

## FINANCIAL PLAN (FY 2017 – FY 2021)

### Introduction

NACWA's *Financial Plan* charts a path for growth for the Association over the next five years (FY 2017 – FY 2021). Preparing a stand-alone *Financial Plan*, in addition to annual or multi-year budgets, is not a common practice for associations. Most associations consider their budget process, whether for one or several years, to be their 'financial plan'. The *Financial Plan* which follows will allow us to aggressively pursue our strategic advocacy and membership engagement objectives, linking the goals of the Association's *Strategic Plan* to key financial outcomes that we will strive to achieve over the next five years. While these aggressive goals will serve as a backdrop for our budget process, we will continue to present a fiscal year budget to the Board annually that is both conservative and attainable. Attaining the goals in the *Financial Plan* will provide revenue to the Association in excess of conservative budgets.

At the end of FY 2015, we restructured the staff and have been laying the groundwork for a number of new initiatives that we hope will reap great benefits. Several of our planned initiatives have not previously been tried and are, for that reason, experimental; however, we do anticipate that they will be successful. This *Financial Plan* is based on that assumption of success and is intended to be a living document that can be updated regularly and adjusted to reflect current targets, as required. This *Plan*, and our new *Strategic Plan*, will guide us as we work to achieve our strategic and financial objectives. Its success will require the engagement and support of every Board member, as well as committee leadership – and more broadly, the full membership of the Association. The important assumptions of the *Plan* follow.

### Financial Plan Assumptions – Revenues

#### Membership Dues

Membership dues are the largest source of the Association's revenue, representing 86% of NACWA's FY 2016 General Fund Budget. Membership has been generally flat over the last several years, with the Association gaining approximately the same number of new members (although not necessarily the same dues revenue) as those that did not renew their memberships. The following information captures trends in membership development and retention for FY 2012 – FY 2015 showing total dues for comparison purposes. It should be noted, however, that the loss for a dropped member is 100% of dues, while dues for new members joining are prorated by quarter based on when they joined in the given year, resulting in lower revenue in the initial year of membership.

#### FY12:

22 new members (\$145,552)  
14 non-renewals (\$103,810)  
**8 net gain (revenue gain of \$41,742)**

#### FY13:

11 new members (\$53,810)  
18 non-renewals (\$86,350)  
**7 net loss (revenue loss of \$33,170)**

#### FY14:

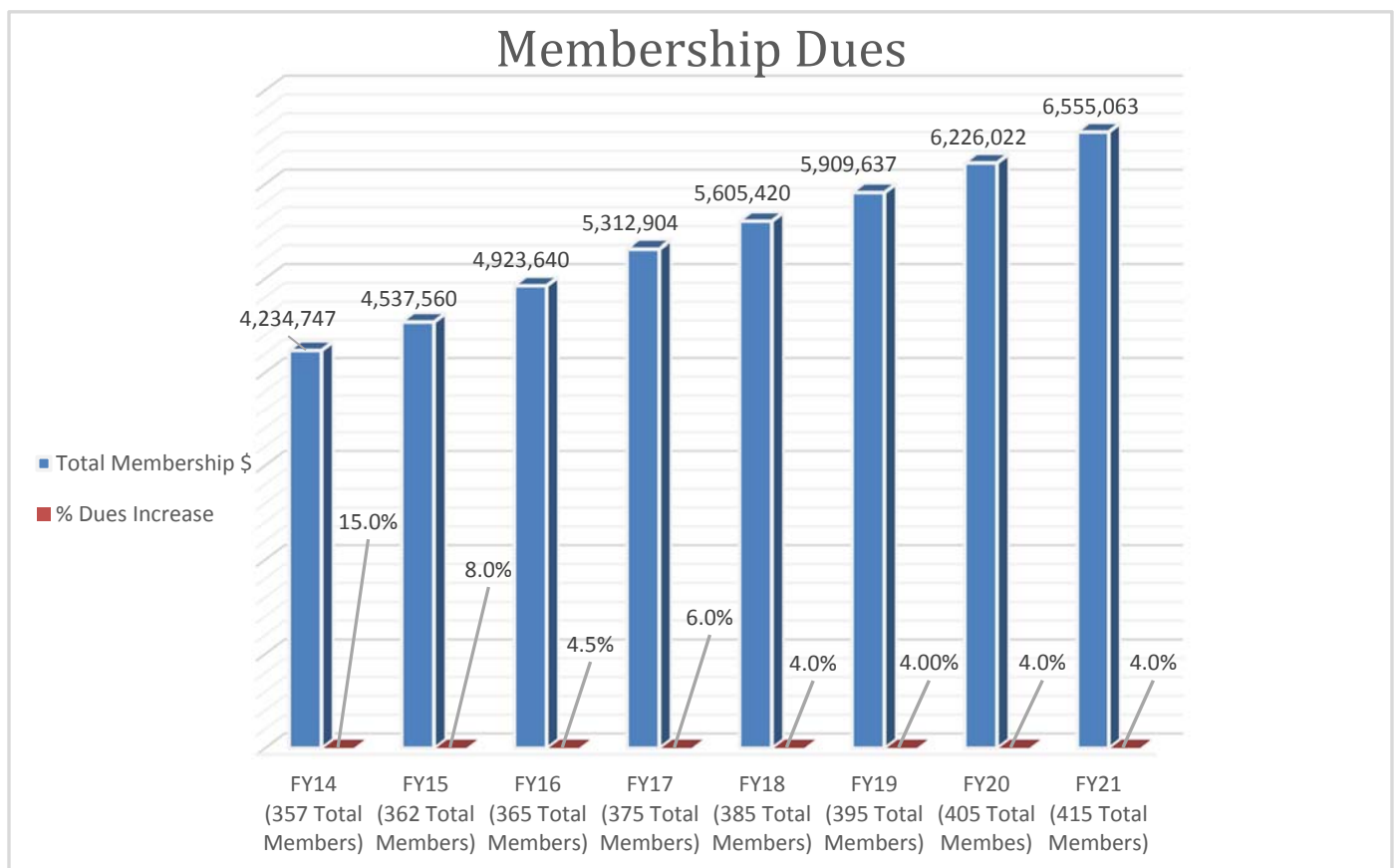
14 new members (\$96,010)  
16 non-renewals (\$160,760)  
**2 net loss (revenue loss of \$64,750)**

