APPENDIX A

GENERAL BACKGROUND INFORMATION

The Washington Post

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BIG GREEN | *Inside the Nature Conservancy*

Nonprofit Land Bank Amasses Billions

Charity Builds Assets on Corporate Partnerships

First of three articles

By DAVID B. OTTAWAY
and JOE STEPHENS
Washington Post Staff Writers

The Arlington-based Nature Conservancy has blossomed into the world's richest environmental group, amassing $3 billion in assets by pledging to save precious places. Known for its advertisements decorated with forests, streams and the soothing voice of actor Paul Newman, the 52-year-old charity preserves millions of acres across the nation.

Yet the Conservancy has logged forests, engineered a $64 million deal paving the way for opulent houses on fragile grasslands and drilled for natural gas under the last breeding ground of an endangered bird species.

Conservancy President Steven J. McCormick runs the world's richest environmental organization.

The nonprofit Conservancy has traveled far beyond its humble beginnings, when it relied on small donors and acquired a few small plots at a time. Its governing board and advisory council now include executives and directors from one or more oil companies, chemical producers, auto manufacturers, mining concerns, logging operations and coal-burning electric utilities.

Some of those corporations have paid millions in environmental fines. Last year, they and other corporations donated $225 million to the Conservancy—an amount approaching that given by individuals.

Today, the million-member Conservancy itself is something of a corporate juggernaut, Big Green. It is also the leading proponent of a brand of environmentalism that promotes compromise between conservation and corporate America.

While the Conservancy has done much to preserve green spaces, its strategy of combining conservation and business, including its own pursuit of for-profit ventures, has led to some costly misadventures and awkward positions:

PHOTOS BY SARAH L. VOISIN—THE WASHINGTON POST

Sun shines on Arlington headquarters of the Conservancy, whose portfolio includes 2 million acres and some risky undertakings in recent years.

■ The drilling foray, on the Texas Gulf Coast, turned into a fiasco. Not only did some endangered birds die after the Conservancy started drilling, but the charity also sold natural gas owned by someone else and kept the profits.

See BIG GREEN, *A21, Col. 1*

BIG GREEN, From A1

The Conservancy and its partners settled a resulting lawsuit last year for $10 million.

- In Virginia, the Conservancy has invested in a number of for-profit businesses on the Eastern Shore: a bed-and-breakfast, an oyster-and-clam farm, an "heirloom" sweet-potato-chip operation, a seaside home development. The businesses failed, leaving a $24 million debt.
- The Conservancy has profited by selling its name and logo to companies, which use the image to gain what one corporate executive calls "reputational value." A Conservancy focus group study found that a few participants said accepting corporate cash in certain cases would be "the equivalent of a payoff."
- The charity engages in numerous financial transactions with members of the Conservancy family—governing board members and their companies, state and regional trustees, longtime supporters. The nonprofit organization has bought land and services from board members' companies, and it has declined to release property appraisals from the deals. It has sold choice Conservancy land to past and present trustees through its "conservation buyers" program, which offers steep discounts in exchange for development restrictions. It has lent cash to its executives, including $1.55 million to its president.
- The Conservancy's mission makes it reluctant to take positions on some leading environmental issues, including global warming and drilling in Alaska's Arctic National Wildlife Refuge. Corporations represented on the Conservancy's board and advisory council have lobbied nationally on the corporate side of the issues. A Conservancy official said the group avoids criticizing the environmental records of its corporate board members.
- Some of the charity's scientists have complained that the organization has drifted from its stated commitment to the "best available science." One scientist complained in an internal 2001 Conservancy study: "Science is not understood or supported by senior managers and state directors. [The] entire focus is on land deals." Said another: "I am not convinced [the Conservancy] is science-based, as we claim."

While Conservancy officials now acknowledge that the charity made mistakes in Texas and Virginia, they dismiss them as isolated incidents and stoutly defend their philosophy and initiatives as a pragmatic strategy for conservation in the 21st century.

Conservancy officials say their approach—which falls under a larger environmental philosophy known as "compatible development"—allows them to leverage corporate America's wealth to achieve conservation on a massive scale. Instead of insisting in every case on the pristine preservation of land, the charity practices the art of the possible, its officials said.

"There are trade-offs in conservation," Conservancy President Steven J. McCormick said in an interview. "We make a judgment that less than 100 percent is acceptable."

Along the way, the Conservancy hopes to entice companies into more environmentally friendly practices. Alliances with logging companies, for example, have protected thousands of acres from development, even though logging on the land often continues, McCormick said.

"Some of our brethren say we're dealing with the devil, but I say quite the contrary," said Conservancy official Michael Horak. "Some of the deals we're making are quite extraordinary."

Today, the organization says it manages 7 million preserved acres through a variety of means and owns 2 million outright. Much of that land is held in 1,400 nature preserves, which it describes as the world's largest private sanctuary system.

In late 2000, the nonprofit purchased the Palmyra Atoll, 15,500 acres of coral reefs, islets and lagoons 1,000 miles south of Hawaii. Last year, Conservancy researchers on Borneo discovered a large number of orangutans, which the organization said increased the known population by 10 percent. Also that year, the Conservancy acquired the 100,000-acre Baca Ranch, the final step toward creating the Great Sand Dunes National Park in Colorado.

Supporters say that the organization's enormous wealth has enhanced its influence, within the environmental movement and with the government. Last year, the Conservancy received $105 million in government consulting fees and other payments.

Respected naturalists praise the Conservancy's programs. Along with the chief executive officers, the Conservancy's board has included prominent scientists and academics. Even some critics acknowledge that global environmental health would suffer without the charity's resources devoted to land preservation. Still, some former high-ranking Conservancy officials believe the organization has grown too close to business.

"It was the wrong decision to get so close to industry," said David Morine, who headed the charity's land acquisition for 15 years and helped pioneer the group's corporate ties. "Business got in under the tent, and we are the ones who invited them in.

"These corporate executives are carnivorous. You bring them in, and they just take over."

Morine now says letting them in was "the biggest mistake in my life."

Becoming Big Green

The Nature Conservancy opened its doors in 1951 with a handful of staffers laboring out of a Washington office shared with another environmental group.

Early on, the Conservancy settled on buying land as its special niche in the environmental movement. In 1955, the Conservancy chipped in to help buy 60 acres of river gorge in New York and Connecticut. That simple strategy—raising cash to buy raw land—became known within the group as "bucks and acres."

Environmentalism bloomed with the publication of Rachel Carson's "Silent Spring" in 1962 and the sixties' activism that would result in the first "Earth Day" in 1970. In those days of turmoil, the Conservancy grew slowly but steadily and kept to its quiet land-acquisition strategy.

In the 1980s, the Conservancy's nonconfrontational approach paid off. The numbers tell the story. That decade, its revenue grew from $58 million to $222 million, and its staff surged from 77 to 933 employees.

In the 1990s, the age of the bubble economy and lavish corporate largess, astonishing growth occurred. Corporate donations mushroomed from $1.8 million in 1993 to $225 million last year. (The Washington Post Co. is a regular contributor, last year giving $1,500.) By 2002, Conservancy revenue had reached $972 million, more than 10 times the size of Sierra Club revenue.

Today, the Conservancy oversees 3,200 employees in 528 offices scattered across every state and 30 countries. The organization has many of the trappings of a Fortune 500 company: global reach, consumer focus groups, meetings with world leaders, sophisticated marketing and cost-benefit analysis applied to conservation. The group's "worldwide" headquarters is in an eight-story, $28 million building in Arlington.

"I really believe that in the next century that the most influential institutions on the planet will be nongovernmental organizations," McCormick said in a speech at the Conservancy's 50th anniversary meeting in October 2001. "I believe the Nature Conservancy will set that pattern."

The Conservancy now boasts 1,900 cor-

BY MICHAEL WILLIAMSON—THE WASHINGTON POST

Children play in Cheshire, Ohio, a community marked by emissions from American Electric Power, a Nature Conservancy supporter.

porate sponsors. Eastman Kodak Co. vice president Hays Bell recently described the Conservancy as a "natural choice" for partnerships because there was "no conflict potential." The Conference Board, a nonprofit that advises businesses, said in a report on partnerships with environmental groups that the Conservancy is especially popular with corporate executives because of its "dependability in joint ventures."

McCormick said: "By working with corporations, which control a lot of land, which are very influential, we think we make a big difference."

The Conservancy's relationships with Fortune 500 corporations have become institutionalized. Its unpaid 38-member Board of Governors has included past and present executives and directors of major industrial corporations: John F. Smith Jr., chairman of General Motors, the world's largest car manufacturer; E. Linn Draper Jr., chairman of American Electric Power Co., the nation's largest electricity producer; A. D. "Pete" Correll, chairman of Georgia-Pacific Corp., the country's second-biggest paper products business; and A.W. "Bill" Dahlberg, former chairman of Southern Co., another leading power producer.

Some of these companies face pressure from more confrontational environmental groups and from government regulators.

A recent study of utilities by the Natural Resources Defense Council and others named American Electric the largest U.S. air polluter. American Electric's operations in Cheshire, Ohio, have turned that quaint river town into a ghost. Sulfur dioxide emissions from one of the company's plants have at times enveloped Cheshire, prompting the utility to buy out most of the 221 residents, who agreed not to sue. A utility spokesman said the plant is clean, but its operations were encroaching on the community.

Elsewhere, the utility is fighting a lawsuit filed by the Environmental Protection Agency alleging Clean Air Act violations.

American Electric has joined the Conservancy in an $11 million forest preservation initiative in Bolivia. If the concept were approved by federal regulators, the project one day would supply the company with "pollution credits." That would lessen its need to install costly emissions controls at its U.S. plants.

Opponents of the Conservancy's approach argue that corporations have seized control of the charity from within.

"The Conservancy brings in corporate board members who don't know much about conservation—or even care that much about it," said Huey Johnson, the former head of the Conservancy's western U.S. operations and a founder of the Trust for Public Land. Two years ago, he won the United Nations' top environmental award.

The Conservancy offers corporations seats on its International Leadership Council for $25,000 and up. Once there, executives can "meet individually with Nature Conservancy staff to discuss environmental issues of specific importance to the member company," Conservancy literature states.

Council members include Pacific Gas and Electric Co., which paid $333 million to settle claims that its plants polluted water and caused cancer among nearby residents, a legal battle dramatized in the film "Erin Brockovich."

Another member is Dow Chemical Co., owner of Union Carbide. Last year, the Conservancy's Louisiana chapter gave Dow its conservation leadership award for expanding a greenbelt bird sanctuary around its plant in Plaquemine, La. The plant also has drawn the attention of a grand jury investigating vinyl chloride contamination of area water, Dow officials recently confirmed.

Avoiding Controversy

Sometimes, the Conservancy's nonconfrontational approach puts it on the sidelines of the major environmental issues of the day.

In Alaska, the Conservancy has stood silent as environmentalists battle proposed oil drilling in the Arctic National Wildlife Refuge. The decision to skirt the fight followed intense debate in 2001 by the Conservancy's board, which yielded in the end to the wishes of its Texas and Alaska chapters, senior Conservancy officials said.

Two major oil companies that support the Alaska drilling—BP and Exxon Mobil—hold Conservancy leadership council seats. Exxon Mobil has donated $5 million to the Conservancy. Another supporter of drilling, Phillips Alaska Inc., has given at least $1 million, records show.

McCormick defended the Conservancy's refusal to choose sides between what he called "ideological factions" in the Alaska debate. He described the issue as "not an argument for the Nature Conservancy." Getting involved, he said, could "completely drain our credibility." He concluded: "It's more courageous to stay on principle and get conservation through some concessions from those who use the land."

The Conservancy also has been among the last environmental groups to recognize global warming and the need to reduce greenhouse gas emissions. Two of the Conservancy's strongest corporate supporters, Exxon Mobil and GM, have opposed stiff emission-cutting efforts.

Exxon Mobil for years led the Global Climate Coalition, an industry group that debunked global warming. Exxon Mobil has long been a leading lobbyist against the Kyoto accord to reduce emissions.

One environmental group, Environmental Defense, has dubbed GM "Global Warmer Number One" because its vehicles are a major source of carbon-dioxide emissions. GM Chairman Smith headed the Conservancy's $1 billion fundraising campaign, and over the past decade the company has given the Conservancy cash and vehicles worth $22 million.

"Twenty-two million dollars is going to go a long way to help preserve biodiversity," said Terry Pritchett, GM's director of global climate issues.

McCormick finally took up the global warming issue in the Conservancy's bimonthly magazine in the fall of 2001.

"Typically, the Conservancy has avoided the political debate over global warming," McCormick wrote. "But we haven't buried our institutional head in the sand."

