives to our operational reality. At the outset, it needs to be stated that the Association is in good financial health. As a reflection of this, two important financial milestones have been reached in 2015:

- We met our goal of creating a $2.15 million reserve fund, of which $1.95 million is invested and $200,000 is cash.
- In June, the Association completed a move to new offices at 1100 First St., NE on Capitol Hill. This decision will save the Association $1 million dollars in rent over the next 10 years compared to the cost of staying in our previous space.

AFWA has always been diligent about keeping expenses to a minimum. In spite of this, there are several important threats to AFWA's long-term financial sustainability, including:

- Reliance on a multi-state coordination grant (MSCG) for $310,000 of core staff expenses.
- Increased demands on legislative and appropriations staff requiring additional resources and staff.
- Pressure on state budgets limiting the amount of dues that some states can pay.
- Reliance on federal grants to fund staff positions; meeting the needs of the federal granting agencies which may not coincide with the highest state needs; covering the overhead expenses incurred to administer grant-funded positions; and limitations on the use of those funds (e.g., lobbying restrictions). *See Exhibit 1, Staffing by Funding Source, 2014.*

This plan will briefly examine these and other topics. A summary of the major recommendations contained in the business plan follows:

- Replacing the $310,000 from MSCG, of core staff expenses, will require increasing revenue in several key areas. The Association will need to take full advantage of our Negotiated Indirect Cost Rate Agreement wherever possible, and more fully recover overheard from grants.

- Increasing our indirect recoveries will not be enough to offset the entire amount currently funded by the MSCG grant. AFWA also needs to develop alternative dues models (voluntary contributions, a la carte options or other models) in order to maintain current programs.

- Utilize our new financial reserves as strategically as possible; adjusting the target amount annually, based on inflation, and prioritizing the use of excess reserves for critical infrastructure and member services.

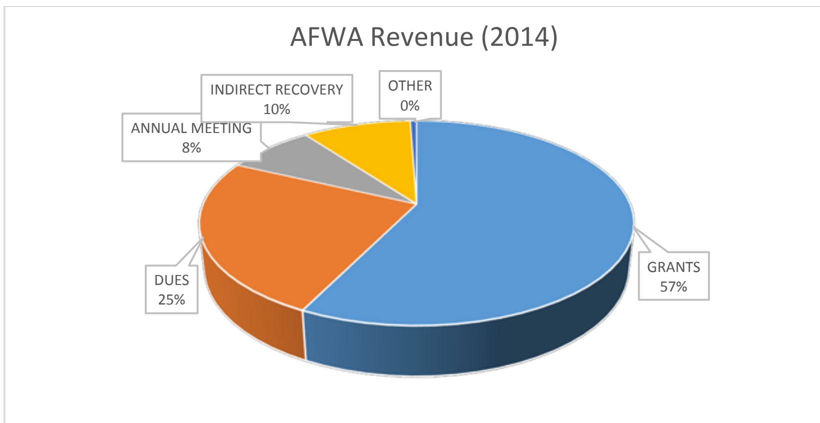
- Utilize AWARE, AFWA's 501(C)(3) entity, to raise funds from new sources. Aggressively pursue new funding from federal agencies, foundations, corporations and other sources.

- Explore alternative products and revenue models while recognizing that these types of entrepreneurial projects require resources and time to develop.

