

LUMBERJACK STRATEGIC FINANCIAL & PROJECT PLAN 2016-2018



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INTRODUCTION

This document is the Strategic Financial and Project Plan for Lumberjack Resource Conservation and Development (RC&D) Council, Inc. The purpose of this plan is to provide a strategic direction for the organization. The council is financially sound, but continued effort is needed to ensure a strong sustainable organization that serves the communities in our area.

Lumberjack RC&D Council, Inc. is located in northeastern Wisconsin, and includes member counties Florence, Forest, Langlade, Lincoln, Menominee, Oconto, Oneida, Shawano and Vilas. Lumberjack's service area also includes Marinette County, the Forest County Potawatomi Community, Lac du Flambeau Band of Lake Superior Chippewa Indian Reservation, Menominee Indian Reservation, Sokaogon Chippewa Community of Mole Lake and Stockbridge Indian Reservation.

ORGANIZATIONAL OVERVIEW

Vision Statement

Sustainable Resources for Vibrant Communities

Mission Statement

Lumberjack Resource Conservation & Development Council, Inc., a multi-county, nonprofit in Northeastern WI, strives to enhance area natural resources, promote a higher standard of living and improve the quality of life for area citizens by fostering partnerships between public and private sectors and strategically investing in area natural resources.

COUNCIL BACKGROUND AND STRUCTURE

Lumberjack Resource Conservation and Development (RC&D) Council, Inc. is a tax-exempt, 501(c)(3) non-profit organization with State of Wisconsin charitable status that was established in 1968 under the authority of the Federal Agriculture Act of 1962. The Council operates under the premise that local citizens, with coordinated assistance provided by cooperating local, state and federal entities, can plan and carry out activities to address area resource conservation and development issues they have identified.

County Boards of Supervisors and county Land Conservation Committees sponsor the Lumberjack RC&D Council by providing one representative and one alternate to the Council Board of Directors. Lumberjack is organized under the standing committee structure with the following active committees: Agriculture & Energy, Executive, Finance & Contracting, Forestry, Personnel & Special Events and Recreation/Tourism & Rural Development. Individual committees are comprised of a chairperson appointed from the Board of Directors and volunteer members from the Lumberjack area. The Council meets quarterly to conduct business and committees meet as-needed.

Area boundaries for projects approved by the Council are determined by the extent of the resource concern or opportunity, not by the administrative boundary of the Council.

FOREST INVENTORY ANALYSIS (FIA) & WISCONSIN CONTINUOUS FOREST INVENTORY (WICFI)

Lumberjack has two contracts, the Forest Inventory Analysis (FIA) and the Wisconsin Continuous Forest Inventory (WiCFI) that have provided a means of sustainability for the Council. FIA is a nation-wide forest inventory carried out by the USFS. The Forest Service is responsible for measuring a given number of base level plots in each state. In Wisconsin, the number is around 520 per year and the data collected from a system of permanent plots allows annual tracking of forest conditions. WiCFI reports on the condition of Wisconsin's state forests by collecting data in the same fashion as FIA. WiCFI provides unbiased and reliable information at the property level and together with FIA data provides the ability to compare to regional trends. The data is also used to assist state forest planning, management, and monitoring. The information collected from both programs is used to track the status and trends in forest extent, cover, volume, growth, mortality, removals, habitat and overall health.

Lumberjack's forestry programs began in 1994 with the United States Forest Service's (USFS) Forest Health Monitoring program (FHM) in Wisconsin. At that time the monitoring work was awarded in the form of a grant. In 2000, the FHM program (now called P3) was incorporated into the Forest Inventory Analysis (FIA) program. At the same time, FIA went from a periodic to an annual inventory. Previously FIA had been accomplished by permanent DNR employees. With the change to annual inventory, 14% of the total plots in Wisconsin are inventoried every year, with each plot revisited every seven years. With this change the DNR also made the decision to have these projects sent out for bid. Lumberjack saw this as an opportunity and was the successful bidder in 2000.

