BY Kirsten Ferguson

FOREVER is a Long Time

CALCULATING THE COST OF PERPETUITY

Several years ago a new board member of Colorado Cattlemen's Agricultural Land Trust (CCALT) posed a challenging question. "We were talking about our stewardship endowment and how much we have," recalls Carolyn Aspelin, CCALT's director of conservation transactions. "Our board member asked, 'Can you really ensure to landowners that you have enough money in the endowment to take care of every property you have forever?' "

The Halandras family of Cross L Ranch in the White River Valley protected the ranch with the Colorado Cattlemen's Agricultural Land Trust, which recently undertook a financial modeling analysis of its stewardship endowment so that it could reassure landowners that their projects will last forever.

CCALT

Once the accredited CCALT started looking into the issue of its stewardship costs over time, more questions came up. It knew that at some point in the future, it might transition into a land trust that was focused solely on stewarding its existing easements. But when would that be? It had based what it was charging for each stewardship transaction on a standard commonly used by other land trusts, but didn't know if there was solid analysis behind the number. Would it be enough?

"We realized our [stewardship endowment targets] were based on qualitative, rather than quantitative analysis," Aspelin says. "We decided as staff that we would do quantitative analysis to look into the issue further. Our big question: Do we really have enough money to handle stewardship in 2050 and beyond?"

CCALT brought its question to Bill Bowman, a financial advisor from Morgan Stanley in Boulder who previously had helped some of the land trust's landowners use the proceeds from the sale of their development rights to keep their families on the land.

A Financial Modeling Process

Over a period of 18 to 24 months, Bowman worked with CCALT on a financial modeling process that could answer some very important questions. Did it have enough money set aside in its endowment currently to sustain its easements into the future? Was it set up in a way to fully meet its perpetuity requirements? And how much money per easement should it be setting aside going forward?

These are important questions for CCALT and for any land trust. "Every board member probably has a little bit of that concern in the back of their head.

5 STEPS TO GETTING STARTED IN STEWARDSHIP ENDOWMENT PLANNING

1. **Start with your land trust's finance committee.** With staff and board member input, get buy-in for the modeling project and determine its objectives.

2. **Find a financial professional who can do the modeling and portfolio analysis.** It helps greatly if he or she has a familiarity with land trusts and a knowledge of entity and endowment planning.

3. **Gather the relevant data, which includes:**
   - Income and fundraising expectations
   - Transaction and expense history
   - Strategic planning goals (including the point at which the land trust will become a stewardship entity only)
   - Future expenses
   - Gifts/bequests/planned giving (on the books or expected at some time in the future)

4. **The financial advisor's modeling analysis looks at those factors as well as:**
   - Portfolio asset allocation and rate of return
   - Potential risk events in the future (such as a major recession or change in the charitable landscape)
   - The land trust and board's historic response to risk
   - The land trust's internal inflation rate (i.e., how much expenses are growing)
   - Real rate of return (how much the land trust actually pays out for stewardship)

5. **The land trust and financial advisor evaluate the modeling output to determine:**
   - Strengths and weaknesses of the land trust's financial situation
   - Recommendations related to future expenses, fundraising efforts and investment management
   - A timeline for implementing recommendations and revisiting the plan in two to three years' time to make sure it's still on track

Adapted from a Land Trust Alliance webinar by Morgan Stanley advisor Bill Bowman, available at http://landtrustalliance.adobeconnect.com/p1ruz9nwonz *until June 30, 2016.*

It's a risk we all know is out there," Bowman says. But it can be hard for people to grasp the concept of perpetuity and how that impacts financial planning far into the future.

Unlike retirement planning for an individual, which is based on an expected life expectancy, with a land trust there is no life expectancy. "Forever is a really long time," says Bowman. "That's the hardest thing that land trusts will run into, and that's what makes this type of planning unique."

Bowman started the detailed modeling process by asking CCALT to take a look at how it uses its money today and how it anticipates planning for future spending—a strategic profit/loss approach. "You have to know where you're starting from to know where you want to get to," he says.

He asked how long it expected to continue taking in new easements, and what the costs were related to those easements. And he used risk analysis tools to look at how its investment portfolio was currently allocated to determine how likely it was to meet its expectations for future growth.

"We were trying to determine what the growth rate of the organization needed to be based upon all the metrics we were looking at," Bowman says. "We used endowment forecasting and modeling goals to get an understanding of where they were and if their numbers were right and appropriate."

CCALT, which has over 270 conservation easements on the books, was a bit taken aback by the initial results of Bowman's modeling, Aspelin admits. "The first models we ran were a little scary. We were surprised to learn that we had some work to do on the endowment. We either needed to raise stewardship fees or raise money elsewhere," she says.

Establishing A Framework

For every organization, the results of the modeling could vary depending on a number of factors, including the scope of its operation, its conservation priorities and its risk of legal defense. The land trust accreditation and accreditation renewal processes help organizations get ready to do this forecasting, believes Bowman, who has since worked with other land trusts in Colorado on this type of modeling as Morgan Stanley builds a network of advisors around the country who are focused on these issues.

"Through accreditation you have to map out where you're going to be," he says. "If I know my starting point and how many easements I plan to take in, it only takes a couple of more variables to plug into the model."

The results of the forecasting can then be used by land trusts to undertake capital fundraising, expense management or other measures to build adequate stewardship funds. "It's about establishing a framework and foundation that helps land trusts get to where they want to go," Bowman says.

But, he stresses, any goals that result must be achievable. "If a bar is set so high that people can't achieve their goals, they lose their motivation. The end result of the financial planning has got to be based on foundational information that land trusts are comfortable with; it has to have goals that are achievable; and it has to be something that board members, staff and landowners all buy into."

To address its predicted shortfall, CCALT raised its stewardship fees and is focusing fundraising efforts on boosting its endowment. The modeling process forced the land trust to do some hard work, but it was worth it, Aspelin says.

"I think a big part of the benefit is being able to tell our landowners that these projects are forever," she says. "Now we can provide them with actual numbers. We have enough money to stay around and not ever have to transfer our easements to another group. The stewardship endowment is our organizational security."

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FOR MORE INFORMATION ABOUT THIS TYPE OF FINANCIAL PLANNING FOR LAND TRUSTS, CONTACT BILL BOWMAN AT THE BOWMAN GROUP, MORGAN STANLEY WEALTH MANAGEMENT, BOULDER, COLORADO, 800-787-5218.

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