November 11, 2019

To: Board of Directors

From: Kate Fritz, Executive Director
       Jaja Leroux, Director of Finance

Subject: Fiscal Year 2020 Budget

We are pleased to present the Board with the draft FY2020 Budget. The intention of this memo is to lay out the opportunities, assumptions, and risks that were factored-in when creating this projection for the next year. Data and information from each Program Director was collected to inform this process – transparency and financial literacy were paramount tenants that drove this process.

We believe the 2020 budget is realistic, in keeping with our progress over the last two years and accounting for our projected growth in the coming year. We estimated income from active grants carrying over into 2020, including salary, fringe and indirect. We asked State and Program Directors to provide us with their projected grants for 2020, including grant amount, duration and likelihood (percentage) the Alliance would receive the grant. We used the percent chance of receiving the grant by the 2020 expected amount, and used a median start date of July 1, 2020. Salary, fringe and indirect were similarly calculated. We added these projections to in hand grant income/indirect in order to arrive at our estimated temporarily restricted program (grant) income and indirect. The amounts are also in line with 2018 and 2019 actuals.

Program income and sponsorships projections decreased in 2020 due to two main factors. One is that DC RiverSmart copays ($45-$50K/year) are now restricted to the grant and cannot be considered program income. In prior years, grant income generated from these copayments was not formally restricted by the grantor. For this new grant, DC Department of Energy & the Environment (DOEE) specifically restricted the use of copayments to the RiverSmart grant. Because of this, we removed the line item from program income and included it in restricted grant income.

And secondly, we are in a holding pattern with Businesses for the Bay (B4B) and Project Clean Stream (PCS) and therefore omitted the estimated income from these programs. There are programmatic issues with B4B and PCS, and when these issues are resolved, there will still be funding issues to consider. The Board will be meeting on November 14th, 2019 to discuss future plans for both of these programs. This need for a strategic decision is the reason they have not been included/budgeted for in the 2020 budget. From a finance perspective, the Finance Team needs to be involved in these discussions since at present there is no defined plan to finance or staff these programs.

Donation projections remain consistent with prior years, a more attainable goal for 2020 given the projection for 2019 donation income. The Events Fundraising income line includes projected income for the Taste, as well as other fundraising events held during the year.

Operational expenses are projected to increase by approximately 8.34% from projected 2019 actual expenses. Personnel expenses are up about 15% over 2019 projections. The increase in personnel expenses includes a 2% cost of living increase for all staff, the addition of two new programmatic staff positions: a Local Government Program Support person, part time (100% grant funded), and a DC Program Coordinator, full time (100% grant funded). Because these staff additions are grant funded, they will increase our indirect recovery as well.
Executive Summary:

In 2019, the Alliance worked through a strategic plan process which re-committed the Alliance to the work we have always carried out. There are four goals laid out in the plan, which include: Broaden and Leverage Impact, Build Cross-Sector Partnerships, Differentiate and Build the Brand, and Ensure Sustainability for the Next 50 Years. The last goal is related to the funding work of the Alliance, and includes a strategy related to diversifying and expanding revenue models to increase unrestricted funding available to the organization. As we prepared the 2020 Budget, it once again became clear that having funding sources that are 95% restricted for the entire organization continues to be a barrier in achieving some of the goals that the organization has set out, including hiring more administrative staff.

Highlights from 2019 include:

- 79 grants in-hand, with 21 new grants secured in 2019
- 25 Grants closed (multiple READY grants, Forum related grants, USFS Riparian Buffer Implementation, Trees for Tomorrow and smaller grants)
- 29 full-time and 5 part-time staff. Hired 6 new staff.
- Expanded space in our existing building in Richmond, VA, signing a 7 year lease
- Fully rented the downstairs space at our Annapolis headquarters office.
- Improved both the exterior and interior of Annapolis headquarters at landlord’s expense.
- 2016/2018 Indirect Cost Rate negotiation began with approved 2018 financial statements. The Alliance’s initial proposal should be ready for submission in the next two weeks.

One of the top priorities for the Alliance continues to be to attract and retain great staff talent. In the last two years, the Alliance has been able to greatly increase the benefits offered to staff. A summary of these increases is included below:

- A 2% cost of living increase in 2019 and again in 2020, for all staff.
- 100% healthcare coverage for the employee of a base healthcare plan. Employees have the option to upgrade to a Gold plan and pay the difference between the two. Only the cost of the silver plan is covered by the Alliance.
- Parental Leave Policy, which covers 60% of staff salary for 6 weeks for maternity, paternity, and adoption-related leave. This benefit is available to staff one year after their start with the Alliance. This plan was implemented in 2018 and remains the same for 2020.
- Updated the Innovation Fund to be expanded to be the Professional Growth and Innovation Fund, in order to dedicate funding for staff to tap into for training, conferences, and other professional development-related needs.