He said that climate change was "real," and the Conservancy needed to figure out how to confront it "with a cool temper and a vigilant eye for solutions."

Last year, the Conservancy launched an initiative adopting the approach that would supply corporations with pollution credits.

GM contributed $10 million to the plan.

Greenwashing

Scientists rate the conversion of land to human habitat—urban sprawl—as Earth's greatest menace. "Sprawl is without a doubt the most pervasive threat," an unidentified Conservancy scientist wrote in response to a survey in 2001, obtained by The Post. "Failure to recognize and address this threat on all levels, not just buying land, will result in a mission-critical policy failure."

Despite such assessments, the Conservancy has forged a close partnership with Centex Corp., one of the nation's largest residential construction firms. Centex and its subsidiaries have built almost 400,000 houses, many at 28 sites ringing the District of Columbia.

Centex and its divisions have given and pledged $3 million to the Conservancy. Centex sits on the Conservancy's leadership council, and the chairman of Centex Homes served on a Conservancy advisory board. Two years ago, a Conservancy chapter in Texas gave Centex Homes its Conservation Leadership Award for "corporations that have shown leadership in and dedication to conserving natural resources."

Centex also has helped the Conservancy retain its claim of having 1 million members. The charity handed out more than 40,000 free memberships to Centex employees and customers, a November 2001 Conservancy memo said. Other corporations, including Enron, also have given away memberships.

Although its advertisements feature photographs of dense forests, the Conservancy is allied with two of the nation's biggest tree consumers, Georgia-Pacific Corp. and International Paper Co.

The Conservancy defends its partnerships with loggers by arguing that it has persuaded them to adopt more conservation-friendly methods—reduced clear-cutting, fewer access roads and wider buffer zones along rivers and streams. The Conservancy says it has also made loggers more sensitive to endangered species, such as the red cockaded woodpecker. Company spokespersons agree.

The Dogwood Alliance, a coalition of 70 grass-roots environmental groups, says the change in methods is superficial and the damage remains considerable. Further, the partnership gives loggers a public relations boost from "greenwashing," Dogwood and other environmental groups charge.

Georgia-Pacific and International Paper have used the Conservancy "to pull the wool over the public's eyes," said Trevor Fitzgibbon, Dogwood's former spokesman. "It makes it seem they are doing great things for the environment when what they're doing is destroying the South's natural heritage."

For nearly a decade, the Conservancy helped Georgia-Pacific manage environmental risks arising from its logging along North Carolina's Lower Roanoke River.

"It has absolutely changed GP's image," said Georgia-Pacific Chairman Correll, a Conservancy board member.

For its part, Georgia-Pacific has been generous to the Conservancy, donating $3 million in 2000 alone.

International Paper is on the Conservancy's leadership council. In 1998, the company sold 185,000 acres of Maine forest to the Conservancy for $35 million. The Conservancy then contracted with a Maine company to log 136,000 acres of the land to help offset costs.

McCormick sits with International Paper on the American Forest and Paper Association's Sustainable Forestry Board, a panel set up by the industry to certify that loggers are being eco-friendly.

Such ties create a "commonality of interest" between the Conservancy and International Paper, said Tom Jorling, a company vice president. "This enables us to get more legitimacy because the Conservancy has the kind of reputation it does."

Board Conflicts

The Internal Revenue Service requires charities to disclose all business deals they do with board members or their corporations. At the Conservancy, the list of such conflicts of interest is long.

Millions have gone toward property deals with such companies, including $7.88 million in transactions with Georgia-Pacific. In 1999, the Conservancy paid a Georgia-Pacific subsidiary $380,000 for 1,100 acres in Maine. In 2000, the Conservancy paid $7.5 million to the same subsidiary for 9,500 acres in Louisiana, much of it stripped of trees by clear-cutting, Conservancy documents show. The charity got a $1 million discount, according to an internal document.

Conservancy officials said the land purchases were guided by "the best available science" and based on an independent appraisal and scientific review, which they declined to make public. They said Correll recused himself from voting on the purchases.

The Conservancy's business with board members and their companies also extends to purchases of products, legal assistance and even development rights.

The Conservancy paid Orvis Services Co. $649,000 in 1998 for placing some development restrictions on its private, 1,600-acre Florida hunting preserve, records show. The chief executive of the closely associated Orvis sat on the Conservancy's board.

The Conservancy also allowed S.C. Johnson & Sons Inc. to use the Conservancy logo in ads for toilet cleaner and other products, receiving $100,000 in return. The corporation's chairman sat on the nonprofit's board.

The Conservancy told the IRS that the board members in those instances recused themselves from voting on the transactions. Since July 1, 1998, the Conservancy has reported that 11 of its board members or their companies have engaged in one or more financial transactions with the charity.

In a written response to Post questions, the Conservancy said that each deal was "entirely appropriate" and that most included discounts or donations. Such deals are permissible under IRS rules if the charity documents that its board members and their companies have not profited unduly.

Conservancy Board Chairman Anthony P. Grassi, retired chief financial officer of Credit Suisse First Boston Inc., said he sees nothing unethical in the Conservancy's doing business with board members.

Still, such financial transactions are discouraged in the nonprofit world. Known as "self-dealing," the arrangements can lead to revocation of an organization's tax-free status if the charities cannot show that they have guarded against potential abuse.

Guidelines established by the nonprofit advisory group BoardSource say: "Good judgment is affected if [a] board member's personal or professional concerns conflict with the best interest of the organization. ... Even the appearance of a conflict of interest can damage the organization's reputation."

Credibility and Trust

While publicly enthusiastic about working with industry, Conservancy officials remain privately concerned about image. Recently, the Conservancy contracted with Wirthlin Worldwide, a consultant on consumer tastes, to conduct focus groups on the issue.

A June 2001 Wirthlin report, obtained by The Post, reassured Conservancy executives that the participants considered corporate partnerships "generally good." But it cautioned about the potential downside of selling a nonprofit's credibility and trust.

"There was a general feeling that some partnerships are created to fool or manipulate," the report said. Some of those polled worried the Conservancy might be helping the companies present a "false image to the public."

The participants were tested on their reactions to the Conservancy's hypothetical relationships with various companies: Bristol-Myers Squibb Co., Anheuser-Busch Cos., Wal-Mart Stores Inc., BP Amoco, Intel Corp. and Cadillac.

What the Conservancy said:

Steve McCormick's compensation

Steve McCormick's compensation is in line with compensation for CEOs of other non-profits of similar size and complexity. We have provided you with information on salaries at other comparable non-profits to support this contention. In addition, we want to point out that the loan that was provided to McCormick at the time of his move from California to Washington DC was made with an interest rate of 7 percent, the market rate at the time of the loan, and well above what is currently charged in the market. As you know, Mr. McCormick is in the process of arranging for a loan from a commercial lender so that he can close out the loan from the Conservancy.

What the property record showed:

The Note provides for an initial interest rate of 4.59%. The Note provides for changes in the interest rate and the monthly payments, as follows:

Among the results: most participants expressed negative feelings about partnerships with Anheuser-Busch ("bad"), Wal-Mart ("absurd") and BP ("inappropriate"). There is no indication that they were told BP sits on the Conservancy's leadership council.

"Many feel a relationship between [the Conservancy] and an oil company is inherently incompatible," the report said.

The study focused in part on industries with which the Conservancy had what researchers described as an "inherent conflict of interest." Not only oil, but logging, mining, and power generation. Some participants considered taking cash from such industries unethical.

"There is a minority who feel that by accepting a financial contribution, [the Conservancy] would be sending out a message that they condone the business practices of that company," the report said. "To this minority, accepting financial contributions from these types of companies is the equivalent of a payoff."

Logo for Sale

Toilet cleaner is not the only product associated with the Conservancy.

The Conservancy has rented its name and logo for use on neckties, breakfast cereal, coffee and credit cards. Companies pay six-figure fees to stamp the Conservancy's oak leaf on their packaging. Conservancy vice president Michael Coda, who developed the program, describes logo sales as a "very good deal" for the nonprofit.

"A partnership with the Nature Conservancy is good business!" Conservancy literature says, stressing that its members are "upscale, urban, and have annual incomes averaging $50,000."

The practice offends some consumer activists. When affixed on a raisin bran box, the logo does not guarantee the product inside is more environmentally friendly than the next brand on the supermarket shelf, activists say.

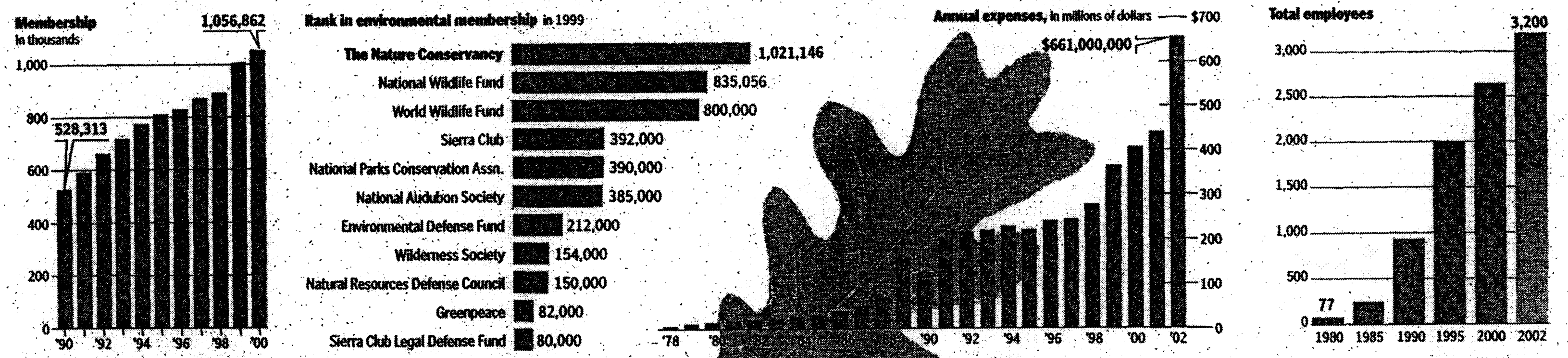
"That's misleading—a consumer is going to think that that breakfast cereal was produced with some kind of sustainable agriculture," said Urvashi Rangan of Consumers Union, a watchdog group that tracks logo usage and publishes Consumer Reports magazine.

General Mills' Nature Valley granola bars have displayed the Conservancy logo since 1998. "There is nothing more environmentally friendly" about the product, Rangan said. "We have a big problem with that."

There is also no disclosure on the snacks that, until last fall, a General Mills Inc. corporate director sat on the Conservancy's board. "That's a huge conflict of interest," Rangan said. Senior Conservancy officials said they were unaware of Nature Valley's ties to their former board member.

Staff researchers Alice Crites and Lucy Shackelford contributed to this article.

The Nature Conservancy's Expanding Universe of People, Expenses . . .



1951: The Nature Conservancy incorporates in Washington, D.C. Shares office with the Wilderness Society.

1953: Membership tops 1,000.

1955: First land acquisition, 60 acres along Mianus River Gorge in New York State.

1958: Membership hits 3,000.

1961: The Nature Conservancy reaches milestone of 10,000 acres of protected land.

1966: Hires first full-time president, Charles H.W. Foster.

1967: Buys land in Mason Neck, Va., then resells it to the federal government in the first purchase of its size and type for the Conservancy.

1968: Ford Foundation provides $6 million credit to finance purchase of land for later sale to the U.S. government.

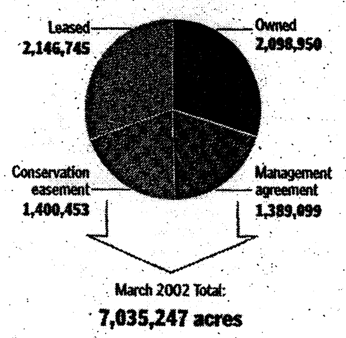
1974: Adopts plan to become America's preeminent conservation group.