#### FY15:

20 new members (\$97,550)  
15 non-renewals (\$119,580)  
**5 net gain (revenue loss of \$22,030)**

This *Plan* identifies increasing our membership as a top priority for the next five years. Our goal will be a net gain of ten new members each year resulting in a total of 50 new members by the end of FY 2021. For planning purposes, we estimate that this will bring in an additional \$80,000 in membership dues income per year for years FY 2017 – FY 2021 noting, however, that dues paid will vary based upon the service area size of the joining agency. In order to accomplish this aggressive goal, we will focus first and foremost on increased engagement of large lapsed and non-member utilities, and utilities in the largest city in states where NACWA currently has no members. We will also evaluate our current Corporate Affiliate membership category to ensure that dues schedules effectively accommodate technology and financial companies that are playing increasingly important roles in the sector, yet are currently under-represented. Additionally, we will work to grow existing categories – focusing specifically on added benefits for, and promotion of advocacy initiatives; as they relate to, stormwater management agencies and small and medium-sized public utilities.

Furthermore, staff will increase member retention and development outreach during travel. The Association will support this effort through increased state and regional meetings, encouraging the participation of both current and potential members. These new and enhanced initiatives to grow membership can only be truly successful with the support and active involvement of the Board. Board members can be among our greatest ambassadors in encouraging new members to join, whether by encouraging peer utilities to join or highlighting the benefits of membership to potential new affiliate members doing work with your utility. We are grateful for the Board's commitment to make membership growth and retention a priority.



The *Financial Plan* calls for an annual dues increase of 4% for all membership categories for years FY 2017 – FY 2021 (with no membership dues cap). To fully realize the objectives of the *Strategic Plan*, we have identified the need for two new staff positions focused mainly on communications, marketing and public affairs. These positions can be filled with an additional 2% dues increase in FY 2017, and then the consistent 4% dues increases thereafter, resulting in a second position in FY 2019. This is reflected in the chart above which illustrates membership dues information for years FY 2014 – FY 2021.

### Meetings & Sponsorship Income

Meetings & Sponsorship Income is the Association's second largest source of revenue, representing 13% of NACWA's FY 2016 General Fund Budget. This is another area that we have targeted for growth over the next five years. The *Plan* includes an annual 4% increase in Meetings Income for years FY 2017 – FY 2021. We will focus on increasing attendance at meetings, exploring additional opportunities to lower our expenses, and increase registration fees (slightly), as necessary. We are also exploring ideas to encourage attendance by members who historically have not attended meetings, and we will continue to use meetings as a proven successful mechanism for converting non-members to members.