Highlights of the 2020 Budget Proposal:

- **New Budget Format:** after discussions with the Finance Committee, the finance team prepared a budget that provides a higher level, more succinct budget for board review and discussion.

- **DC Office Space:** We are in the process of looking for an expanded space for our DC office. We are hopeful that we will find a suitable location at a reduced or pro bono rate, but have included $50,000 in Rent and Utilities for this expense.
● **Cost of Living Increases:** A 2% increase in salary (cost of living) is budgeted for all employees in 2020. This is what we know, at a minimum, our grants can support. In creating the 2020 budget, we assumed a 2.5% increase in wages across all staff, allowing an extra 0.5% to be allocated for performance-based increases, grants permitting, as determined by staff supervisors in conjunction with the Executive Director.

● **Retirement Plan:** Currently, the Alliance offers two 403(b) retirement plan investment options to staff with no employer match. It is our plan to offer a matching retirement plan beginning in 2020. This expense is included in our fringe rate in personnel expenses. If approved, we plan on a standard 4% match this year, allocated mainly to grants. This added benefit is in line with our goal of retaining existing staff and being competitive in recruiting talented, new staff.

Retirement matching funds will be covered entirely by grants for the majority of staff. Admin/Development staff funds would be covered by indirect or unrestricted funding and should not impact the bottom line. Our grant fringe rate will increase slightly, which should be a non-issue for our funders. When our fringe rate goes up, the indirect accrued from those grants also goes up (as it is a percentage of wages and fringe). In other words, for every $10.00 we spend on grant staff fringe, we recoup an additional $4.75 in indirect using our negotiated indirect cost rate or NICRA. Since more than 70% of our personnel budget is grant-funded staff, we believe the increase in indirect tied to the increase in grant-fringe would entirely cover matching retirement funds for non-grant staff as well.

● **Payment to Operating Reserve:** We eliminated the Payment to Operating Reserve for 2020. This line item increased our budgeted expenses by $50,000 every year and is unrealistic. It was originally titled “Repayment to Unrestricted Funds” to make the Alliance debt-free. When this was accomplished in 2014, the label was changed to “Payment to Operating Reserve.” It is not an actual expense and labeling it as such misrepresents what it really is, an inaccessible, “reserve” account. In reality, funds that remain at year end, our net assets, are essentially a working reserve; one that we hope to build on every year. We move funds into our money market account as often as possible, but need the ability to access those funds to cover expenses when cash flow is tight due to the timing of receivables. For 2019, we are hoping to show a positive change in net assets of approximately $92,000.

**Assumptions:**

- The budget assumes a 10% increase in operational expenses over 2019, and 9.8% increase in income. This increase is in part due to additional office expenses, including a budgeted DC expansion, as well as increased space in both our Pennsylvania and Richmond offices. Another factor is an increase in Development staff salaries without a corresponding increase in Development gains. There are no new non-grant positions in the budget.

**Notes:**

- **Federal Funding:** The Chesapeake Bay Program funding continues to be a risk to the organization, but a recently passed budget has included 100% funding to the Bay Program. This funding comprises approximately 54% of our income for 2020, and we will continue to monitor the political climate around this federal funding.
Of the 79 grants in hand, 17 of these represent the bulk of our restricted income. This does not diminish the importance of the remaining 62 since not only is the work important, but many of them serve as match for the larger grants. Of these 17, the largest, most profitable for the Alliance are three Environmental Protection Agency (EPA), three DC Department of Energy and the Environment (DOEE), and six National Fish and Wildlife Foundation (NFWF) grants; the balance are other Federal and State grants. These 12 grants generate the bulk of our indirect recovery. All three EPA grants are up for renewal in early/mid 2021. One of the DC grants ends this year and must be recompeted; the remaining two DC grants were awarded in late 2018 and end in November 2020, but both have extension option possibilities. The NFWF grants end mainly at the end of 2021. We are continually looking for new grant opportunities, but these scenarios highlight the importance of seeking out unrestricted funding through foundation support, corporate sponsorships, individual donors and other unrestricted sources.

Our average indirect cost recovery on grants was approximately 39% in 2018, is projected to be 43% in 2019 and estimated at 39% for 2020. The lower indirect recovery projection for 2020 over 2019 is an intentionally a conservative projection, but we have some large grant balances in non-staff time that need to be expended in 2020 that do not usually generate indirect.

- **Fund Development:** The organization has done an exceptional job managing indirect recovery on its grants, but remains challenged on how to diversify the unrestricted funds available to the Alliance. Several new, small-scale initiatives were undertaken in 2019, such as Board-hosted house parties, the Wild and Scenic Film Festival, and Crab Cake Week. The Development Committee and staff have created event proposal criteria in order to understand the upfront expenditures of the proposed event, in order to advance events that make programmatic, brand-related, and financial sense to the organization. These events are beginning to move the needle, but more significant unrestricted revenue streams need to be brought to the organization in 2020 and 2021 in order for us to significantly shift away from 95% restricted funding.