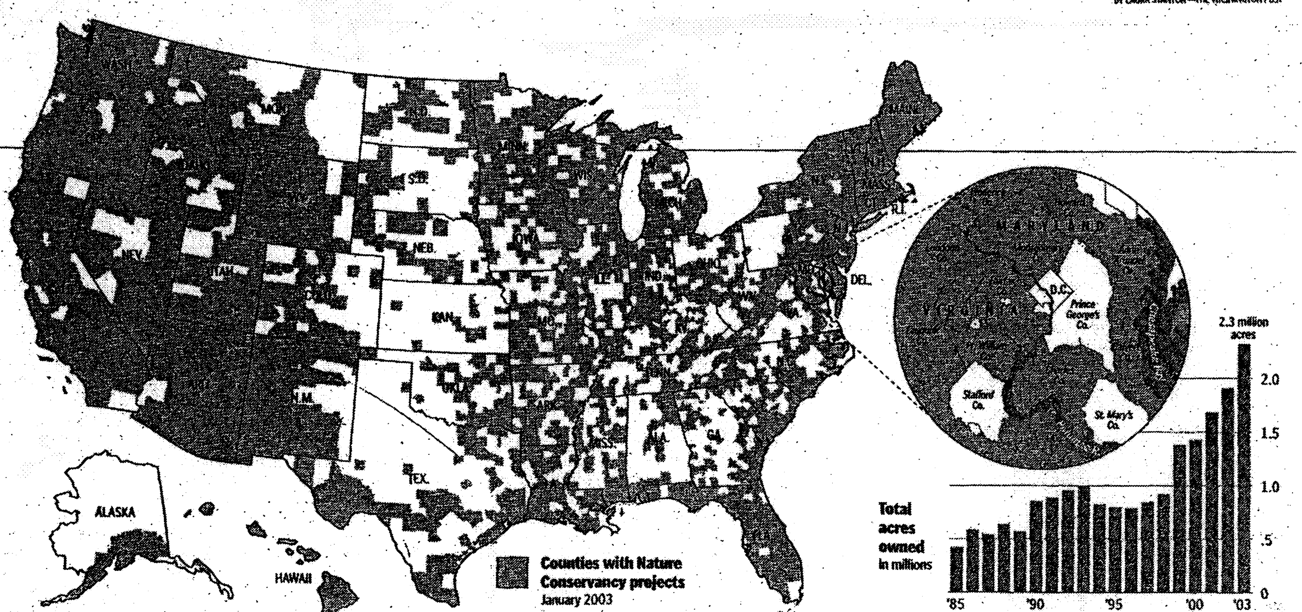
SOURCE: The Nature Conservancy

BY LAURA STANTON—THE WASHINGTON POST

. . . and Projects

Acres managed by agreement type





1983: Richard King Mellon Foundation donates $25 million.

1988: National Geographic magazine raises Conservancy's profile with feature story, "Quietly Conserving Nature."

1991: Last Great Places campaign is announced—a "science-driven" initiative "to protect entire ecosystems."

1995: After 20 years, executive vice president John Flicker departs to head the National Audubon Society.

1999: Conservancy membership surpasses 1 million.

2000: $1 billion fund-raising effort called the "Campaign for Conservation" is launched. The Conservancy publishes an exhaustive analysis of biodiversity in the United States.

COMPUTER MAP BY SARAH COHEN, GRAPHIC BY LAURA STANTON—THE WASHINGTON POST

The Nature Conservancy and Its Corporate Allies

	AMERICAN ELECTRIC POWER CO. *Largest U.S. power generator*	**GENERAL MOTORS CORP.** *World's largest auto manufacturer*	**GEORGIA-PACIFIC CORP.** *Major U.S. paper products company*	**SOUTHERN CO.** *Major U.S. power company*
Board Ties	■ AEP president on Conservancy board. ■ Member Conservancy Leadership Council.	■ GM chairman on Conservancy board. ■ Member Conservancy Leadership Council.	■ GP chairman on Conservancy board. ■ Member Conservancy Leadership Council.	■ Former Southern CEO was on Conservancy board. ■ Affiliated company on Conservancy Leadership Council.
Donations and Relationships	■ Donated more than $10 million. ■ Partner with Conservancy in project to generate greenhouse gas pollution credits by preserving Latin American forests.	■ Donated $22 million. ■ Chairman headed $1 billion fund raiser. ■ Partner with conservancy in greenhouse gas pollution credit program.	■ With foundation, pledged $3 million donation. ■ Helps Conservancy manage logging on 21,000 acres. ■ With associates, sold Conservancy millions of dollars in land.	■ With subsidiaries, donated $2.6 million. ■ Sponsored Conservancy's 50th anniversary celebration. ■ Conservancy president praised Southern for "commitment to environment."
Environmental Issues	■ Named top air polluter among U.S. power companies by Natural Resources Defense Council and other groups. ■ EPA suing for allegedly violating Clean Air Act. ■ Major coal burner.	■ GM vehicles emit tons of greenhouse gases. ■ Named "Global Warmer Number One" by Environmental Defense. ■ Liable for $219 million in environmental investigation and cleanup costs.	■ Involved in cleanups at 170 Superfund sites. ■ Liability for Michigan PCB cleanup to GP and others could reach $2.5 billion. ■ Paid $6 million fine and agreed to spend $26 million on plywood plant pollution control. ■ Affiliate paid $10 million for Wisconsin pollution.	■ Ranked most polluting U.S. utility in 1999 study by Public Interest Research Group. Study in 2002 by Natural Resources Defense Council and other groups ranked second biggest polluter. ■ EPA suing for allegedly violating clean air laws in four states. ■ Major coal burner.

The world's richest environmental group is governed, funded and advised in part by well-known corporations. Information on environmental issues comes from government agencies, court documents and advocacy groups.

INTERNATIONAL PAPER CO. *Largest U.S. forest and wood products company*	**EXXON MOBIL CORP.** *World's largest private oil company*	**BP CO.** *Fourth-largest private oil company*	**CENTEX CORP.** *Major home builder*	**DOW CHEMICAL CO.** *Major chemical company*
■ Member Conservancy Leadership Council.	■ Member Conservancy Leadership Council.	■ Member Conservancy Leadership Council. ■ Affiliated company president is trustee of Alaska Conservancy chapter.	■ Member Conservancy Leadership Council.	■ Member Conservancy Leadership Council. ■ Former chairman helped found Michigan Conservancy chapter.
■ Sold hundreds of thousands of acres to Conservancy. ■ Sits with Conservancy on panel certifying logging practices.	■ Donated $5 million. ■ Donated land for Texas nature preserve. ■ Given Conservancy corporate leadership award.	■ Donated $40 million Louisiana tract to nonprofit established with Conservancy. ■ Affiliated company is major donor to Alaska Conservancy.	■ Donated $3 million. ■ Gave free Conservancy memberships to home buyers. ■ Given Texas Conservancy's Conservation Leadership Award.	■ Donated $525,000. ■ Received Louisiana Conservancy Corporate Conservation Leadership award for creating a greenbelt in Plaquemine, La.
■ Involved in Superfund cases, with $57 million estimated liability. ■ Named largest U.S. timber industry polluter by Public Interest Research Group. ■ Paid $72,000 to settle charges it destroyed spotted owl habitat.	■ Exxon Valdez tanker spilled 11 million gallons of crude oil in 1989. Court assessed $4 billion penalty. ■ New York state sought $2 million for gas station leaks last year.	■ Subsidiary pleaded to felony and paid $22 million for hazardous waste in Alaska. ■ Agreed to pay $10 million for pollution violations elsewhere. ■ Controls largest oil operation on Alaska's North Slope.	■ Has built 400,000 homes and increasingly come under scrutiny by planning agencies and community groups opposed to "urban sprawl" development, according to Domini Social Investments.	■ Dow Plaquemine plant has provided information to criminal investigation into pollution. ■ Faces $443 million liability for environmental remediation and restoration. ■ Owns Union Carbide Corp., whose Bhopal, India, plant was site of thousands of toxic gas deaths in 1984.

THE WASHINGTON POST

$420,000 a Year and No-Strings Fund

Conservancy Underreported President's Pay and Perks of Office

By JOE STEPHENS *and* DAVID B. OTTAWAY
Washington Post Staff Writers

Officials at the Nature Conservancy say their finances are an open book, a stance charity experts describe as essential to promoting public trust. Still, simple answers can prove difficult to get.

Questions about the compensation of Nature Conservancy President Steven J. McCormick and his access to a discretionary fund required prolonged discussions with Conservancy officials or brought conflicting or incomplete responses.

In February 2001, the Conservancy persuaded McCormick, a former longtime executive at the charity's California branch, to leave his San Francisco law practice and move to Virginia to run one of the nation's largest nonprofit organizations.

That fall, the Conservancy reported to the Better Business Bureau's charity-tracking service that McCormick's compensation was $275,000, plus usual health and retirement benefits.

In November 2002 Conservancy communications director David Williamson sent The Washington Post a chart showing that some nonprofits paid their presidents more—from the Boy Scouts of America at $308,000 to the American Red Cross at $377,000. Williamson also disclosed that McCormick had received a $75,000 down payment on a house.

After repeated inquiries over months, McCormick and other senior officials said that the Conservancy had underreported McCormick's compensation. In addition to his base salary, they said, McCormick also got a $75,000 signing bonus, a $75,000 yearly living allowance and a $1.55 million home loan from the Conservancy.

McCormick ultimately provided information showing that his compensation and benefits for 2002 totaled about $420,000.

He used the loan to buy a new $1.7 million house in the Reserve, an upscale subdivision in McLean.

Williamson initially said the Conservancy made the adjustable-rate home loan at 7 percent, which he described as the prevailing rate at the time. McCormick later said the rate was 6 percent. Real estate records showed it was 4.59 percent. McCormick apologized for providing inaccurate information. "We were wrong," he said.

A Jan. 17 memo to hundreds of Conservancy trustees informing them of the mortgage and The Post's inquiries described the rate as "above market." Mortgage specialists, however, said 4.59 percent appeared below market for such adjustable-rate loans last May. Keith Gumbinger, vice president of loan-monitoring company HSH Associates, described the terms as a "pretty good deal."

A Conservancy internal memo suggested that McCormick would have had trouble securing outside financing because he already had a mortgage in California and "did not have the ability at that time to carry two loans." After confirming the Conservancy's loan, McCormick said he planned to immediately repay it with bank financing to avoid "scrutiny of the propriety of the loan." On Thursday, a Conservancy spokesman said McCormick had repaid the home loan.

"I don't want to do anything that jeopardizes the reputation of the Conservancy," McCormick said.

In an interview Thursday, Williamson said he will be leaving his job on Friday, after 12 years at the Conservancy, to pursue "other business opportunities."

Other Conservancy documents obtained by The Post revealed a pool of cash known as "the President's Discretionary Fund." Those funds, memos show, paid for ads in six major national markets featuring nature scenes and Paul Newman's voice.

Questioned about the fund, Conservancy officials were initially vague. They eventually supplied figures showing it had swelled from $9.5 million in 1998 to $23 million last year.

Williamson told The Post the fund had been abolished. McCormick said that the discretionary account, renamed the Quick Strike Fund, held $3 million this fiscal year.

The documents identify the fund as the source of millions spent on marketing. Some of the fund's cash came from the sale of land considered ecologically insignificant, a memo shows.

The fund also paid for donor-tracking software, government relations programs, an Indonesian ecotourism project and unspecified "emergency needs" determined by McCormick, according to a written statement from the Conservancy in response to reporters' inquiries.

McCormick also used the fund last fall to dole out $600,000 to losing participants in a United Nations environmental competition. In August, at a South African conference, he announced the Conservancy would give $30,000 to each of competition's 20 runners-up. McCormick told The Post his announcement of the gifts was a spur-of-the-moment decision.

Public financial reports do not mention the discretionary account, but Conservancy officials said the funds are included in amounts reported in various categories. Conservancy finance director Craig T. Neyman described the account as money "in the budget without a corresponding use."

Told about the fund by a reporter, charity expert Daniel Kurtz called it "bizarre." Kurtz, a former New York charity regulator and author of guides for nonprofit managers, said such a large sum should be under direct board of directors' control.

"That," he said of the fund, "is a hell of a way to run a business."

Staff researcher Alice Crites contributed to this report.

BY MICHAEL WILLIAMSON—THE WASHINGTON POST

The nonprofit gave President Steven J. McCormick a $1.55 million loan for this new house in a McLean subdivision.

Image Is a Sensitive Issue

A look inside the Nature Conservancy reveals a whirring marketing machine that has poured millions into building and protecting the organization's image, laboring to transform the charity into a household name.

One Conservancy opinion survey measured the Conservancy's name recognition at only 5 percent of Americans concerned about the environment, well below the National Audubon Society's 8 percent, the National Wildlife Federation's 10 percent and Greenpeace's 17 percent.

Those polled viewed the World Wildlife Fund as more accountable and better at conservation, Audubon and the National Wildlife Fund more successful "in local areas."

Marketing experts recommended an ad blitz.

"Although some organizations, such as Greenpeace, have significantly higher name awareness, they are not highly respected," a 1999 report said. "The Conservancy has the opportunity to position itself with key segments as the most respected and well-known conservation organization, before another national organization gains this coveted spot."

The report urged the Conservancy to spend $5 million a year on its image, in part to counter World Wildlife Fund ads.

