



STEWARDSHIP AND ENFORCMENT FUND PERFORMANCE RELATED TO OUTDOOR HERITAGE FUND PROJECTS

April 12, 2012

1. Introduction

Below is a report on the Minnesota Land Trust's financial management of funding from the State of Minnesota's Outdoor Heritage Fund (OHF) for conservation easement monitoring and enforcement for the Land Trust's fiscal year 2011. This report is intended as a complement to other reports submitted by the Land Trust, including our annual stewardship report, the annual audit, and other information provided to the Lessard-Sams Outdoor Heritage Council (LSOHC) when it completes a project with OHF funding. It also complements our routine work program updates which summarize capital expenditures, original stewardship fund contributions, personnel costs or transaction expenses associated with OHF projects.

2. Appropriations Covered By Report

Mississippi River Blufflands Prairie Protection Initiative

Minnesota Laws 2009, Chapter 172, Article 1, Section 2, Subdivision 2(f)

Critical Shoreline Habitat Protection Program

Minnesota Laws 2010, Chapter 361, Article 1, Section 2, Subdivision 3(a)

Valley Creek Protection Partnership

Minnesota Laws 2010, Chapter 361, Article 1, Section 2, Subdivision 5(e)

3. Stewardship and Enforcement Fund Definition

According to the Minnesota Land Trust's Financial Policies, the Stewardship and Enforcement Fund is defined as follows:

The Minnesota Land Trust's stewardship and enforcement fund was established to meet two needs: to provide a long term, ongoing source of income to cover the annual costs associated with monitoring and managing our portfolio of conservation easements and to cover extraordinary expenses associated with managing, upholding or defending an easement should its terms or validity be at risk.

Contributions to the stewardship fund are pooled from a number of sources, and the fund is invested and managed as a whole to support all of the overall needs and obligations of the Minnesota Land Trust in managing its conservation easement portfolio.

Income and increase in value from the investment of assets in the fund will be treated as a part of the stewardship and enforcement fund.

4. How the Stewardship and Enforcement Fund is Managed

The Stewardship and Enforcement Fund is managed as a collective or pooled fund as guided by Board-approved policy. This policy is consistent with similar policies of land trusts nationwide, and is in accordance with both the Land Trust Alliance's *Standards and Practices* and the National Land Trust Accreditation Commission, through which the Minnesota Land Trust is accredited.

The Land Trust has a robust Finance Committee that guides the management of all its investments, including the Stewardship and Enforcement Fund. In addition, the Land Trust retains the services of a professional fund manager, Bob Shepard from Capital Management Associates, to advise the Board. Finally, all financial matters of the Land Trust are conducted within the parameters of Board-approved policies.

5. Stewardship and Enforcement Fund Performance

The Stewardship and Enforcement Fund has been well managed for long-term growth and stability. Its portfolio has included a mix of cash, bonds and equities. For fiscal year 2011 (the first year the Land Trust received funding from the OHF for easement stewardship) the Stewardship Fund as a whole realized an investment increase of \$348,020 or approximately 14.9%. This Fund ended fiscal year 2011 at a total of \$2,880,257 covering 424 total projects. The total investment gain of the Fund from fiscal year 2003 through fiscal year 2011 is \$648,122. The three-year rolling average of the Fund's investment growth is approximately 5.5%.

According to Land Trust policy, up to 5% of the value of the Stewardship and Enforcement Fund at the end of the prior fiscal year can be spent annually to meet ongoing conservation easement stewardship needs and obligations. With the approval of the Board of Directors, funds can be used to meet extraordinary expenses associated with managing, upholding or defending an easement or other interest in land held

6. Funds Contributed by OHF to the Stewardship and Enforcement Fund

Throughout the three appropriations listed above, the Minnesota Land Trust secured four conservation easements in total (through June 30, 2011). Of these projects, one was a fully donated easement (therefore there was no state funding used to purchase the easement). The remainder was either partial or full-cost purchases. Please see the Stewardship Report for a full breakdown of easement purchases vs. donations. In order to cover the long term monitoring and

enforcement needs of these projects, \$60,000 have come from the OHF through the appropriations above (through June 30, 2011).

7. Utilization and Management of OHF-related Stewardship Funds

Overall, the management of the OHF -related Stewardship and Enforcement Funds is as described with the overall Fund above. Because fiscal year 2011 was the first year we received OHF-related stewardship funding, none of this funding was utilized for monitoring or enforcement in this first year. We will report on the estimated utilization of these funds in subsequent years.

8. Conclusion

In conclusion, as of the end fiscal year 2011, OHF-related stewardship funding accounted for approximately two percent of the Land Trust's overall Stewardship and Enforcement Fund, and OHF funded projects accounted for approximately one percent of its overall project total of 424 projects.

The Stewardship and Enforcement Fund is being managed with high integrity, with a goal of balance, growth and stability. Traditionally, the Fund has outperformed major market indices.

In addition to this dedicated Stewardship and Enforcement Fund, however, the Minnesota Land Trust continues to supplement its annual stewardship activity with its Operating Fund. Approximately 50% of the Land Trust's annual stewardship-related activity is covered by the draw from the Stewardship Fund and approximately 50% is covered from the Operating Fund, in-kind services and other sources. This is true for OHF-related projects as well. Thus, as important as the Stewardship Fund is to the Land Trust, it is not the sole source of easement monitoring and enforcement funding for the organization, nor for OHF-related projects.