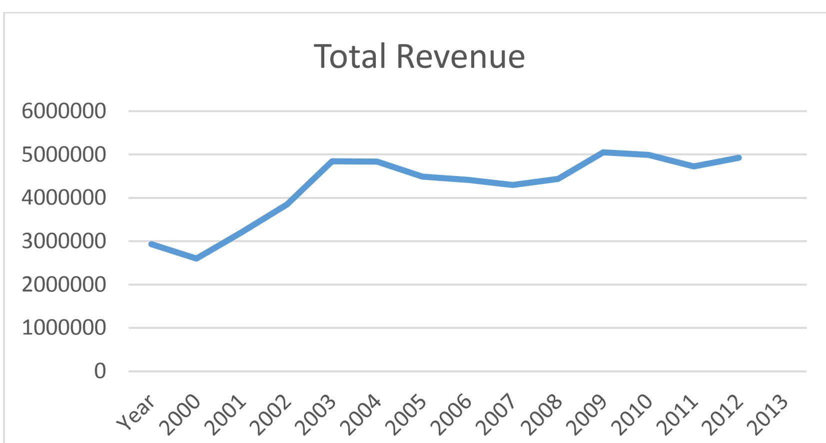
## AFWA's BUDGET

For the sake of IRS reporting, AFWA manages a budget of approximately $4.5 - $5 million annually. Operationally AFWA manages two budgets; the general fund and federal grants budget.

| | General Fund ($) | Federal Budget ($) |
|---|---|---|
| Revenue | Dues<br>Annual Meeting Income | Grant funds for programs<br>Indirect Cost Recoveries |
| Expense | Administration<br>Legislative Programs | Program Staff<br>Program Expenses |

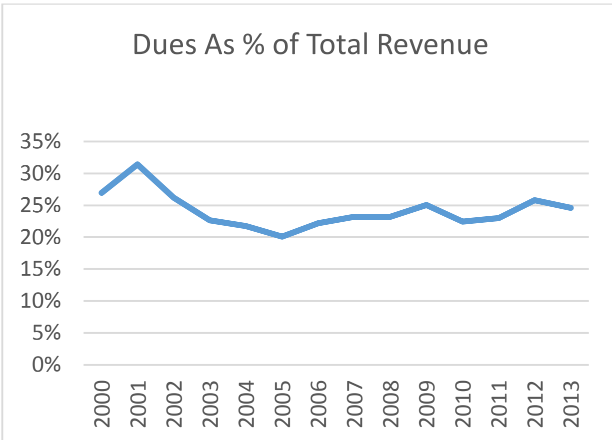


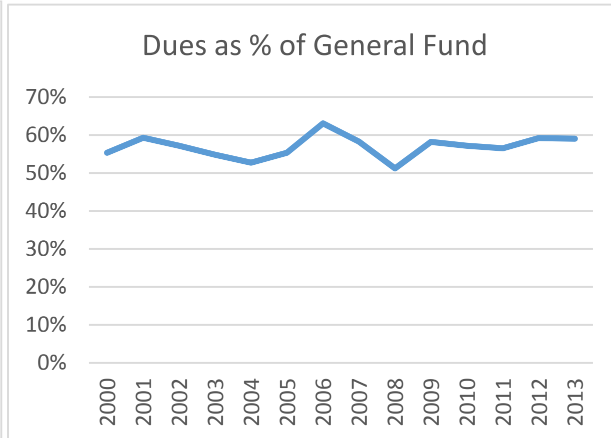

AFWA's budget has been stable over the last few years. Given fixed revenue, overall staff size has remained stable and additional capacity for positions is difficult to come by. While a new legislative assistant position will be added in 2015, funds for this position came primarily from an admin / Teaming with Wildlife position which is now vacant. A communications assistant and fisheries policy position have also been discussed, however, funding will need to be identified if these positions are to be created.