In response, the Conservancy in the fall of 2001 launched print and television ads featuring cowboys and loving couples amid sweeping landscapes. "We want the target audiences to associate their emotional affinity for nature with the work of the Nature Conservancy," a Conservancy report said.

The Conservancy's attention to its image includes an aggressive and carefully tailored media strategy. It long ago discussed the need for a plan to battle negative coverage. A coordinated effort swung into action as The Washington Post looked into Conservancy operations.

The nonprofit conducted "opposition research" into the organization's critics, a Jan. 15 internal memo obtained by The Post shows. The Conservancy also planned to meet with key members of Congress, the memo says, and line up "prominent responders" to protest any damaging disclosures.

Conservancy officials, the memo said, worried that the charity would be portrayed as if it had "systematically colluded with wealthy individuals and corporations to conduct land transactions that manipulate the tax code to the benefit of the affluent."

Conservancy executives feared their organization might be depicted as an "environmental Enron," the memo states.

Nonprofits such as the Nature Conservancy are not subject to Securities and Exchange Commission reporting rules. But in an earlier meeting, Conservancy officials speculated they might be compared to "for-profit companies recently involved in accounting scandals," according to a memo written by a Kentucky staffer recounting a Dec. 4 staff teleconference. The memo shows that Conservancy communications director David Williamson informed chapters nationwide about precautions "taken for the worst-case scenario."

One concern involved easements, which are binding restrictions on land development rights. The resulting reduction in the land's value may be tax deductible if the easement is "donated" to a conservation group.

"If you look at our revenues from last year, they're up from the year before, mostly due to the valuation of easements, which can be viewed as subjective and a tool we used to inflate our income," the memo stated.

Williamson said Friday the Dec. 4 memo contained errors, the Conservancy never conducted opposition research and never inflated valuations on gifts.

— Joe Stephens and David B. Ottaway

Selling Nature

The Nature Conservancy engages in sophisticated marketing, including a recent series of ads featuring the voice of Paul Newman and depicting landscapes saved from development.

SOURCE: The Nature Conservancy

THE WASHINGTON POST

The Washington Post

VA — Monday, May 5, 2003 — V3

BIG GREEN | *When Conservation and Business Fail to Mix*

How a Bid to Save a Species Came to Grief

Second of three articles

By Joe Stephens
and David B. Ottaway
Washington Post Staff Writers

TEXAS CITY, Tex.—Eight years ago, Mobil Oil gave the Nature Conservancy what was one of the group's largest corporate donations, a patch of prairie that encompassed the last native breeding ground of a highly endangered bird.

Mobil officials said that the donation offered "the last best hope" of saving the Attwater's prairie chicken, a speckled grouse whose high-stepping mating dance attracts avid bird watchers to the Texas plains each spring.

Then an unusual role reversal took place.

The Conservancy, whose core mission is preserving land to protect species such as the prairie chicken, started acting like an oil company. The Conservancy sank a well under the bird's nesting ground.

Drilling in sensitive areas is opposed as destructive by most environmentalists. But the Conservancy subscribes to an aggressive form of "compatible development," a pragmatic approach that seeks to accommodate the needs of business as well as environmentalism. The Conservancy wanted the Texas City Prairie Preserve to be a national model to show that drilling can be accomplished without harming the environment. It would use the drilling profits to buy more habitat for the birds.

That's not the way things worked out.

Today, there are fewer prairie chickens on the preserve than there were when drilling began. The number of endangered grouse nesting there has fallen from a peak of 36 in 1998 to a current estimate of 16. A previously unreported analysis by the Conservancy's Texas science director stated that the project had subjected the grouse

See BIG GREEN, *A10, Col. 1*

BY PHILIPPE DIEDERICH FOR THE WASHINGTON POST

An endangered Attwater's prairie chicken. Drilling to increase its habitat went awry.

BIG GREEN, From A1

to a "higher probability of death."

The drilling also led to legal and financial problems: Another national charity accused the Conservancy of stealing its mineral rights, forcing the Conservancy and its partners last year to pay a $10 million settlement.

After The Washington Post began looking into Texas City, Conservancy President Steven J. McCormick wrote an internal memo stating that the organization made an "incorrect" assumption about the mineral rights that resulted in "a mistake." But he insisted, "Our local staff always put the interests of the Attwater's prairie chicken first. . . . We did not compromise our commitment to our mission."

A Conservancy vice president told a reporter visiting the preserve 20 months ago: "We have not been able to detect any negative impact on the birds."

Records and interviews tell a more complex tale.

'Stealing Our Oil'

A century ago, the Gulf Coast was home to a million or more Attwater's prairie chickens, known for a courtship ritual marked by cocked tail feathers and inflated orange necks. Their numbers shrank as development gobbled up coastal grasslands.

Today, each member of the last wild, breeding population of Attwater's can be found on just 2,300 acres, a pancake-flat patch of tallgrass prairie an hour southeast of Houston.

Mobil drilled on the property until 1995, when it gave the land to the Conservancy. At the time, an executive called the donation "the last, best hope of saving one of the world's most endangered species." Mobil, a Conservancy official explained, wanted "to place the land with an entity that would act in the best interest of this endangered bird."

In 1999, the Conservancy announced its own intention to drill. It said it had consulted with the U.S. Fish and Wildlife Service, developed a management plan for the birds and would sink its wells far from the birds' primary habitat.

In late summer that year, Conservancy biologists planned to introduce captive-bred grouse into the natural flock, allowing the birds to acclimate before falcons and other predators returned. The Conservancy stressed that oil work would halt by Sept. 1 to make way for the releases.

Drilling began mid-summer that year.

The story might have ended there if not for the patchwork of oil rights underlying the preserve.

A year later, in July 2000, Houston oilman J. L. "Jack" Schneider Jr. wrote a letter to the 96-year-old nonprofit Russell Sage Foundation of New York. He said he had made "a cursory examination" of Texas records and noticed that for decades the foundation had owned partial oil rights for a 1,000-acre plot.

Schneider described his interest as "speculative," based largely on the discovery of gas beneath land 14 miles away. "We have no data indicating your area is, or will be," profitable, Schneider wrote.

He offered to buy the foundation's rights for $26,176.

The foundation sent a consultant to evaluate, which led to startling conclusions: that Schneider was fronting for the Conservancy; that the preserve's mineral rights were worth millions; and that the Conservancy already had begun draining the foundation's natural gas.

The result was a bitter legal battle between two nationally respected nonprofits. The Sage Foundation ultimately accused the Conservancy of orchestrating a "conspiracy" to satisfy its "greed."

"As far as I am concerned, it was criminal," said James Roane, a former Conservancy member who co-owned a portion of the mineral rights. "They were stealing our oil."

A Hidden Buyer

Mineral rights on the Texas City Prairie Preserve had been divided in two. In the north, the Conservancy shared the rights with the Russell Sage Foundation and 39 other investors. In the south, the Conservancy held exclusive rights. The grouse's habitat straddled both tracts. So did a large pocket of natural gas.

By the time of Schneider's offer, Conservancy contractors already had drilled for gas on the south tract. Instead of drilling straight down, they turned and bored northward, traveling to within 600 hundred feet of the north tract. The Conservancy later argued that lateral drilling avoided disturbing the grouse's habitat. Unknown to the north tract owners, the Conservancy's well had tapped into the natural gas deep beneath both tracts. Soon the Conservancy was selling gas owned by all the rights holders on the south *and* north tracts.

The Conservancy's plan to acquire the north tract mineral rights was born on a turkey hunt. Schneider testified that that's when he recalls exploring the idea with Tom Rollins, an honorary trustee in the Texas chapter of the Conservancy and the chapter's former board chairman. He and other Conservancy officials agreed to send Schneider to acquire the north-tract rights without disclosing the true buyer.

"It sounded like it was a good idea," Ray Johnson, then the Conservancy's manager for eastern Texas, recalled in a deposition. Rollins later defended the hidden-buyer strategy as "industry practice" and a way to cheaply acquire the rights.

Sage Foundation lawyers described it this way: "Schneider and Rollins fabricated a story to hide the truth."

Schneider, who did not return telephone calls, denied in a deposition that he had done anything misleading. Under questioning, however, Rollins acknowledged that Conservancy officials had "ratified" Schneider's tactics and his "misleading" story.

The Conservancy's plan for acquiring the charity's natural gas rights, Rollins agreed under oath, relied on a "lie."

In a hearing, a Sage Foundation lawyer said: "What they did was basically try to steal our interest. . . . They lied. They lied. They lied some more."

Dead Birds

The wrangling in a tiny Texas courthouse dealt only with money. But paperwork generated by the litigation shows some Conservancy officials feared the drilling had harmed the endangered grouse.

Allowing newly released, captive-bred birds to acclimate to their wild surroundings was "critical," a Conservancy biologist said, placing the preferred release window in late July and early August. After that, predators would return and the birds' chances for survival would plummet.

When the Conservancy drilled in 1999, it needed a pipeline to transport the natural gas to an interstate line. Due to construction delays, the pipeline work continued into late summer and then into the fall.

Although the Conservancy's agreements with contractors required that they complete work by the end of July for the sake of the birds, the charity did not halt construction. It allowed work to continue until November, according to depositions and an April 2000 draft report prepared by James Bergan, the organization's Texas science director, and Matt Williams, then manager of the preserve. The Conservancy released the birds three months late.

The report says Williams believed the delay "may have compromised" the operation, noting that all the captive-bred birds "died shortly after their delayed release in November." The report said Williams's opinion was not "conclusive evidence" but "should not be taken lightly."

Although the report did not give a specific number, federal figures show that 17 captive-bred birds were released on the preserve that year.

Bergan wrote in an analysis prepared in June 2002 that "well completion delays forced a delay in releasing [prairie chickens] and subjected them to higher probability of death from raptor predation."

Williams declined to comment. Bergan said recently that, despite his report's wording, only Williams believed that delays led to the birds' death. Today, Bergan said, he considers the pipeline work to have been one possible factor. "We'll never know if the survival of those birds were or were not tied to the pipeline," he said.

In his deposition, Johnson said that if the endangered birds were the sole concern, "it would have been better if we didn't have any activity on our preserve."

There were other problems: A Conservancy vice president testified that the organization's drilling contractors were difficult to manage, saying, "They were always pushing, pushing, pushing, pushing. And we had to be like a brick wall to protect those birds."

Documents also reveal that a gas explosion and an unspecified number of oil spills took place at the preserve. Then, in 2001, five captive-bred birds that the Conservancy hoped to introduce into the flock died in a deluge while confined to a pen awaiting release, according to a Fish and Wildlife Service e-mail.

Biologist Stanley A. Temple, who toured the site in October at the Conservancy's request, wrote in a report: "I was shocked to find, for example, that one of the release pens is subject to flooding in heavy rains, and that birds have drowned in the pen."

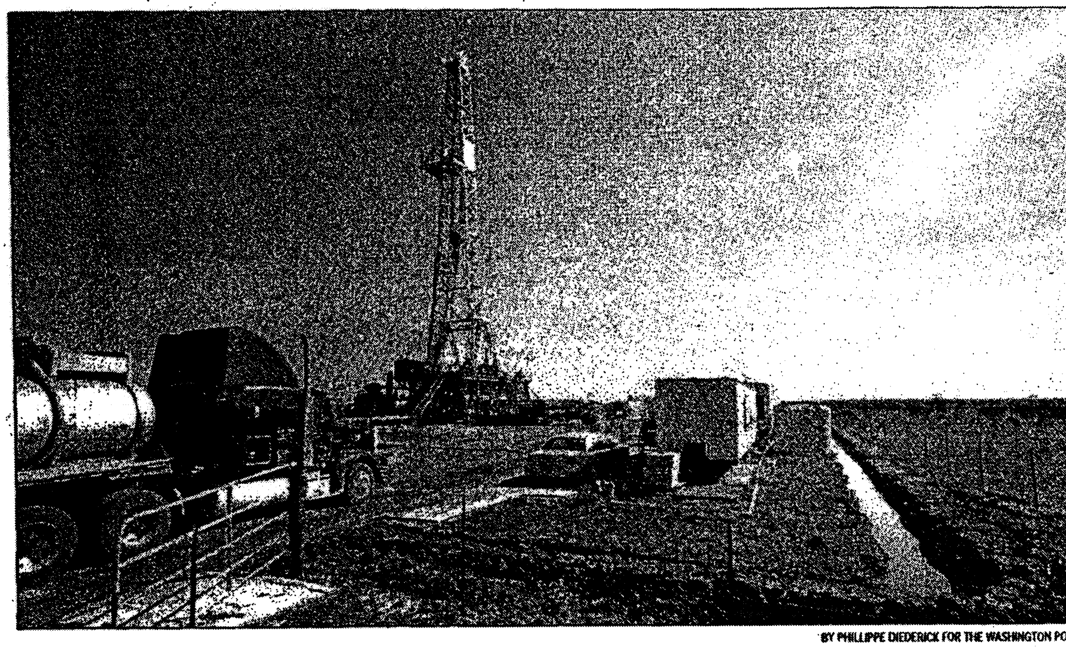
Temple was also surprised at the radio tracking devices on the captive-bred birds.