We have set a goal to increase our sponsorship revenue by 5% per year for years FY 2017 – FY 2021. We will explore expanding our list of sponsorship benefits, and tailor benefits for new categories of membership, such as technology and financial companies. In addition, we will continue to pursue opportunities for the sponsorship of NACWA organized state and regional meetings. We will also evaluate potential opportunities for additional sponsorships associated with *Water Week*.

Meetings & Sponsorships is another area where the Board's support is crucial; if every Board Member would bring one additional new person with them to each NACWA meeting, we would well exceed our attendance goal for FY 2017. In addition, leveraging Board Member contacts to gain additional sponsors will keep our registration fees at current rates, provide us with the opportunity to enhance our meetings and workshops, and potentially increase our overall revenue.

The chart below summarizes the revenue goals for Meetings & Sponsorship Income. The target increase of 4% for Meetings represents approximately \$22,400 to \$25,200 per year in income and the target increase for Sponsorships of 5% represents approximately \$11,250 to \$13,025 per year over the next five years.

	<b>FY15 Actual</b>	<b>FY16 Budget*</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>
Meetings Income	558,003	516,450	560,000	582,400	605,696	629,924	655,121
Sponsorships Income	221,900	146,500	225,000	236,250	248,063	260,466	273,489
<b>Total</b>	<b>779,903</b>	<b>662,950</b>	<b>785,000</b>	<b>818,650</b>	<b>853,759</b>	<b>890,390</b>	<b>928,610</b>

\*The FY16 amounts represent the General Fund Board approved budget. Our goal is to exceed these amounts in FY16.

### All Other Income

Other Income represents the remaining 1% of NACWA's FY 2016 General Fund Budget. It includes income from investment interest, office space rental, *Clean Water Careers* job ad postings and publication sales. We will continue to look for opportunities to grow other income over the next five years.

## Financial Plan Assumptions – Expenses

### Salaries & Benefits

Salaries & Benefits expense is the Association's largest expense, representing 63% of NACWA's FY 2016 General Fund Budget. It is the staff, together with the guidance and support of the Board of Directors and membership, which drive the Association and ensure we meet our strategic goals and objectives. As noted, the *Plan* includes the addition of two new staff positions, in FY 2017 and FY 2019 respectively, to support and grow our communications and outreach efforts. We have also included a 4% increase to the Salaries line item each year to support staff market/range adjustments and incentive pay/merit bonuses, in line with NACWA's new *Compensation Philosophy*. Additionally, we have reviewed our benefit costs and have committed to limiting these to an increase of no more than 12% per year.

### All Other Expenses

Other Expenses represent the remaining 37% of NACWA's FY 2016 General Fund Budget. Our goal is to minimize these expenses while ensuring that we have the funds necessary to support the priorities identified in the *Strategic Plan*. We have limited annual increases for all other expense line items to less than or equal to 3% per year for years FY 2017 – FY 2021.

## Net Income/Change in Net Assets

It is important that NACWA have a positive net income goal every year to support our reserves and provide a cushion, as well as to reflect strong financial health for our members and stakeholders (i.e., National Office building mortgage lender). We have targeted an annual net income goal of \$25,000 for years FY 2017 – FY 2021.

## Summary

General Fund	FY15 Actual	FY16 Budget*	FY17	FY18	FY19	FY20	FY21
<b>Revenues:</b>							
Membership Dues	3,987,253	4,508,100	4,932,904	5,205,420	5,509,637	5,826,022	6,155,063
Meetings & Sponsorships	779,903	662,950	785,000	818,650	853,759	890,390	928,610
Other	27,685	82,000	35,000	35,000	35,000	35,000	35,000
<b>Total</b>	<b>4,794,841</b>	<b>5,253,050</b>	<b>5,752,904</b>	<b>6,059,070</b>	<b>6,398,396</b>	<b>6,751,411</b>	<b>7,118,673</b>
<b>Expenses:</b>							
Salaries & Benefits	3,078,792	3,313,825	3,666,492	3,896,048	4,219,733	4,492,508	4,788,670
Other	1,829,240	1,973,424	2,091,293	2,145,424	2,201,085	2,258,586	2,317,178
<b>Total</b>	<b>4,908,032</b>	<b>5,287,249</b>	<b>5,757,785</b>	<b>6,041,472</b>	<b>6,420,818</b>	<b>6,751,094</b>	<b>7,105,848</b>
Transfers	215,000	35,000	35,000	35,000	35,000	35,000	35,000
<b>Net Income/Change in Net Assets</b>	<b>\$101,809</b>	<b>\$801</b>	<b>\$30,119</b>	<b>\$52,598</b>	<b>\$12,578</b>	<b>35,317</b>	<b>47,825</b>

\*The FY16 amounts represent the General Fund Board approved budget. Our goal is to exceed the revenue and net income amounts budgeted for FY16.