Since 2000, Lumberjack's inventory crews have worked on a variety of projects under the FIA/WiCFI (Wisconsin Continuous Forest Inventory) project umbrella, including Wisconsin FIA, Michigan FIA, WiCFI, WiCFI Habitat Typing, Wisconsin Urban FIA and USFS Wisconsin Ozone. Lumberjack continues to have an excellent work relationship with the USFS on both a supervisory and field level.

Lumberjack has successfully rebid these projects in 2004, 2009 and 2014. Successful bids have been due to the fact that Lumberjack has a highly-trained crew with a history of passing USFS quality checks with an average percentile score in the high nineties. Lumberjack's FIA Supervisor has a BS and MS degree in Forestry and has managed the crew since 2001. He currently supervises a crew of four employees with a variety of experience. The current FIA/WiCFI personnel have a collective FIA experience of over 50 years.

Each FIA plot covers 1/6 acre and each CFI plot covers 1/12 acre. Data collected includes tree species, diameters, heights, damages, log grades, forest type and other information as needed. Lumberjack turns the raw field data in to the USFS. The data is used by several entities and often it is data collected by Lumberjack foresters that is used as the source for news reports on the state of Wisconsin's forests.

The current contract ends September 30, 2018. Due to the requirements for a skilled, experienced crew, Lumberjack was the sole bidder on the current contract.

SUSTAINABILITY OVERVIEW

INCOME SOURCES

FIA/WicFI: Lumberjack's retained earnings have mainly come from excess funds from these contracts. It should be noted that changes can be made to the FIA timeline by the USFS that may affect income.

MEMBERSHIP DUES: Lumberjack charges dues of \$200 annually to participating counties in our resource conservation area (see map page 5.)

ADMINISTRATIVE INCOME & FISCAL SPONSORSHIP: Lumberjack realizes 10% administrative income each month from FIA/CFI contracts. Lumberjack is also a fiscal sponsor and administers contracts and grants for a fee between 10% and 15%. Prior to December 2014 when the Office of Management and Budget (OMB) ruled non-profits must be awarded at least a 10% administrative fee when administering government grants, Lumberjack typically charged anywhere from Zero to 10%, which offset some, but not all, operating expenses. Since the ruling, Lumberjack has begun requiring 15% and including payroll expenses when determining wages on all new grant applications. Prior to commitment of fiscal sponsorship, grants will be reviewed to ensure they meet the mission of the council and benefit Lumberjack. Lumberjack also participates in the 'match' portion for some grants, donating office space, office supplies, office staff, etc. In these cases, zero to less than zero financial benefit is gained but participation furthers the Lumberjack mission.

INTEREST INCOME: Interest on CDs and a money market account currently earn an average .73%.

HISTORICAL DECISIONS AFFECTING US NOW

- 1) Lumberjack has maintained a healthy amount of retained earnings over the years; enough so that the board decided to offer generous grants to worthy projects meeting Lumberjack's mission. However, they also noted that granting funds in excess of annual retained earnings (see "PROJECTION" page 8) is not sustainable and a long-term financial plan would be needed.
- 2) A component was built into the FIA bid budgets for several years to set aside monies for replacing vehicles and other equipment. Other than payroll, maintaining a fleet of reliable vehicles is the largest expense for FIA. Due to the fact that Lumberjack's crew has been diligent in prompt maintenance, the vehicles have lasted longer than anticipated.¹ In an effort to remain competitive and because of the high amount of retained earnings, the FIA Supervisor and the Executive Committee eliminated the vehicle replacement component from the bid a few years ago. They also, at the same time, made a requirement that a portion of retained earnings be set aside for the purchase of three new vehicles and for payout of comp/vacation should the program fold.

The combination of the two items above has had a significant impact on Lumberjack's net worth in past few years. Income has gone from an annual average of \$148,632 in the three years between 2007 and 2009 to an annual average of \$41,141 since.

¹Currently, Lumberjack has a fleet of one 2003 Toyota Tacoma, two 2007 Toyota Tacomas and two 2010 Toyota FJ Cruisers. It can be expected that the 2003 will have to be replaced in the near future, with the 2007 vehicles a few years later. Replacing these vehicles will decrease Lumberjack's retained earnings by approximately \$90,000 in the next five years.