"All released prairie chickens are radioed with permanent 'poncho-style' harnesses," he wrote. "These will remain on the bird long after the transmitter has died (in a few months) and continue to compromise the bird throughout its life. There is no way that I can justify this practice."

Managing Risk

By January 2002, the Conservancy's natural gas operation had generated about $8 million in revenue. Officials planned to spend half purchasing additional habitat along the Gulf Coast, but failed to do so. Now, much of the profit has gone toward the lawsuit settlement.

After contributions from its insurance company and partners, the Conservancy said it paid $5.6 million toward the $10 million settlement.



BY PHILLIPPE DIEDERICK FOR THE WASHINGTON POST

Drilling was intended to generate funds to be used to expand the habitat of the endangered prairie chicken.

The Conservancy still expects to make a net profit on the well and says it will spend the money on the endangered birds. After The Post began examining the Texas City project, Conservancy President McCormick issued a memo to staffers and state trustees describing "tactics" used at the preserve as "not consistent with our values." McCormick informed the the trustees about the newspaper's inquiry and stressed that he saw nothing to be gained by "keeping bad news quiet."

That startled parties to the suit, who said that in return for the $10 million settlement, the Conservancy had demanded that they sign gag orders. Many declined.

McCormick later explained in an interview: "We just didn't want people to talk about how ... stupid we were."

Last October, the Conservancy dispatched Temple, a trustee of its Wisconsin chapter, to Texas City. Temple later said in a report, "The steps taken to minimize the possible disturbances associated with the current oil and gas production seem adequate to protect the birds... although minor incidents have occurred from time to time, none of them has apparently posed any threat to the birds."

Today, the Conservancy continues to pump gas from Texas City.

"The takeaway lesson from our experience at Texas City," McCormick wrote, "is that we need to learn how to manage the risk, not how to avoid it altogether."

In a written defense of the Texas City project, Conservancy officials said:

"Our staff and independent scientists, including one of the world's leading ornithologists, have confirmed that our decisions and actions regarding oil and gas activity have not compromised the protection of the prairie chicken...."

"It is also important to note that there are no other projects in which the Conservancy has initiated oil and gas drilling. It would be inaccurate to suggest this is a common practice at the Conservancy."

There is another environmental group that has experience with drilling on one of its preserves. The Audubon Society received land in 1924 along Louisiana's coast where the donor retained the drilling rights. The drilling started two decades later, and Audubon received a portion of the proceeds. There were no endangered species on the land, but Audubon eventually decided the drilling was too destructive. Audubon and the donors agreed to stop it in the fall of 1999.

Just as the Audubon Society was getting out of the drilling business, the Conservancy was getting in.

"We have learned from experience that opening fragile nature areas to drilling causes long-term damage to the environment," John Bianchi, Audubon's spokesman, said in January 2001. He added in a recent interview: "This is our cautionary tale for the Nature Conservancy to think about."

Staff researchers Alice Crites and Lucy Shackelford contributed to this report.

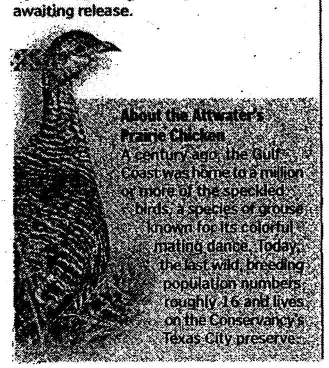
BIG GREEN | *When Conservation and Business Fail to Mix*

The Nature Conservancy Drills for Gas in a Texas Preserve

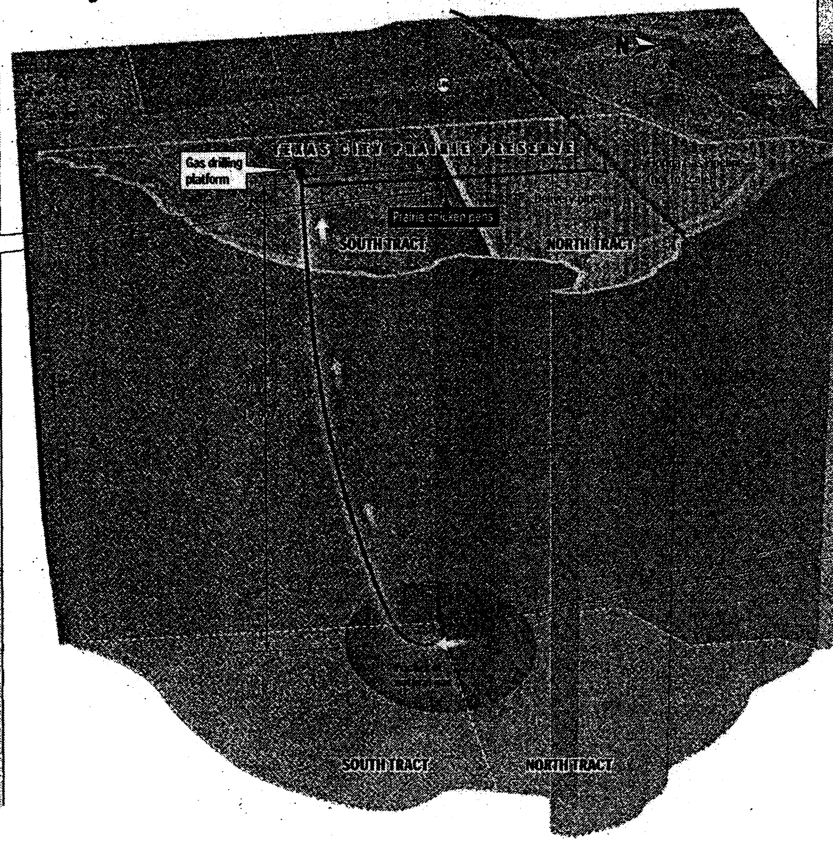
Birds in trouble . . .

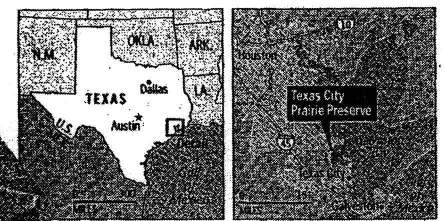
Mobil Oil donated the Texas City preserve to the Conservancy as "the last, best hope of saving one of the world's most endangered species." The Conservancy planned to bolster the Attwater's prairie chicken flock by introducing captive-bred birds in late summer of 1999, giving them time to adjust before hawks and other migrating predators returned. But the Conservancy had also contracted to drill on the land, and when pipeline construction fell behind, the birds' release was delayed to November. That year, each of the 17 captive-bred birds died.

Documents show that in recent years the preserve has been the site of oil spills and at least one explosion. In one incident, prairie chickens confined to a pen died during a deluge while awaiting release.



About the Attwater's Prairie Chicken
A century ago, the Gulf Coast was home to a million or more of the speckled birds, a species of grouse known for its colorful mating dance. Today, the last wild breeding population numbers roughly 16 and lives on the Conservancy's Texas City preserve.

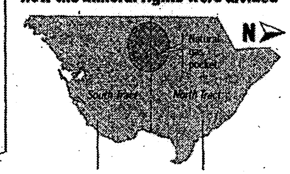




. . . and investors in the dark

Oil and gas rights below the Texas City Prairie Preserve were divided. The Conservancy owned all rights in the south, but shared them in the north. When it drilled in the south and struck a pocket of natural gas located on both sides, the Conservancy did not alert the other parties.

How the mineral rights were divided



THE SOUTH TRACT
The Conservancy held sole rights.

THE NORTH TRACT
The Conservancy shared rights with the Russell Sage Foundation of New York and 39 other investors.

How the Conservancy profited

When the Conservancy drilled a well on the south tract, it didn't bore straight down. The drill slanted northward, traveling to within 592 feet of the north tract and tapping into a massive pocket of natural gas that lay under both tracts. The Conservancy profited by selling gas jointly owned by all the rights holders.

BY DOUG STEVENS, LARIS KARKLIS AND LAURA STANTON—THE WASHINGTON POST

On Eastern Shore, For-Profit 'Flagship' Hits Shoals

Local Ventures Launched, Foundered and Failed

By DAVID B. OTTAWAY *and* JOE STEPHENS
Washington Post Staff Writers

OYSTER, Va.—With great difficulty, the Nature Conservancy five years ago hoisted an abandoned U.S. Coast Guard station building onto a dolly, slipped it onto a barge and shipped it six miles to the outskirts of this little town on Virginia's Eastern Shore.

For $3 million, the 210-ton Cobb Island Station was then converted into a rustic 12-room inn intended to anchor a high-end tourism venture. The inn was part of a collection of for-profit ventures the Conservancy launched here in the 1990s to convince the dwindling local population that small business could be profitable and preservation-friendly.

Now, the Conservancy has determined the Cobb Island Station project was a waste of money. The restored inn is shuttered and for sale.

One by one, the other Conservancy-backed business ventures at the group's 45,000-acre Virginia Coast Reserve failed. In October, auditors tallied the cost—millions in losses and a slew of failed companies. They also found that the project—which envisioned a locally based sweet-potato-chip company, an oyster-and-clam operation, even a real estate development—was beset by incoherent planning, "management issues" and properties that were a "sink for resources."

The subject headings in an independent report commissioned by the Ford Foundation, one of the project's financial backers, list more succinct reasons for what went wrong: "flawed concept," "flawed business plan," "flawed execution."

The troubles demonstrate the difficulty of the Conservancy's strategy of blending for-profit businesses with community-based conservation.

The reserve's financial mess led to the resignation of its longtime director and the reassignment of the Conservancy's one-time acting president, W. William Weeks, the project's primary promoter. It spurred an internal assessment reappraising the Conservancy's ability to engage in money-making businesses. The Conservancy audit found that despite the reserve's $53 million in assets and multimillion-dollar budget, it had "not traditionally employed a person to focus explicitly on its finances." The assessment charged that in pursuing expensive real estate, managers had lost sight of ecological goals.

In addition to tourism, the Conservancy had planned to use the Virginia reserve for "eco-friendly" seaside farms and waterfront homes. But it now believes liquidating the business is the only solution. In recent months, the Conservancy has put most of its 15,000 acres of seaside farms on the market.

The Washington Post began investigating the Conservancy's Virginia reserve business project—which the group had called its "flagship" for-profit venture—after sources within the Conservancy raised concerns. The Post visited the site and obtained the previously unreleased Ford study.

After repeated inquiries, the Conservancy released to The Post an internal 28-page program assessment of the reserve's operations completed in August. The Conservancy refused to release its full audit report. Instead, Conservancy officials provided a two-page summary.

The main promoters of the Conservancy's business experiment were Weeks and a former president, the late John C. Sawhill, an energy official in the Nixon, Ford and Carter administrations.

In a 1997 book called "Beyond the Ark," Weeks argued that the best way to conserve land was to convince local communities to stop selling forests and farms to subdivision builders and instead choose less intrusive development.

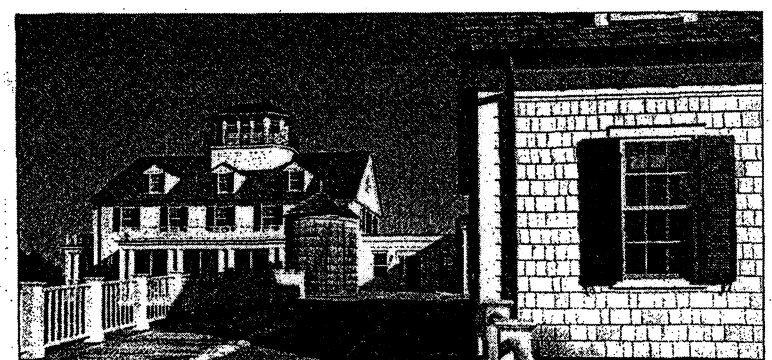
At Weeks' suggestion, the Conservancy in 1995 established the Center for Compatible Economic Development, with an annual budget of $1.5 million and total autonomy. Weeks and everyone else referred to it as his "skunk works."

It launched more than 30 ventures nationwide with seed money provided by Conservancy donors and foundations. Some of the businesses were for-profit, others initially tax-exempt but expected to soon become self-sufficient.