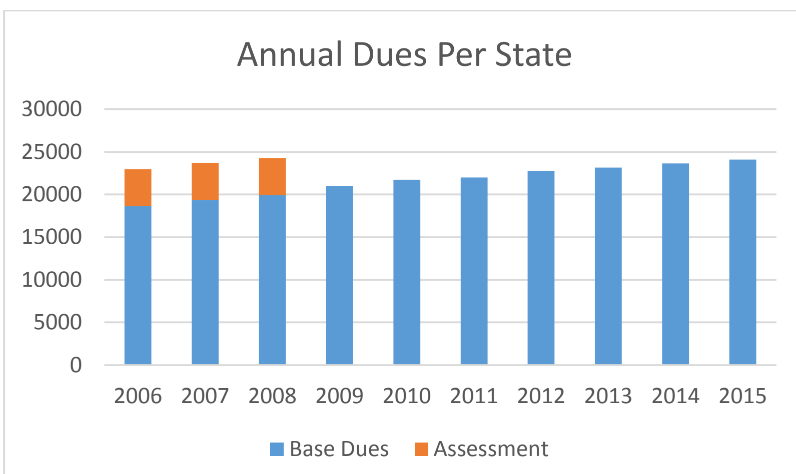
## DUES

Membership dues is one of the major revenue sources for AFWA. Historically membership dues has averaged roughly 57% of general fund revenue and 25% of total revenue including grants, which is relatively low compared to other member-based NGOs.




Dues are the same for every state and are increased annually based on the CPI. For several years states paid an additional assessment to support teaming with wildlife, the farm bill coordinator, and previously an energy liaison position which is now funded through a MSCG. This $4,350 per state or $217,500 total assessment was stopped after 2008. The loss of assessments forced us to shift these costs to MSCG which is not a sustainable solution.




Several states have indicated they are willing to pay additional dues to support AFWA operations while other states do not have this flexibility. Over the years several alternative dues models have been discussed:

- **Voluntary or 'a la carte' option**. In this model, individual states could choose to pay an additional amount to support specific programs / positions. For example, if 25% of states were able to pay an additional $5,000, this would increase revenue by $62,500.

- **Sliding scale dues**. In this model, state dues would be based on budget size or another relevant indicator. While more complicated, this model has the ability to increase dues revenue significantly, while not increasing the budgetary burden on smaller states.

- **A dues reset**. Another possibility is to increase dues for all states based on the Association's current budget needs.

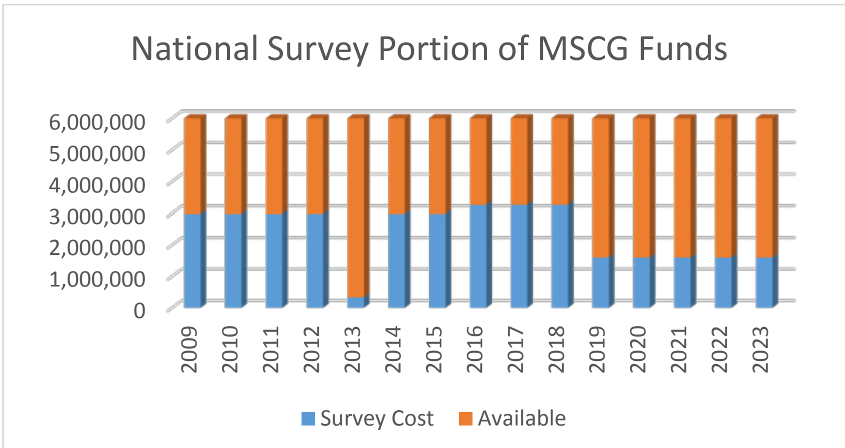
Recommendation:

- Given the desire to replace MSCG funding for operations the AFWA should implement an alternative dues structure to increase revenue.