PROJECTION

The chart below shows the average projection of income and Lumberjack grants based on 2010 & 2011 figures that still hold true as of September 2014. It can be noted by this projection that Lumberjack's retained earnings are depleting at a rate of approximately \$25,000 per year. While in the past spending down of these retained funds may have been appropriate, based on the depletion rate, it is time to implement a sustainable plan. In August 2015 the FIA Supervisor and the Office Manager began the process of developing a sustainable formula that allows for both growth and grants.

This projection is based on FIA/CFI contract income & Lumberjack grants remaining the same

PLAN YEAR 1	Retained earnings as of 12/31/2013	776,173
	Income - Based on averages since 2010	41,141
	Less	
	Grants	
	Given	<u>-66,758</u>
	Retained earnings as of 12/31/2014	750,556
PLAN YEAR 2	Retained earnings as of 12/31/2014	750,556
	Income - Based on averages since 2010	41,141
	Less	
	Grants	
	Given	<u>-66,758</u>
	Retained earnings as of 12/31/2015	724,939
PLAN YEAR 3	Retained earnings as of 12/31/2015	724,939
	Income - Based on averages since 2010	41,141
	Less	
	Grants	
	Given	<u>-66,758</u>
	Retained earnings as of 12/31/2016	699,322
PLAN YEAR 4	Retained earnings as of 12/31/2016	699,322
	Income - Based on averages since 2010	41,141
	Less	
	Grants	
	Given	<u>-66,758</u>
	Retained earnings as of 12/31/2017	673,705
PLAN YEAR 5	Retained earnings as of 12/31/2017	673,705
	Income - Based on averages since 2010	41,141
	Less	
	Grants	
	Given	<u>-66,758</u>
	Retained earnings as of 12/31/2018	648,088

ASSUMPTIONS IN CREATING A LONG-TERM FINANCIAL PLAN

- There is always the risk that Lumberjack's principal source of income (WDNR inventory contract) could be reduced in size or lost altogether. A long-term financial plan put together now could not only help smooth the way for future members, but also assure Lumberjack's continued existence. Assumption: Lumberjack will continue to win the FIA/CFI contract with the DNR and if not, Lumberjack could exist for some time if it maintains a healthy balance of retained earnings along with a solid financial plan.
- Every several years, the Council researches investment options to receive the best rate within a safe product. Precedence has been that the Council is not willing to risk their principal and has chosen to leave their dollars in CDs. Knowing this strategy limits investment choices, the Council has decided this strategy should be revisited from time-to-time. It was revisited again in 2015 and one result is this plan that includes a safe, sustainable investment strategy allowing for growth as well as grants. Assumption: Lumberjack's retained earnings will be invested in no-risk to low-risk accounts. The investment account will be a cash generating account (as opposed to reinvestment of dividends/interest.)
- Lumberjack accepts the premise that it will grow (not deplete) retained earnings, contrary to its 2014 Area Plan.
- Based on the current method of accounting, with so many variables involved, compiling even semi-accurate data has proven to be impossible. For this reason, the Strategic Financial Plan will revolve around specific end-of-year balances for several key line items, ie: Administrative Fee Income, Interest Income & Dues Income all from Class 01 Jan-Dec Profit & Loss Statement; FIA Net Income from Jan-Dec Profit & Loss Statement; Total Expenses from Class 01 Jan-Dec Profit & Loss Statement as well as the Checking Account, Retained Earnings, FIA Reserve Fund & Other CDs. Assumption: Lumberjack continues to use the current accounting methods and software for which these reports can be generated.
- Lumberjack will continue to use a portion of retained earning each year to fund projects brought forward by member Counties.
- Based on the Council's requirement that a portion of retained earnings be set aside for the purchase of three new vehicles and for payout of comp/vacation should the program fold, it is assumed that adopting a Reserve Policy/Fund would meet this requirement.

THE PROPOSED FINANCIAL PLAN

This proposal divides Lumberjack's revenue between two sources:

- 1) Project Contracts (net profit from contracts, dues & overhead - below-cost operation)
- 2) Investment Income (Checking Account, CD Interest, Bonds, Annuities, etc.)