In Virginia, the skunk works set up its flagship operation near the Virginia reserve, a collection of 14 pristine barrier islands owned by the Conservancy. The center launched the for-profit Virginia Eastern Shore Corp. as a holding company for as many as 15 enterprises. The activities included real estate development and tourism, clam and oyster farming, arts and crafts and Hayman Potato Chips, a local specialty sweet-potato chip. Investors included the Ford Foundation, which contributed $1 million of the initial $2.25 million in capital.

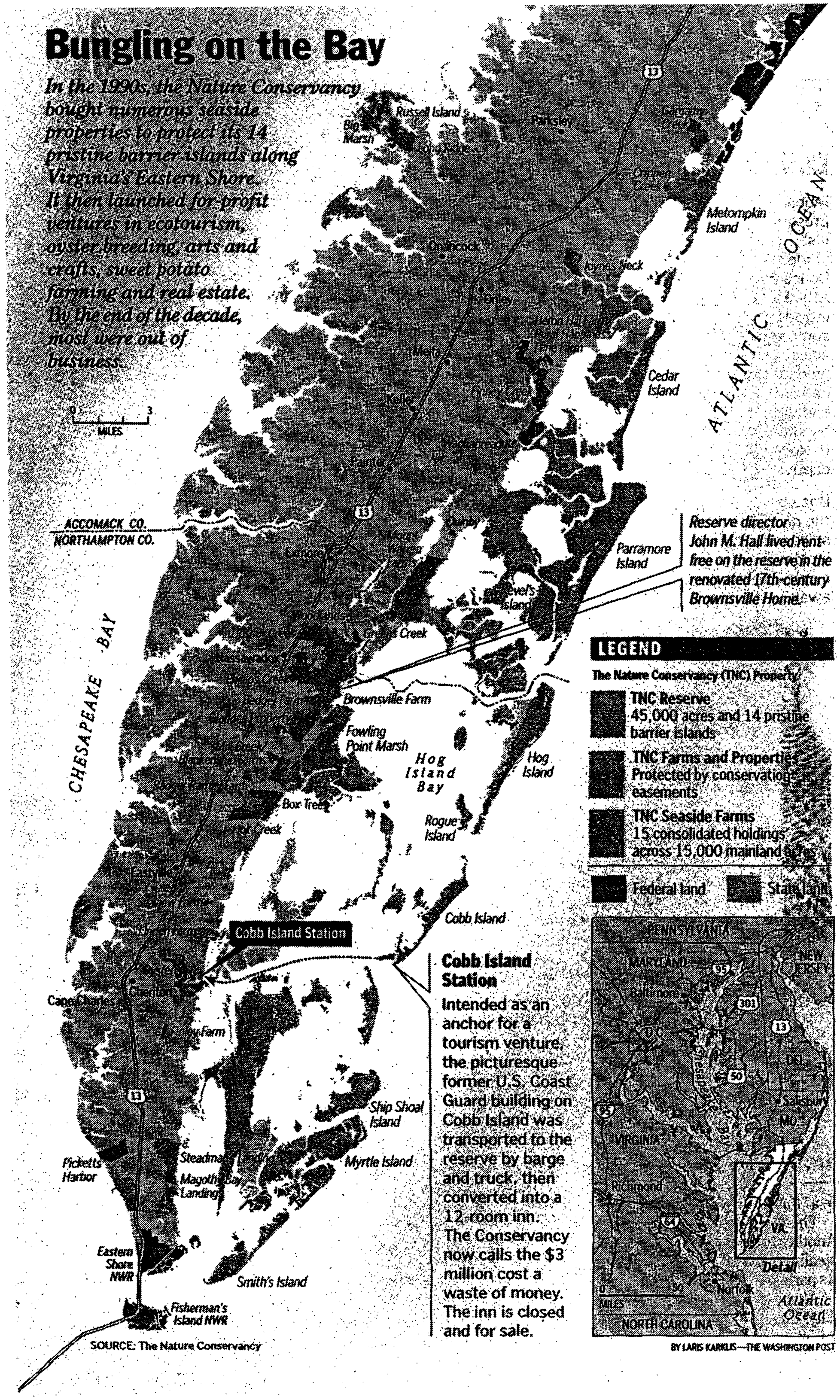
The reserve's director, John M. Hall, lived rent-free on the reserve in the renovated 17th-century Brownsville Home, which had once been used for community tours and meetings. The Conservancy's internal assessment later criticized the living arrangement as "not appropriate," but Hall said the on-site housing was provided as a condition of his job. (Conservancy officials now say they do not permit employees to live at Brownsville.)

Hall began buying seaside farms and waterfront properties, using the Conservancy's Land Conservation Fund. Some properties were used for business



BY MICHAEL WILLIAMSON—THE WASHINGTON POST

By wheels and barge, former Coast Guard station was hauled six miles to help anchor ambitious tourism venture.



Bungling on the Bay
In the 1990s, the Nature Conservancy bought numerous seaside properties to protect its 14 pristine barrier islands along Virginia's Eastern Shore. It then launched for-profit ventures in ecotourism, oyster breeding, arts and crafts, sweet potato farming and real estate. By the end of the decade, most were out of business.
MILES
Russell Island
Parksley
Metompkin Island
ATLANTIC OCEAN
Onancock
Cedar Island
ACCOMACK CO.
NORTHAMPTON CO.
Parramore Island
Reserve director John M. Hall lived rent-free on the reserve in the renovated 17th-century Brownsville Home.
CHESAPEAKE BAY
LEGEND
The Nature Conservancy (TNC) Property
TNC Reserve
45,000 acres and 14 pristine barrier islands
TNC Farms and Properties
Protected by conservation easements
TNC Seaside Farms
15 consolidated holdings across 15,000 mainland acres
Federal land
State land
Brownsville Farm
Fowling Point Marsh
Hog Island Bay
Hog Island
Box Tree
Rogue Island
Cobb Island
Cobb Island Station
Cobb Island Station
Intended as an anchor for a tourism venture, the picturesque former U.S. Coast Guard building on Cobb Island was transported to the reserve by barge and truck, then converted into a 12-room inn. The Conservancy now calls the $3 million cost a waste of money. The inn is closed and for sale.
PENNSYLVANIA
MARYLAND
NEW JERSEY
Baltimore
VIRGINIA
Richmond
Norfolk
NORTH CAROLINA
Detail
Atlantic Ocean
Cape Charles
Ship Shoal Island
Myrtle Island
Picketts Harbor
Magothy Bay Landing
Eastern Shore NWR
Smith's Island
Fisherman's Island NWR
SOURCE: The Nature Conservancy
BY LARIS KARKLIS—THE WASHINGTON POST

projects, others resold to buyers who agreed to limit development. The farms were consolidated into 15 large holdings covering 15,000 acres around the towns of Nassawadox and Oyster.

On the 360-acre Philips Creek Farm, Conservancy officials plotted one-acre wooded, ocean-front lots, priced at $125,000 each. The Conservancy advertised in the local paper and received 400 inquiries. But the project was halted before any lots were sold.

Hall also spent millions to develop and renovate properties. At his urging, the Conservancy's board approved a $3.5 million bond issue to help cover costs of the elaborate project to convert the former Cobb Island Station into a country inn.

In mid-1999, the Conservancy's flagship Eastern Shore Corp. suddenly went belly up. Its collapse set off alarms at the Conservancy's headquarters in Arlington. The Ford Foundation commissioned an independent inquiry in late 2000.

Parts of that report, obtained by The Post, document how the Eastern Shore enterprise burned through 86 percent of its initial capital over the first two years before collapsing in "a sea of red ink" in August 1999.

The report excoriated Eastern Shore's management for systematically refusing to listen to outside advice or warnings. The report blamed hubris. The Eastern Shore Corp. "would do what no one else had ever done—and show the rest of the Nature Conservancy, not to mention the world, how to do it," the report asserted.

Instead of aiding farmers, artisans and business people, the Eastern Shore Corp. had micromanaged everything. "In doing so, it became more of an intruder than a catalyst to local action," the report said.

The report said the Conservancy's attempt to go into business was "the story of a fish out of water."

Direct operation of businesses, the Ford report said, "was a step too far" for the Conservancy.

The Conservancy's own assessment noted that too much money was tied up in properties of no ecological import. The project failed in its core mission, the assessment found, and the efforts had not slowed destruction of the feeding grounds for millions of migratory birds.

The assessment also found that the Conservancy's support of the local clam industry with loans and leases led to "unintended negative consequences": the farms polluted the ocean as the "scale of operations begins to exceed sustainable levels."

The conclusion: "Compatible economic development may create as many problems as it solves."

Ruminating on the Eastern Shore experience, Conservancy President Steven J. McCormick recently expressed doubts about the organization's ability to handle commercial ventures.

"We're a nonprofit organization," he told The Post. "We don't tend to think like a business. . . . That's okay, probably even appropriate, but it means we're very inexperienced in running a business. We've learned from experiments that it's real hard."

In late 2001, the Conservancy merged its Virginia Coast Reserve operations into its Virginia chapter. The Conservancy's executive summary of its internal audit report said that as of March 31, 2002, the reserve had liabilities of $24 million—$20 million of it owed to the parent Conservancy, mainly for land purchases. Conservancy officials said that that internal debt has since been reduced to about $13 million through the sale of several seaside farms.

Hall, who headed the Virginia Coast Reserve for nearly two decades, resigned in October 2001. He said in an interview he had never seen the Conservancy's audit report or program assessment. But he said when he left, "we were in very good shape financially" and "way ahead in paying off our debt."

He said "mistakes" had been made, but added that "we made a lot of little steps in the right direction."

Weeks, once number two in the Conservancy hierarchy, served for a while as a senior adviser to McCormick with no specific duties. He left the Conservancy on April 25.

Reflecting on lessons learned, Weeks conceded his primary goal—establishing successful and environmentally compatible for-profit businesses—had proved elusive.

"We didn't make that business work," Weeks said. "The lesson I take from it is, do a better job managing the business if we're going to do that kind of thing again."

The Beef About the Brand

Of all the products that carry the Nature Conservancy imprimatur, perhaps the most unexpected is beef.

Hamburger, rib-eye, filet mignon and tenderloin kebabs that can "satisfy your conscience" are sold under the name Conservation Beef, a brand the Conservancy co-owns with the tax-exempt Artemis Wildlife Foundation.

They use the program to bolster imperiled cattle ranches and, along the way, entice ranchers into environmentally friendly grazing practices. Another goal is to persuade them not to sell their land to developers. In an open letter to customers on the Conservation Beef Web site, a Conservancy official writes, "Your purchase will help save great Western landscapes for future generations."

Conservation Beef costs more than the average supermarket T-bone. That premium allows the program to pay ranchers a few cents more per pound than they could pocket selling cattle on the open market. That can translate into $5,000 or so in additional annual profit per rancher.

The program is designed to sell conservation values to ranchers, who have an "Us versus Them" attitude toward environmentalists, said Artemis President Brian Kahn, who developed the idea while working for the Conservancy.

"This is not some good-old-boy system," Kahn said.

However, Consumers Union, which publishers Consumer Reports magazine, said the program has a conflict of interest "since [Conservation Beef] helps create the guidelines and [Conservation Beef] benefits from the sale of the product."

CU's Urvashi Rangan said, "The ranchers pretty much can do whatever they want. They have very loose guidelines."

Program literature shows that the ranchers help craft their own "stewardship plans," following guidelines agreed on with the Conservancy.

The stewardship plans vary widely. "It is the rancher's right and responsibility to determine specific management proposals to meet the [Conservation Beef] Stewardship Standards," according to the guidelines.

The program works to place development restrictions on participants' land. But ranchers may preserve their rights to subdivide, develop and sell portions of their ranges. Restrictions may affect only part of the grazing land they use. Guidelines have escape clauses, allowing ranchers to substitute "another mutually acceptable way."

Madison Valley Ranchlands Group, comprised of Montana ranchers, helps monitor the program. Ranchlands President John Crumley sells cattle to Conservation Beef himself.

Kahn said that "the monitoring program will be a serious program," but added that it has yet to begin and he does not know what form it will take.

A sales pitch on the Conservation Beef Web site is co-signed by Montana rancher Randy Smith.

Smith said in an interview he has always used the same ranching methods, despite the mention of "innovative land-stewardship plans" in the letter bearing his name.

"People learned a long time ago in this area that if you don't take care of the land, it will take care of you," Smith said. "That's been around for a long time; Conservation Beef is relatively new."

Smith also said he no longer sells beef to the program. Some family members did not want to sign away development rights to their ranch.