## MSCG COORDINATION GRANTS & OVERHEAD

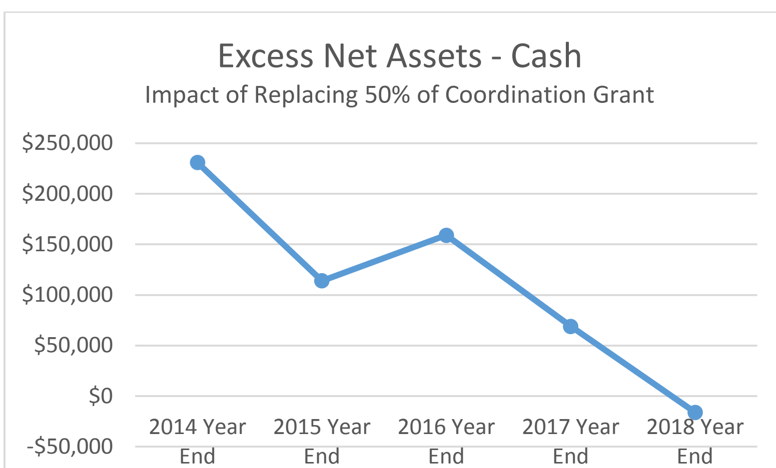
Since 2010, a Multi-State Coordination Grant has funded 50% ($310,000) of the salaries and benefits of three core staff members: The Executive Director, General Counsel and Director of Communications.

The MSCG program is under significant pressure from expenses related to *The National Survey of Fishing, Hunting and Wildlife-Related Recreation*. The 2016 National Survey is testing a new methodology that essentially doubles the Survey's cost. Beginning in 2019, if the new methodology is satisfactory, the annual expense of the survey will be significantly lower.




Based on the reduction of available funds in the MSCG pool for the next several years as well as the objective not to have AFWA utilize more than its fair share of these funds, AFWA has reduced its request in the 2016 cycle by 50%. This results in shifting $154,000 of core staff expense to the general fund beginning in 2016.

Due to years of conservative budgeting, AFWA maintains excess net assets over and above our reserves, which can, over the short term (2 years), be used to offset this reduction in MSCG funding. The following chart illustrates the impact on AFWA's excess net assets of shifting 50% of the MSCG Coordination grant to the general fund.



This chart also incorporates savings from rent in our new offices, the use of dividends and interest from investments, and assumes stability in other areas of AFWA's budget.

Based on these assumptions, AFWA will be able to replace 50% of the MSCG grant using excess net assets through the end of 2018. *Beginning in 2019, AFWA will no longer be able to replace the MSCG funds without spending from our reserves. Replacing 100% of this grant is even more challenging: AFWA would need to identify $300,000 in revenue over the next two years. Given no other source of funding, we will need to either restore this source of funding or utilize our reserve funds to cover operational costs.*

<u>Recommendations</u>:

- AFWA should plan to reduce its dependence on MSCG funding for three core staff positions by developing other sources of funding. The most readily available sources to replace this funding are indirect charges on grants and dues.

- AFWA needs to identify $154,000 in annual revenue in order to sustainably replace 50% of MSCG funding for core positions. To completely replace the MSCG grant AFWA needs to identify $308,000 in annual revenue (2015 dollars).

- AFWA and the Grants Committee should consider setting parameters for the duration of MSCG funding to support AFWA priorities. MSCG grants should be considered short-term or seed-grants rather than on going sources for funding. Given the current reliance of AFWA on these funds for staffing, this increases the need to generate revenue from other sources.

**RESERVES & INVESTMENTS**

Reserves are kept by organizations to help them weather unforeseen events and conditions and to provide capital for non-recurring projects. A common question with reserves is 'how much is enough.' Surveys from the American Society of Association Executives (ASAE) indicate that associations typically target between 6 and 12 months operating expense for their reserve balance. AFWA's balance is sufficient to fund operations for 13 months (general fund), which is a healthy reserve.

The AFWA Reserves Policy (March, 2014) states that:

- The maximum reserve target is set at $2.15 million;
- There must be a minimum of $800,000 in reserves before any amount can be used in the annual budget; and
- Budgeted use of reserves may not exceed $200,000 per year.

The following is a breakdown of the Association's different reserve types and their purposes.