## Targeted Action Fund

The Targeted Action Fund (TAF) continues to play a critical role in helping NACWA accomplish our strategic objectives by supporting numerous key Association initiatives and programs. The *Financial Plan* supports continued TAF growth as an integral part of achieving the goals and objectives outlined in the *Strategic Plan*. Growth in the TAF is tied to our General Fund revenue goals. We have targeted some of the additional revenue expected from membership dues growth to support the TAF by increasing the TAF dues allocation by \$13,500 in FY 2017 and \$20,000 in FY 2018. This will allow us to achieve the goal of a \$400,000 dues allocation to the TAF by FY 2018. Once this target level is reached, the TAF dues allocation will remain at \$400,000 for future years (FY 2019 and beyond).

In November 2015, NACWA's Board of Directors approved the creation of a *TAF Resilience Fund* to provide funding to respond quickly to urgent, unanticipated requests. The goal is for the *Resilience Fund* to reach \$500,000 in ten years (FY 2026). The Board approved initial funding of \$70,000 for the *Fund* from FY 2015 unallocated TAF Funding. In future years, 40% of all carryover funds (unallocated general TAF funding) will be allocated to the *TAF Resilience Fund* on an annual basis, until we reach our goal of \$500,000, noting that the Board could make exceptions to this practice, as deemed necessary. Monies in the *Fund* can be utilized subject only to the approval of the Board of Directors.

Unallocated TAF funds, in any given year, would support both the *TAF Resilience Fund* (40%) and the general TAF (60%) as carryover to increase the funding available for achievement of our advocacy goals and objectives. The TAF dues allocation increases, together with the newly created *TAF Resilience Fund*, will ensure that the TAF has the resources needed to accomplish its objectives well into the future.

We believe that a target of \$400,000 in unallocated general TAF funds is sufficient to accomplish the goals and objectives outlined in the *Strategic Plan*. At the same time, a *TAF Resilience Fund* of \$500,000 (by FY 2026) would provide NACWA with the ability to address unforeseen regulatory, legislative and legal issues that might arise. If these targets are reached it would lead to an overall funding level of \$900,000. This amount could be exceeded if there are carryover amounts of unallocated TAF funds from the prior year. In line with this, we recommend the TAF have a cap of one million dollars (\$1M) calculated as the total unallocated balance in the general TAF and *TAF Resilience Fund* at fiscal year-end. If the \$1M cap is reached, we will reduce the amount of the next years' dues allocation to TAF by the amount of the overage.

TAF	FY14	FY15	FY16*	FY17	FY18	FY19	FY20	FY21
Dues Allocation	500,000	550,000	366,500	380,000	400,000	400,000	400,000	400,000

\*In FY16, we moved TAF projects and project funding totaling \$233,500 to the General Fund. These projects are budgeted out of the General Fund in future years. Also, the FY16 amount does not include the carryover of unallocated FY15 TAF funding of \$120,000 (note that the total carryover was \$190,000 but \$70,000 was allocated to the *TAF Resilience Fund*).

## Reserves

Our reserves are strong, providing security and flexibility for the future. The *Financial Plan* supports reserve growth with a proposed modification to the Association's *Reserve Policy* - from a targeted minimum reserve level of one million dollars (\$1M) - to a minimum reserve level of \$1M with a target reserve level of 25% of annual (General Fund) budget. Increased operating reserves will ensure that

NACWA has the resources available to both absorb risk and respond to new opportunities. Although the *Plan* provides for maintenance of the minimum reserve level, we will not meet the new target reserve level of 25% of annual budget for years FY17 – FY21. This is an issue for continued dialogue by the NACWA Board of Directors.

We will maintain our minimum target reserve levels for both our Operating Reserve (target \$1M) and our Building Improvements Reserve (target \$200K) for years FY 2017 – FY 2021. In order to meet our minimum reserve levels, the *Plan* calls for the transfer of \$100,000 from excess Operating Reserves to Building Improvements Reserve per year for years FY 2017 - FY 2019 and \$20,000 in FY 2020. The graph below reflects the year-end reserve balances after these transfers, net of expected expenditures (Building Improvement Reserve expenditures are identified per NACWA's 5-year Building Improvement Plan).

We also have identified a long-term future goal of meeting our Operating Reserve target without the existing Line of Credit (the line of credit is for \$500,000). This should be considered as part of our due diligence when evaluating our options prior to the National Office Building mortgage term expiration in FY 2024.