— Joe Stephens and David B. Ottaway

The Washington Post

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TUESDAY, MAY 6, 2003

BIG GREEN | *A House in the Woods*

Nonprofit Sells Scenic Acreage to Allies at a Loss

Buyers Gain Tax Breaks With Few Curbs on Land Use

Last of three articles

By JOE STEPHENS
and DAVID B. OTTAWAY
Washington Post Staff Writers

On New York's Shelter Island, the Nature Conservancy three years ago bought an undeveloped, 10-acre tract overlooking its Mashomack Preserve, an oasis of hardwoods and tidal pools located just a stone's skip from the exclusive Hamptons. Cost to the charity: $2.1 million.

Seven weeks later, it resold the land, with some development restrictions, to James Dougherty, former chairman of the charity's regional chapter, and his wife, Nancy, a trustee at the Conservancy's preserve. Cost to the Doughertys: $500,000.

BY JAMES M. THRESHER—THE WASHINGTON POST

Retired Goldman Sachs executive Daniel W. Stanton is building on Martha's Vineyard after Conservancy property deal opened up environmentally sensitive land.

The transaction follows a pattern seen in Conservancy land deals across the nation. Time and again, the nonprofit has bought raw land and resold it at a loss to a trustee or supporter. The sales are part of a program to limit intrusive development, but generally allow buyers to construct homes on the environmentally sensitive sites.

The buyers, in turn, cover the Conservancy's costs by giving the charity cash gifts in amounts roughly equal to the organization's loss on the sale—$1.6 million in the Shelter Island deal. The donations benefit the buyers, allowing them to take significant tax deductions—just as if they had given money to their local charity.

The public benefits, too, the Conservancy stresses, because during the transactions it attaches to the deeds permanent restrictions prohibiting development. Those restrictions lower the land's market value, the group says, justifying resale at reduced prices.

On Shelter Island, an easement added to the deed does block development: subdivision, mining, drilling, dikes, dams, garbage dumps and wholesale destruction of vegetation.

But there are exceptions:

The covenant authorizes construction of a single-family house of unrestricted size, garages, a swimming pool, a tennis court, a home office, a guest cottage and a writer's cabin. It allows relocation of an access

See BIG GREEN, *A8, Col. 1*

BIG GREEN, *From A1*

road, installation of septic facilities, construction of foot trails and related excavating, filling and bulldozing. It permits outside benches, tables, chairs, gazebos, birdbaths and screened tents.

It allows cutting firewood for personal use and, on a particular portion of the property, it authorizes tree cutting, hillside terracing, gardening and lawn planting, all to provide the owners with "enjoyment of views." It approves construction of a dock on an ocean cove.

What it does not require: public access.

Dougherty said the restrictions did not affect his plans for the property.

"We got exactly what we would have gotten anyway," Dougherty said. "We just wanted a home there."

Federal tax rules do not allow charitable deductions for ordinary payments made to purchase property. Tax specialists consulted by The Washington Post said that in some Conservancy land deals the deductions appeared questionable. The Conservancy supplied a written opinion by a tax expert who disagrees.

An Internal Revenue Service ruling defines a charitable donation this way: "A voluntary transfer of money or property that is made with no expectation of procuring a commensurate financial benefit in return." If the expected benefits are "sufficiently substantial to provide a quid pro quo for it, no deduction . . . is allowable," the ruling states.

Whatever the tax implications, it clearly remains a source of concern. One Conservancy trustee who benefited from such tax breaks described the transactions as "not illegal," yet was reluctant to discuss details because he said he wanted to avoid alerting the IRS.

The trustee, Philip Reed Jr. of New Jersey, explained: "I don't want to attract any attention to this in any way."

BY I. MICHAEL DOMBROSKI—NEWSDAY

A preserve on Shelter Island, N.Y., where buyer bought land for $500,000 and donated $1.6 million to Conservancy.

A Creative Mechanism

The Arlington-based Nature Conservancy, the world's richest environmental group, is best known for buying wilderness and holding the tracts in perpetuity, to insulate wildlife from development. Even though the organization's resources are vast—its assets total $3.3 billion—its officials realized some time ago that the charity's money could never protect as much land as they wished.

So as the Conservancy grew it looked for ways to leverage its resources. Eventually, it latched on to a creative mechanism for controlling growth: It encouraged property owners to place easements—permanent restrictions limiting development—on their land. IRS rules allow the landowners to take tax breaks for the reduction in the land's value caused by the easements.

Less well known is an increasingly common variation on that practice, through which the Conservancy helps what it calls "conservation buyers" obtain undeveloped parcels. Under this arrangement, the Conservancy purchases the property, attaches the restricting easement itself and then resells the land to an individual at a steep discount. The Conservancy stresses that all properties are sold for values that can be "justified by reasonable appraisals."

The Conservancy promotes the deals as a way to preserve wilderness by limiting construction. Several buyers told The Post that the restrictions did not affect their land use, because they had no plans to bulldoze the property and erect tract housing. Conservancy officials regularly try to tailor such easements to an individual buyer's desires.

A Conservancy brochure seeks to reassure buyers that a conservation easement does not take away all their property rights. "When people own land, they own rights that go with the property," the brochure states. "The right to graze cattle, erect a home, subdivide, extract minerals or hunt on the property are some examples of these rights. . . . Easements often allow continued grazing, fencing, irrigation, hunting and other traditional land uses."

In a written response to questions, Conservancy officials acknowledged that it was "true that many of our conservation buyers have been trustees," and that the charity is proud of each transaction. The statement emphasized that Conservancy state trustees have no formal legal or fiduciary authority at the organization. That power resides in the national Board of Governors.

The Conservancy said that conservation buyer deals amount to a fraction of their overall land transactions on behalf of preservation: 186 out of 12,000 deals since 1990.

"The goal in every case is [to] find a suitable buyer, whether that person is a Conservancy trustee or not," the statement said. It also stressed that charitable gifts to the Conservancy were "not legally tied" to the transactions, an assertion that appears at odds with statements by some participants in the deals.

The Conservancy declined to supply a complete list of its conservation buyers, saying that would violate their privacy. The Post identified a handful of buyers willing to discuss their savings.

Each said protecting land from development, including construction of what they described as cheap and unattractive homes, was a prime motivation. The buyers also said that tax breaks and a chance to develop their own house in the wilderness sweetened the deals.

New York: Shelter Island Sanctuary

In the Shelter Island case, Dougherty, a retired Manhattan lawyer, said he coveted the plot next to the lush Mashomack Preserve as a potential home site. He also wanted to protect the land, located two hours from New York, from overdevelopment. But he said the owners would not let it go.

At a party, Dougherty lamented this fact to a Conservancy official, who offered to help.

"They said, 'We will buy it from the [owners] and resell it to you,'" Dougherty recalled.

The Conservancy bought the tract for $2.1 million, then transferred it the Doughertys for $1.6 million less.

At closing, Dougherty said he and his wife made a donation to the Conservancy of more than $1 million. Over the next 15 months, they contributed an additional $600,000.

"They are basically one transaction," Dougherty said of the donation and the purchase payments. "We made them whole."

Dougherty had committed to the gift before the Conservancy agreed to buy the land.

"I signed a pledge for the $1.6 million," he said, without which the deal would not have gone forward. "They weren't going to obligate themselves if I wasn't obligated."

The transaction was approved by his attorney and provided him with substantial tax write-offs, he said. To date, the IRS has not objected. The easement restricting development also reduced the land's assessed value, slashing his property tax bill.

Dougherty said his goal was preservation and he suspects he will never build there. He quickly added, however: "I have a right to; it would be a nice house."

"It's great for us because we can, one day, if we want, have a house next to this beautiful preserve."

Kentucky: A Bucolic Horse Farm

A few years ago, Lisa Estridge was looking for a farm in Kentucky horse country. Her father, Philip Reed Jr., who is a Conservancy state trustee in New Jersey, suggested that she enlist the group's help.

Estridge was captivated by a bucolic 350-acre Kentucky River tract. She persuaded the Conservancy to buy the land and resell her a portion adjacent to a Conservancy preserve.

In April 2000, Estridge said, the Conservancy purchased the tract, paying about $367,500 for 146 acres. The Conservancy added an easement, records show, which allowed construction of two houses and development of a horse farm, but otherwise prohibited industrial development. The Conservancy resold the plot to her father seven weeks later for $252,500.

At the closing, Reed recalled in an interview, he signed a letter of intent to make a charitable contribution. A month later, Reed said, he made a tax-deductible donation to the Conservancy for the difference between the two amounts—an amount he remembered as $132,300. (Conservancy officials report slightly differing figures, calculating the group's original purchase price as $335,800 and Reed's donation as $113,200.) By designating the check as a donation, instead of part of the purchase price, Reed said he could deduct the amount of the gift, offsetting income taxed at 39 percent. In effect, he said, "the federal government is buying part of the land for you."

Reed structured the purchase and the donation into two payments so that, he explained, "you don't get into an argument with the IRS."

"You don't want to put it in there as part of the actual purchase contract," Reed said of the contribution. "What you do is sign a letter of intent to make the donation. . . . The IRS cannot argue with fact; there's nothing you can do about it."

His daughter used similar wording, explaining that the IRS could challenge an appraiser's estimate of the reduction in the land's value. By instead writing a check, Estridge said, "They can't debate that you have given a charitable organization $125,000. You did."

She stressed that the cash donation was required.

"They wouldn't sell it to you for a lower price," Estridge explained. "That was just a strategy" to generate a tax break.

When told some tax experts questioned that strategy, Reed balked at explaining further and described the topic as a "minefield."

"I don't want the IRS to think they've suddenly got something they can use," Reed said. "I don't want to attract any attention to this in any way."

He described the transaction as "not illegal" and preferable to the more common—and widely accepted—arrangement under which a landowner donates an easement. Under that system, the owner values the lost development rights and deducts that amount from taxes.

"Generally, the buyer puts too much value on it" for tax purposes, Reed said, citing his experience as a Conservancy trustee. "Land donators almost always try to value their land at more than the [true] value.

"This is a business," he said. "We sort of wince and look away at some of the values buyers put on these transactions. We're not the IRS."

Reed eventually transferred part of the farm's acreage to his daughter, who built a six-bedroom house and created a 20-stall horse barn. Cattle also graze there. The easement has not affected her land use, she said. In fact, Estridge said she and her father might have bought the tract and used it in the same way even without the Conservancy's involvement—and without the gift from U.S. taxpayers.

"I wanted this land," Estridge stressed.

The easement authorizes construction of two houses, outbuildings, garages, toolsheds, a barn, fences, driveways, paths, septic systems, underground pipes, overhead wires, swimming pools and tennis courts. It permits commercial farming, hay cutting and cattle grazing. The land may also be subdivided for sale to two buyers.

"There aren't big restrictions," she acknowledged. "I wouldn't have agreed to the easement if it would have changed my plans."

The easement continues to save her money: She said the county assessor values her 146 acres and the new six-bedroom house at $150,000. "It was so low I laughed," she said.

Estridge said that, before she and the Conservancy stepped in, former owner Lawrence Morton planned to crowd the farm with mobile homes. In an interview, however, Morton said that it would have been too expensive to construct roads and water lines, so the land probably would have ended up much as it will now: large houses on 50-acre lots.

Morton said he concocted a story about towing in double-wide mobile homes in a successful ploy to prod a Conservancy purchase.

"That really shook them," Morton recalled with a chuckle. "They don't like double-wides."

Kentucky: A House in the Country

In a Conservancy deal on a 50-acre plot near Estridge's land, the link between the contribution and the land purchase was more direct.

"There was a contractual obligation to make the donation," explained the buyer, Ken Brooks. "We showed up at the closing with the money to make the donation. It was all tied into the contract—it had to be done."

Brooks first saw a "For Sale" sign on the tract while hiking with his wife, Vicki, at the neighboring preserve. Ken Brooks called the seller, who warned him the Conservancy was interested, too; Brooks interpreted the warning as an attempt to spark a bidding war.

"He would have sold to me at a higher price," Brooks said. "Little did he know I was a member of the Conservancy."

Brooks called James R. Aldrich, a Conservancy vice president and the group's Kentucky state director. Aldrich responded, "Let us buy it," Brooks recalled.

"If I would keep out of the road, part of the quid pro quo was they would sell it to me," he said. That deal, he added, "was never really made available to other people," a contention that the Conservancy now disputes.

By coordinating with the Conservancy, Brooks said, he avoided paying a premium to persuade the seller to carve off a portion of the larger, 350-acre tract he was offering.

"The savings really are in TNC's ability to buy large amounts of acreage and then subdividing it," Brooks said, referring to the Nature Conservancy. "That probably saved me as much as 25 percent."

Brooks said he paid the Conservancy about $120,000 for his land, with roughly a quarter of the payment as a tax-deductible contribution. "I had a $30,000 donation, more or less, to a charity," he explained. The land came with restrictions on commercial uses.