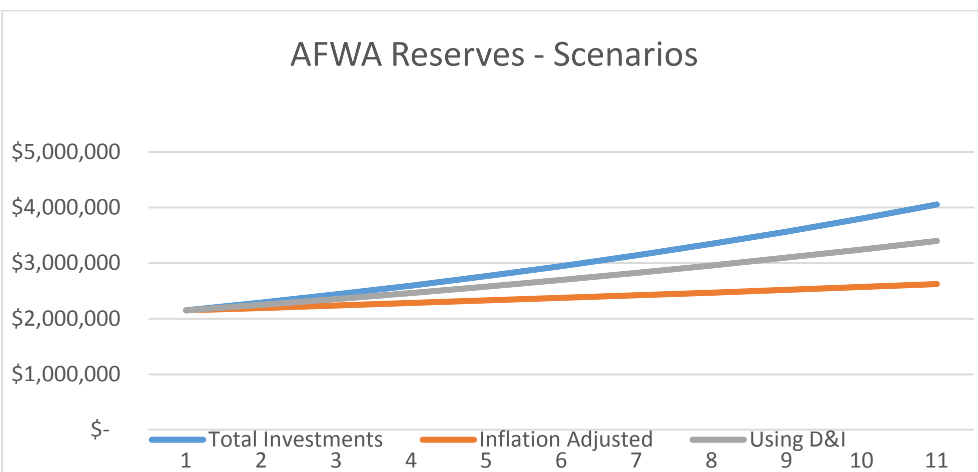
- **Long Term** $1,550,000 For capital, programmatic, legal or other expenses.
- **Contingency** $400,000 For unanticipated expenses / losses including operating budget deficit, annual meeting losses, restructuring, etc…
- **Cash Reserves** $200,000 An internal line of credit to continue normal operations.

In looking at the real value of reserves over time several factors are important:

***Inflation* erodes the value of investments**. To maintain the same purchasing power in a 2% inflation environment our $2.15 investments would need to increase by $43,000 annually.

***Management fees*** are subtracted from the value of the funds. Our fees, by contract, are 1% of total fund value annually. Fund growth, or performance, is usually stated as net of fees or after fees.

In considering the use of AFWA's reserves, the most important factor is to maintain growth above inflation. In the chart below the orange line shows the value of AFWA's reserves over ten years, assuming 2% inflation.



For the purpose of illustration, three scenarios are shown.

Scenario #1 (blue): Allow the reserves to grow undisturbed. In this scenario AFWA is guaranteed the maximum amount of reserves for future needs. The down side to this scenario is that there are large potential resources that are not being utilized.

Scenario #2 (gray): Utilize dividends and interest (D&I) for operational needs. This allows for growth of AFWA's investments while also utilizing some of the returns for operational needs. In the first full year of investment D&I are estimated to be $40,000.

Scenario #3 (orange) Utilize all growth in AFWA's investments for operational needs. In normal years this would provide AFWA with $100,000 to $150,000 of revenue.

Recommendations:

- The maximum and minimum targets for AWFA's reserves should be adjusted annually to account for inflation. Staff will report on these adjustments to the Finance Committee annually.

- Dividends and interest should be used for operations as approved in the annual budget.

- As AFWA's reserves continue to grow, plans should be made to invest in the Association's organizational capacity. Examples of suitable investments could include a new web page, database and other member services.

## INDIRECT RATES – OVERHEAD

Overhead or indirect costs are accounting terms for expenses that can't be attributed to a specific program. Examples of indirect costs include rent, administration, insurance, legal, and accounting. Nonprofit organizations make every effort to minimize overhead. However, these expenses are necessary for effective operations and administration.