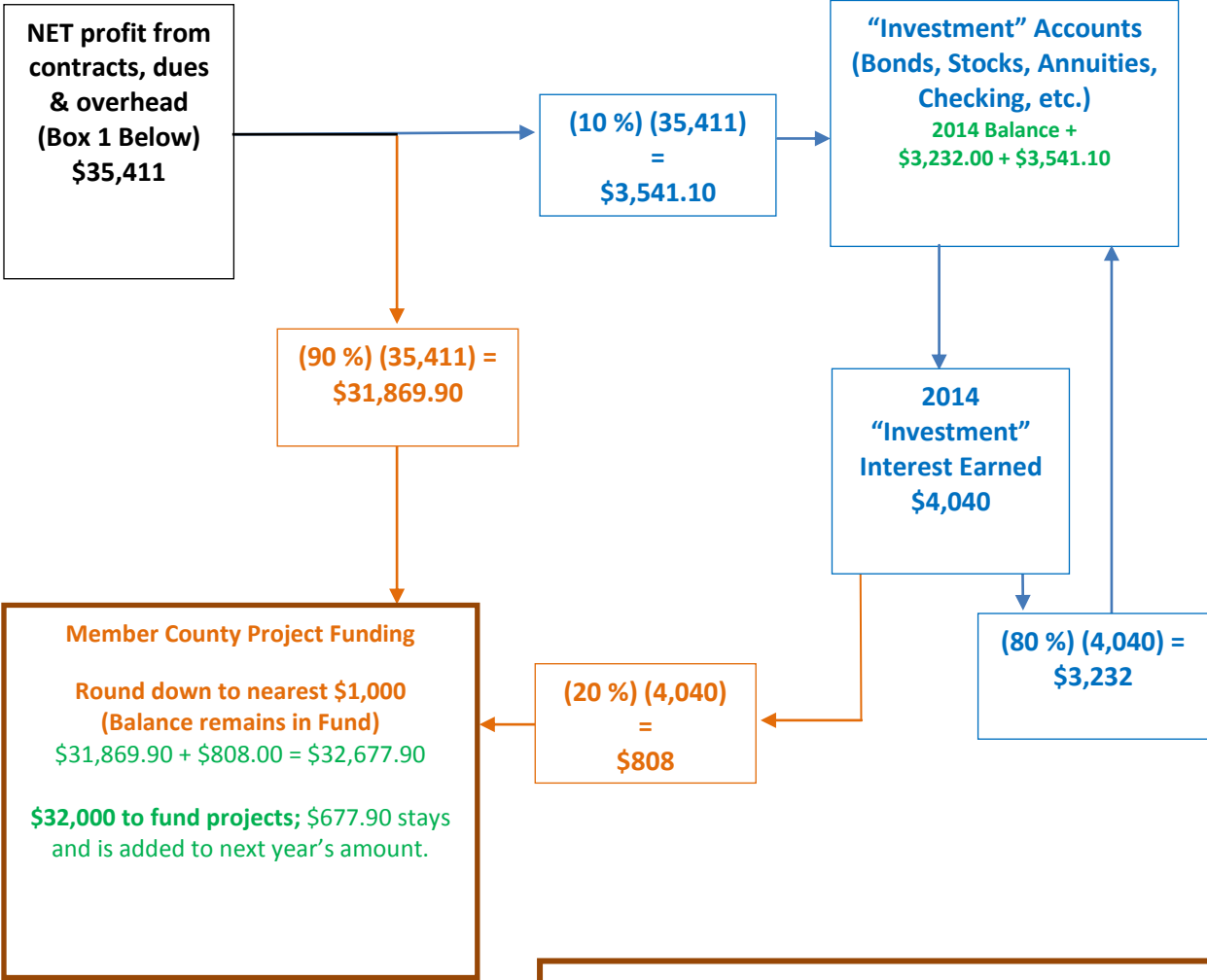
Separating income into two categories (as opposed to looking at a single bottom line) helps paint a clearer picture of where Lumberjack's net income is coming from – contracts or earnings.

