FY21 Proposed Budget

Operating Budget Summary

We are proposing an FY21 Operating Budget of $2,482,358 in Revenues and $2,782,823 in Expenses, for a budget with net negative Operating income of -$300,465. We anticipate that $250,000 to $300,000 of our PPP loan will be forgiven. The reduction in liability will effectively convert that same amount of loan proceeds into a positive cash asset, improving our Net Income before Restrictions to -$50,465 (or better if the loan forgiveness is greater). Alternatively, if the PPP loan is not forgiven for some reason, we would need to access General Reserve Funds to replenish our Operating Assets and/or make staffing reductions.

	FY19 Actual	*FY20 Projected*	*FY21 Proposed*
Operating Revenues	3,117,404	2,834,525	2,482,358
Operating Expenses	3,117,515	2,815,127	2,782,823
Operating Net Income	**-111**	**19,398**	**-300,465**
PPP loan forgiveness	0	0	250,000
Investment Gains (Losses)	43,545	-4,148	0
Net Income Before Restrictions	**43,434**	**15,250**	**-50,465**

Additions and Releases of Net Assets

The proposed FY21 budget includes several releases from our Unrestricted and Restricted Net Assets to support general and specific programs of the Greenway Trust. The most significant release is from our Operating Assets because of the projected budget deficit. Releases from the Bequest Fund and Middle Fork campaign are associated with budgeted program and project activity. Any PPP loan forgiveness will offset projected releases from our Operating Assets. We estimate forgiveness of a minimum of $250,000 which would nearly offset the budget deficit.

	End FY20 projected	***Additions***	***Releases***	***End FY21 projected***
Unrestricted Net Assets				
Operating Assets	*452,506*	*250,000*	*(300,465)*	*402,041*
Tech Upgrade	*21,660*		*(21,660)*	*0*
General Reserve	*685,122*			*685,122*
Bequest Funds	*681,999*		*(150,000)*	*531,999*
Restricted Net Assets				
Middle Fork Campaign	*1,052,858*		*(410,000)*	*646,663*

Other Restricted Funds	*40,749*		*(6,098)*	*34,651*
Total Net Assets	**2,938,699**	**250,000**	**(888,223)**	**2,300,476**

Budget Commentary

For FY21, rather than the more bottom-up approach to budget development we have traditionally used, we modeled two separate budget scenarios. This approach accounts for the uncertainty associated with the pandemic and the economic conditions that are resulting from its ongoing spread. The final budget proposed here relies on several important expectations about releases of Net Assets, PPP loan forgiveness, expected philanthropic giving and our ability to reduce expenses.

Scenario Planning

Descriptions of each of the scenarios we modeled is provided below:

- *Rapid Recovery:* By prohibiting large gatherings, closing schools for the rest of the academic year, and shuttering non-essential businesses, Washington succeeds in flattening the curve and containing the pandemic. Infections and deaths peak in April and decline steadily toward zero by late May. Testing and contact tracing capacity finally come to scale, enabling new cases to be identified and contained quickly across the state. In May, the Governor begins a phased reopening of businesses and relaxing of restrictions including outdoor work and small gatherings where social distancing can be maintained. The economic impacts of the extended shut down linger for another year, though, as the pandemic throws the previously booming economy into recession. After suffering a quarter of severe losses, businesses are slow to rehire the many jobs that were shed. As economic activity rebuilds, unemployment declines steadily but slowly. Government spending is cut back for the rest of the fiscal year and into the next biennium after all of the emergency stimulus spending, and now lagging tax revenues. Philanthropy similarly retracts due to market losses and an emphasis on urgent social support. By July 1, 2020, the Greenway has restored field staff hours, rehired field crews, and resumed habitat restoration and trails work. Volunteer events are also resuming with size restrictions and strictly enforced hygiene and social distancing practices. The clean water ambassadors program has to be abbreviated because of the delay in advertising and accepting applications. Coalition work, NHA planning, and other Greenway work that had continued under work-from-home conditions carry on. After the flush of support for the Greenway Trust at the height of the coronavirus crisis, philanthropic giving and grant-making pull back because of market losses and government austerity. Revenues are sluggish during Q1 and Q2 before slowly regaining during Q3 and Q4, resulting in revenue down 20% in FY21.