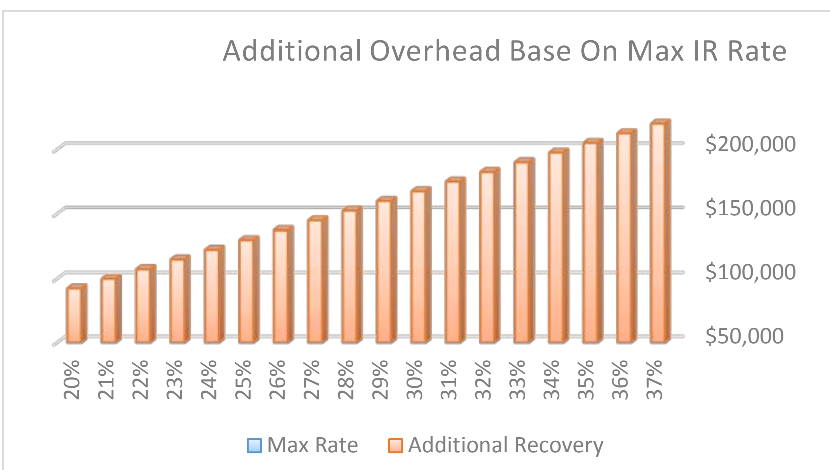
As a recipient of federal grants, AFWA has a *Negotiated Indirect Cost Recovery Agreement (NICRA)* with the federal government. The NICRA identifies AFWA's maximum overhead percentage and allows AFWA to recover overhead expenses from grants. Our current negotiated indirect rate is 37% – up to this amount of cost recovery can be included in grant requests. The following example shows how an overhead rate of 27% would be incorporated into a grant request:

| | |
|---|---|
| Grant Program activity: | $25,000 |
| Indirect Rate: | $ 6,750 (27%) |
| Total Grant Amount: | $31,750 |

A common misconception of the grant recipient is to view the indirect rate as an expense. More accurately, it is the recovery of a pre-existing expense, spread out over all of the programs supported by this expense. In cases where current partners have fixed amounts of funding, we will need to be conscious that increasing overhead will have an impact on other budget items, such as travel.

AFWA does not currently charge the full allowable amount of indirect costs to grants. In some cases there are specific agreements preventing this. The National Grants Committee, which oversees the MSCG Program, has capped allowable indirect recoveries at 20% in an effort to prioritize the amount of funding for program activities. AFWA currently charges up to 27%. In most cases, we are charging less.

Overhead expenses are either funded by general funds (dues), or recovered from grants, or, in the case of the MSCG Coordination grant, funded by a grant. As we begin to phase out the use of the MSCG grant for Association core services and as we continue to under-charge on indirect rate recoveries, the burden shifts predominately to dues***. Put differently, any choice to recover less than our actual overhead rate is a decision to subsidize the administrative needs of grant funded positions using member dues.***



In a typical year AFWA administers between 40 and 60 active grants ranging from $1,200 to $300,000 each. It is estimated that raising the indirect rate on grants to 30% where allowable, while still maintaining the 20% cap on MSCG funds, would have increased recovery of overhead expenses by $167,000 in 2014.

It should be noted that raising our indirect rates while phasing out our MSCG Coordination grant will have a positive impact on funds available in the MSCG pool.

**Recommendations**

- AFWA should increase its indirect rates to more accurately reflect actual overhead. For MSCG grants the Association should consistently charge the 20% cap. *For other grants we should charge 30% unless otherwise restricted.*

## FUNDRAISING & AWARE

AWARE is a 501(C)(3) created to receive donations that cannot be given to AFWA, a 501(C)(6). While there are important IRS rules governing how funds are raised through AWARE, the important distinction is that the existence of AWARE allows AFWA to raise funds from individuals, foundations and corporations from which AFWA cannot.

AWARE has been successful as a tool to support the legal strategy and to receive a Doris Duke grant. AFWA staff have recently subscribed to grants research software to facilitate the process of finding donors who would support causes similar to our own.

There is certainly significant opportunity to raise funds in this manner. However, to appreciably expand our fundraising efforts the Association will require additional staffing to research and apply for funding.

Recommendations:

- AFWA should evaluate the creation of a fundraising committee tasked with identifying and applying for financial support.

- AFWA should evaluate other potential fundraising options (e.g., planned giving, voluntary contributions) as well the resources that would be required to administer any new programs.