The Strategic Financial Plan is to designate 90% of Project Contracts Income and 20% of Investment Income to fund county projects. The remaining 10% of Project Contracts Income and 80% of Investment Income will be reinvested to realize an annual net gain in principal.

The actual dollar amount that will go to fund county projects will be based on the last available full year's data for the council using line items discussed above. The example shown in the flow-chart on page 10 shows the 2016 funding level is determined in 2015 based on net income from 2014, the most recent year of complete data. This is a way to guarantee that Lumberjack does not continue to deplete its principal.

Based on 2014 and 2015 granting levels (\$75,000 each year), this financial plan will drastically reduce the dollars going to county projects, at least for the near term. There is also the possibility that the amount of funding available year-to-year will vary greatly, at least initially. Nonetheless, as investment income becomes an increasingly larger part of county project funding, year-to-year variability should be minimized.

EXAMPLE: Using 2014 Year-End Figures, the plan shows:



BOX 1

1. 2014 NET profit from contracts	\$32,526
2. Administrative Fee Income	\$53,528
3. County Dues	\$ 1,800
4. RC&D Expenses	<u>\$52,443</u>
5. Lumberjack NET Profit	\$35,411

FIA RESERVE FUND

For sustainability and planning purposes, the Lumberjack RC&D Council has determined that a sufficient amount of funds be available for the inevitable purchase of FIA vehicles. In addition, the Council believes it is prudent to plan for a scenario in which Lumberjack would be required to pay outgoing employees their earned compensatory time and vacation time. According to the formula below, funds will be placed in a special Reserve Account to be used only in the above mentioned circumstances. The fund will be analyzed annually and will either be reduced or increased according to the variables in the formula. This policy and/or calculation may be changed at any time by the Council.

1) Flat \$75,000 (Three vehicles @ \$35K each less \$10K trade-in of current vehicle.)	\$75,000
2) COMP TIME- 200 Hours Per Employee (Based on the annual average of each employee wage plus 10% payroll expenses.) 2015 Figures: <u>Five employees average wage is \$23.94 plus 10% = 26.33 X 200=\$5030</u>	\$ 5,266
3) VACATION TIME – 200 Hours Per Employee (Based on the annual average of each employee wage plus 10% payroll expenses.) 2015 Figures: <u>Five employees average wage is \$23.94 plus 10% = 26.33 X 200=\$5030</u>	<u>\$ 5,266</u>
TOTAL	\$85,532

Lumberjack RC&D Council, Inc.

STRATEGIC PROJECT FUNDING PLAN

Based on the financial plan, the Council anticipates project funding requests in excess of what the plan allows. As a result, the Council will strategically invest in projects based on the rating system below which is aligned with Lumberjack's Vision and Mission.

Vision Statement: *Sustainable Resources for Vibrant Communities*

Mission Statement:

Lumberjack Resource Conservation & Development Council, Inc., a multi-county, nonprofit in Northeastern WI, strives to enhance area natural resources, promote a higher standard of living and improve the quality of life for area citizens by fostering partnerships between public and private sectors and strategically investing in area natural resources.

SCORED ITEMS

Mission Value Items – 70%

On a scale of 1 to 10...

1. Rate how the project enhances natural resources
2. Rate how the project promotes a higher standard of living
3. Rate how the project improves the quality of life for citizens
4. Rate how the project fosters partnerships
5. Rate how investing in this project furthers Lumberjack's overall vision of sustainable resources for vibrant communities.

Organizational/Instructional Value Items – 20%

On a scale of 1 to 10...

1. Rate how well the proposal followed Lumberjack policy & procedure

Presentation Value Items – 10%

On a scale of 1 to 10...

1. Rate the presenter's passion for their project
2. Rate the sufficiency of the answers to committee questions

The Council reserves the right to determine the number of projects and the amount of funds to each project based on overall score and funds available under the plan. The funding limit remains \$10,000. The Council will continue to work to improve and streamline the grant funding process.

This plan will begin with the 2017 funding cycle (January 2017). This plan assumes the status quo but should changes occur that require accommodations, the plan will be amended and all others will be void. Adopted 10/29/2015.