- *Vicious Cycle:* After cresting the apex of the pandemic in April, pressure builds quickly to relax social distancing restrictions and allow economic activity to resume, starting in May. Initial outcomes are promising as infections and deaths continue to decline and the economy starts to recover. But just as schools reopen, the disease begins to resurge again in various locations at various times. While testing and contact tracing enables public health officials to diagnose these outbreaks earlier, they still require localized shutdowns to contain since there is still no effective vaccine to fully control the virus. After suffering such severe economic harm during the initial containment shutdowns, businesses and households have diminished resilience for even short shutdowns, and governments have diminished capacity for relief and stimulus. The roil of local outbreaks and shutdowns puts continual strain on efforts to control the virus and recover the economy. Public health needs dominate public spending, and economic uncertainty prompts a pull-back in philanthropic giving. <u>The initial relaxation of social distancing restrictions enables the Greenway to fully resume our field-based programing, much like the Rapid Recovery scenario. However, a September outbreak prompts cancellation of our education programming again and sidelines 30% of our restoration projects for this season. Fundraising and government spending fall-off too, reducing revenues 40% over the year.</u>

<u>Scenario Notes</u>

Below are a few key notes and assumptions about the scenarios.

- *The Bottom Line*: Under the Rapid Recovery model, FY21 will end with a net operating loss of $183,352. The Vicious Cycle scenario results in a net operating loss of $396,293.
- *Revenue*: As noted, revenue would be down 20% and 40% respectively. This includes general fundraising as well as restricted grants and fee-for-service contracts.
- *Expenses*: In these scenarios, full-time employee expenses and fixed costs (rent, etc.) have not been cut. Seasonal staffing (e.g., no seasonal educators, fewer field crews) and AmeriCorps assignments were reduced to lower staffing expenses in the coming FY. Consultant costs, field program materials, and other expenses have all been lowered at different levels.

Proposed Budget

The proposed budget splits the difference between these two scenarios and represents our best projection for the next fiscal year, with all the caveats necessary in these uncertain times. It represents a reduction of revenue by approximately 30% and results in a net operating loss of $300,465.

Operating Losses

There are four principal strategies for managing these operating losses, each with its own set of uncertainties.

- *Paycheck Protection Program (PPP) Loan Forgiveness:* This spring the Greenway Trust received a $344,600 PPP loan as part of the federal government's response to the pandemic. The loan proceeds provide a cash asset, and a liability for repayment within 2 years at 1% interest. We expect PPP loan forgiveness of between $250,000 and $305,000 of the loan (although guidance remains in flux and it could be higher). Forgiveness will reduce the liability and effectively convert the loan proceeds into a positive cash asset. The expected forgiveness amount nearly covers the projected operating loss.
- *Reserves*: Should the PPP loan not be forgiven for some reason, the board could authorize use of General Reserve Funds to make up the difference. The Operations Committee has recommended using no more than $200,000 for this purpose.
- *Staffing:* The most significant lever to reduce expenses is staffing. Staff positions could be eliminated or some or all staff could be maintained at reduced hours. We do not believe that staffing reductions are necessary at this time given the work to be done and our current financial position, though we will continue to monitor and evaluate this, especially if PPP loan forgiveness falls through.
- *Other Expenses:* While staffing is the principal lever for managing costs, there are other areas that may be trimmed or result in modest savings (some intentionally and some as a result of statewide orders associated with the orders). These include: meals and meeting facilities (approximately $110,000 is budgeted for the annual dinner, breakfast and board meetings, which may have to be postponed or completed virtually), and miscellaneous expenses (printing, trainings and the like).