## AFFINITY PRODUCTS

Membership organizations have increasingly focused on raising non-dues revenue through affinity products. The general concept is to market and sell products to members. The organization benefits through a percentage of the sales revenue. Members benefit through discounts and easy access to customized products. For affinity products to work several factors need to be present:

- Access to enough members to make the products profitable;
- Identification of products that are perceived as truly beneficial to members; and
- Efficient and effective marketing channels.

AFWA staff and President Larry Voyles have begun a conversation with Lockton Affinity, a firm that provides the National Rifle Association with its affinity products, to evaluate the potential for marketing affinity products to AFWA. It is too early in the process to determine the potential for affinity products at AFWA. As of the first week of September, significant progress has been made identify a new affinity product.

## ALTERNATIVE MODELS – FEES FOR SERVICES

Some associations have been successful collecting fees for services to members and non-members using existing resources. Examples of this can include:

- Charging a fee for management services;

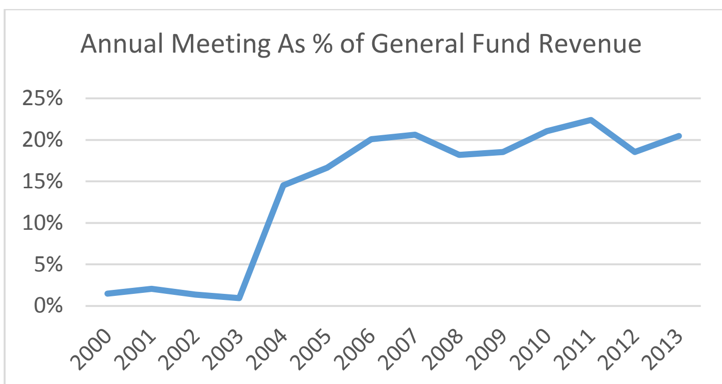
- Charging a fee to host web sites for affiliated organizations;
- Charging for legal services; and
- Charging for accounting services.

The down side to these programs is the potential to detract from staff time and resources available to members as well as conflict between member services and fee-based services.

AFWAs legal staff have begun looking into the possibility of providing certain legal services for fees. This process is still in its infancy.

## ANNUAL MEETING

The annual meeting has become an increasingly significant contributor to AFWA's budget. Even so, the main objective of the annual meeting is not to generate profit. Rather, the annual meeting is one of the most important venues for achieving AFWA's strategic and programmatic objectives. Therefore, a careful balance needs to be maintained between increasing meeting profitability and maintaining a high quality experience for registrants.




Recommendation:

- AFWA should investigate ways to enhance annual meeting revenue. Specifically, plans should be developed to expand sponsorship opportunities without detracting from the quality of the meeting overall.

**Exhibit 1: AFWA Staffing by Funding Source, 2014**

| | DUES | GRANT |
|---|---|---|
| Executive Director | 50% | 50% |
| General Counsel | 25% | 75% |
| Legislative Director | 100% | - |
| Wildlife Diversity Director | 100% | - |
| Communication Director | 50% | 50% |
| International Relations Director | 75% | 25% |
| Professional Development Director | - | 100% |
| Operations Director | 100% | - |
| Accounting Manager | 100% | |
| NFHP Comm Coord | - | 100% |
| Science Coordinator | - | 100% |
| Wildlife and Energy Liaison | - | 100% |
| Executive Assistant | 100% | - |
| Administrative Assistant | 100% | - |
| Migratory Bird Coordinator | - | 100% |
| Climate Adaptation Asst | - | 100% |
| MAT TEAM (5 positions) | - | 100% |
| Amphibian Coordinator | - | 100% |
| Furbearer Research Coordinator | - | 100% |
| Legal Strategy Attorney | - | 100% |
| MSCG Coordinator | - | 100% |
| Accounting Assistant | 100% | 0% |
| Legislative Assistant | 100% | 0% |
| Farm Bill Coordinator | 35% | 65% |
| Total Salary | $790,000 | $1,112,000 |
| Percent of Total Salary Expense | 41% | 59% |