Aldrich said in an interview that the Conservancy asks buyers to sign what he described as a "charitable donation pledge." Asked if the pledge is legally enforceable, Aldridge responded, "It should be."

If a buyer reneged on an agreement, he said, it "would be terrible."

COURTESY OF LISA ESTRIDGE

In Kentucky, Lisa Estridge constructed a six-bedroom house on land she and her father were able to acquire through the Conservancy. The IRS, she says, "can't debate that you have given a charitable organization $125,000."

The Conservancy has resold land to about 10 buyers in Kentucky in recent years, he said, stressing that only one was a state trustee. A Conservancy spokeswoman later confirmed that another of those parcels was sold to an employee of the Kentucky chapter, a sale examined for conflicts and approved by Conservancy attorneys.

Each buyer gave the nonprofit a tax-deductible gift that Aldrich described as "all legal and ethical." His chapter shops for buyers through word of mouth among Conservancy members and through notices in a widely circulated Conservancy newsletter, he said.

"People say, 'I'd like to have a place in the country,'" Aldrich said. "Having the flexibility to build a cabin or residence is one of the things that makes it attractive."

Michigan: A Family Compound

In Michigan, former Conservancy state trustee Jerry Jung says the organization bought 185 acres on Lake Huron, paying $1.7 million. The Conservancy added an easement restricting development and resold the land to him in December for $1.1 million, plus a $650,000 charitable donation, he said.

Jung estimated his overall, after-tax savings on the deal at $300,000. Yet the easement did not alter his plans, either. Jung said he acquired the wooded getaway as a "family compound" that he can pass on to his children.

"There is a house on the property, and I am able to rebuild it under the easement," Jung said. "This is quite exciting; I have my own private bay and 4,000 feet of golden, sandy beach."

Jung said the donation was his idea and was made shortly before closing on the property with the Conservancy. "From a technical point of view, they are unrelated," he said of the transactions.

The Conservancy is pursuing other such deals in Michigan.

It is seeking a buyer for a 1,500-acre tract valued at $1.6 million. The land includes several thousand feet fronting a glacial lake. It features cedar swamps, beaver ponds, rare species and spectacular views of Lake Superior from atop a 750-foot mountain.

Nearby, the Conservancy is marketing a $1.5 million parcel of 635 acres bordering a mile-long lake. The easement will permit home construction but offer no "access to the public," a real estate Web site listing states.

"Listen! What you can't hear is wonderful," the listing says. "Advance the work of the Conservancy and at the same time enhance your enlightened self-interest by owning this property for your personal, exclusive use."

Staff researchers Alice Crites and Lucy Shackelford contributed to this report.

Landing a Big One: Preservation, Private Development

By David B. Ottaway
and Joe Stephens
Washington Post Staff Writers

MARTHA'S VINEYARD, Mass.—Two years ago, the Nature Conservancy triumphantly announced a complex real estate transaction, a $64 million deal in which it acquired 215 acres of rare open sandplain. Conservancy officials hailed it as "an important victory for conservation on Martha's Vineyard," part of a campaign to save the Earth's "Last Great Places."

The Conservancy, known for buying and holding raw land in perpetuity, did not opt for 100 percent preservation in this case.

Instead, as part of the deal, the Conservancy placed restrictions limiting some development on the newly purchased land and then immediately resold half of it to others, paving the way for Gatsbyesque vacation houses on pristine beach and grasslands. Those buyers included a pair of Oracle software tycoons, a retired Goldman Sachs executive and comedian David Letterman.

"It's a Last Great Place for David Letterman," quipped former Conservancy executive David Morine, now one of its critics.

For their part, Conservancy officials defend the deal as one that preserved half the land and preempted denser development on the other half.

A closer look at the serpentine deal reveals another unexpected facet: the transaction hinged on an $18.5 million charitable gift made to the Conservancy two days before the closing, according to interviews with people involved in the purchase. The Conservancy used the gift to buy the land from business entities owned by the same family that donated the money. That series of transactions allows the family to seek an $18.5 million tax deduction, according to a family spokesman.

The gift would not be deductible under Internal Revenue Service rules if it were made with a binding restriction that it had to be used to complete the property deal. Conservancy officials said there was no restriction on the donation. They said the deal violated no IRS rules and represented a "use of tax incentives for conservation that served the public good."

However, a Conservancy lawyer, Hans P. Birle, said in a separate interview that the money was used to "close the gap" between the buyers and sellers.

How did the Nature Conservancy, once known as "nature's real estate agent," end up clearing a path for resort-sized houses on environmentally sensitive land in Martha's Vineyard? The convoluted story goes back more than a decade.

In 1990, Boston developers Neil W. and Monte J. Wallace approached officials on the island with a plan to rezone a historic oceanside property known as Herring Creek Farm in order to build 54 homes. When development-shy officials rebuffed the plan, the Wallaces challenged the decision in seven lawsuits. They lost every time.

In November 1999, Letterman's development company, MV Regency Group, offered to buy Herring Creek Farm. His agent promised limited building: six eco-friendly oceanside homes. More than half the property—115 acres—would be donated to the Farming Agriculture and Resource Management Institute, a small local nonprofit, to create a farming demonstration project for children, an institute official said.

But the Letterman proposal languished because of strong local opposition to development on the site. The Cohan family, the original owners who sold to the Wallaces, could block the deal until 2010 because they had a first option to repurchase the land. The Cohans were opposed to "any further development at all," said Joseph Shea, a Cohan family attorney.

"We always wanted less rather than more development," Shea said yesterday.

In 2000, the Conservancy, which had a long-standing interest in the property, quietly made its own offer to the Wallaces. The Conservancy said it planned to keep and preserve half of the acreage and sell the rest to "conservation buyers" who would agree to development restrictions on the land. The Conservancy convinced the Cohans to go along with the deal, Conservancy officials said.

After the Conservancy expressed an interest, the Wallaces let it be known in the small island community that the respected environmental nonprofit organization was a potential buyer, according to Stuart R. Johnson, the Wallace family spokesman. With the Conservancy in the picture, the Wallaces were able to finally satisfy their desire to get a rezoning that would boost the value of their property.

Julia Wells, who covered the Herring Creek Farm saga for the Martha's Vineyard Gazette, said Johnson used the Conservancy's name to help sway votes on the zoning commission.

"Key people were told" on the commission that the Wallaces would not build on the property but instead intended to sell the land to the Conservancy, Wells said. "They did influence the vote that way." Said Johnson, "I might have said that in the final quarter of the process." But he said other factors influenced the vote as well, including a desire to end the long standoff.

Conservancy officials said they were unaware their organization's name was used by the Wallaces with the zoning commission and that "we did not, nor did we try to, have special influence over public officials."

The commission voted 7 to 6 to give the Wallaces permission to build 33 houses on the land. The rezoning boosted the property's estimated "fair market value" to $78 million, or $363,000 an acre, a considerable premium above the $64 million, or $298,000 an acre, that the Conservancy eventually offered.

This would allow the Wallaces to apply for a $14 million IRS deduction for the difference, under tax provisions allowing such deductions for "bargain sales" to charities.

Johnson said in an interview that the Wallaces viewed the deduction as a way "to soften the pain of taxes" and the "linchpin" to the deal.

With the rezoning in hand, a complicated transaction went forward—so complicated that even some participants say they don't understand all of its aspects. It took nine months to close.

The $64 million purchase price was assembled from many pieces.

About $45 million came from a varied collection of buyers: the farming institute; retired Goldman Sachs executive Daniel W. Stanton and his wife, Mary; Oracle software company technology gurus Roger Bamford and Denise Lahey; and Letterman's MV Regency Group.

That left $18.5 million that the Conservancy needed to come up with to meet the Wallaces' $64 million purchase price.

On July 10, 2001, Real Estate Equities LP, a Wallace-owned company, donated a partial interest in another family partnership, known as Windsor at Hauppauge LP, to the Wallace Foundation, whose trustees are the Wallace brothers. The interest was valued at $18.5 million.

On July 18, 2001, the foundation gave $18.5 million to the Conservancy. Two days later, the Conservancy placed $64 million in escrow for the purchase.

Conservancy officials and Johnson initially said that one key to the deal was the $18.5 million donation. Johnson referred to it as "the gift part" of the transaction.

Later, Conservancy officials denied the gift was tied to the purchase. They said the Wallace Foundation developed its tax strategy with no consultation with the Conservancy.

"We needed to find $18 million somewhere," Conservancy officials said in a statement, "but the funds could have come from anyone interested in conservation on Martha's Vineyard."

Mike Dennis, the Conservancy's general counsel, said there was never a "legal obligation" for his organization to use the $18.5 million to purchase the farm.

"It's a huge distinction," he said. "Because if you do it one way, it's allowable, acceptable and done all the time. If you do it the other way, you've violated the law."

A 1972 IRS ruling states that for a contribution to be allowed as a tax-deductible gift, "there can be no expectation of procuring a commensurate financial benefit in return." The IRS has additional provisions regulating gifts from family foundations to prevent self-dealing by their members, such as the use of charitable donations to benefit themselves.

In the end, the Conservancy, the Wallaces and the private buyers all emerged as winners. In addition to the $64 million sale price, the Wallaces gained $32 million in tax breaks.

The Conservancy ended up with 102 acres of what it terms the most "ecologically important parcels" of the land, which it plans to restore. The organization also got a choice lot worth several million dollars earmarked for development of a luxury home.

"It's a real victory," said Conservancy President Steven J. McCormick. "Only 1 percent of sandplain grasslands ecosystem remains in the world."

Wallace family spokesman Johnson hailed the $18.5 million donation as "probably the biggest gift in the history of the Commonwealth and for sure in the history of Martha's Vineyard." A Conservancy ad published in the Wall Street Journal last May saluted the Wallaces as among seven top donors to its "Last Great Places" campaign.

Letterman acquired one of the old Wallace homes, a sprawling, 4,750-square-foot structure on 24 acres looking out on the Edgartown Great Pond. It is a short walk to a private ocean beach bordered by grasslands that are home to osprey, short-eared owls and piping plover.

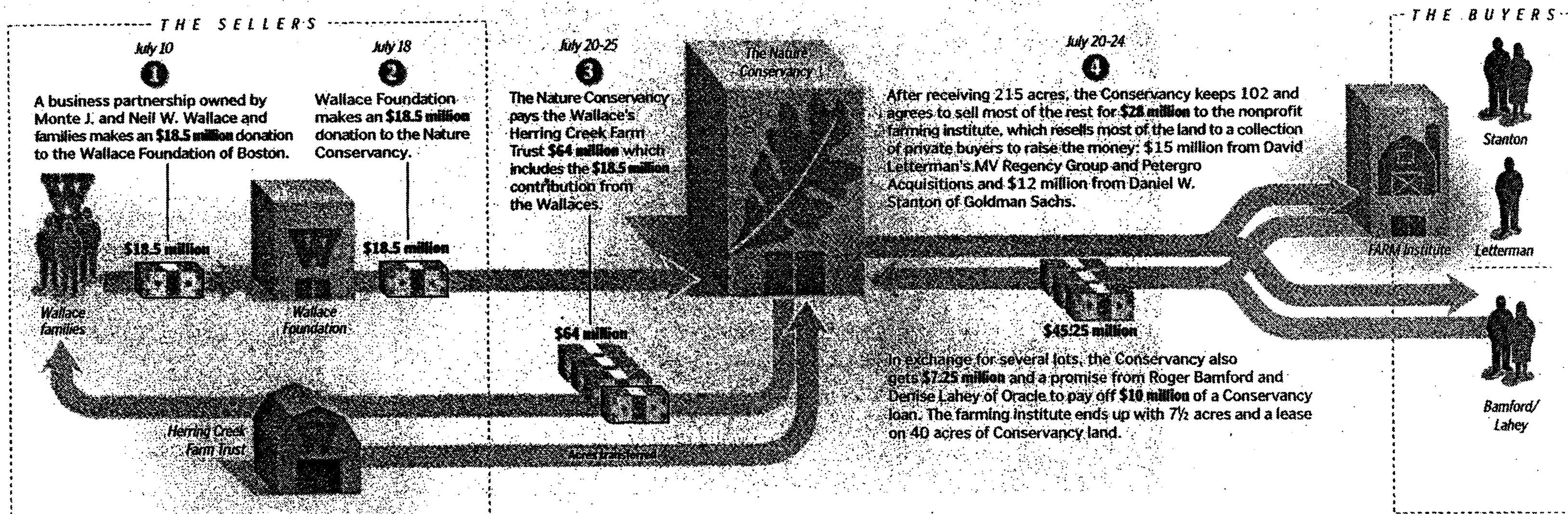
Early last year, Stanton began bulldozing for a $14 million mansion that soon resembled a high-end resort.

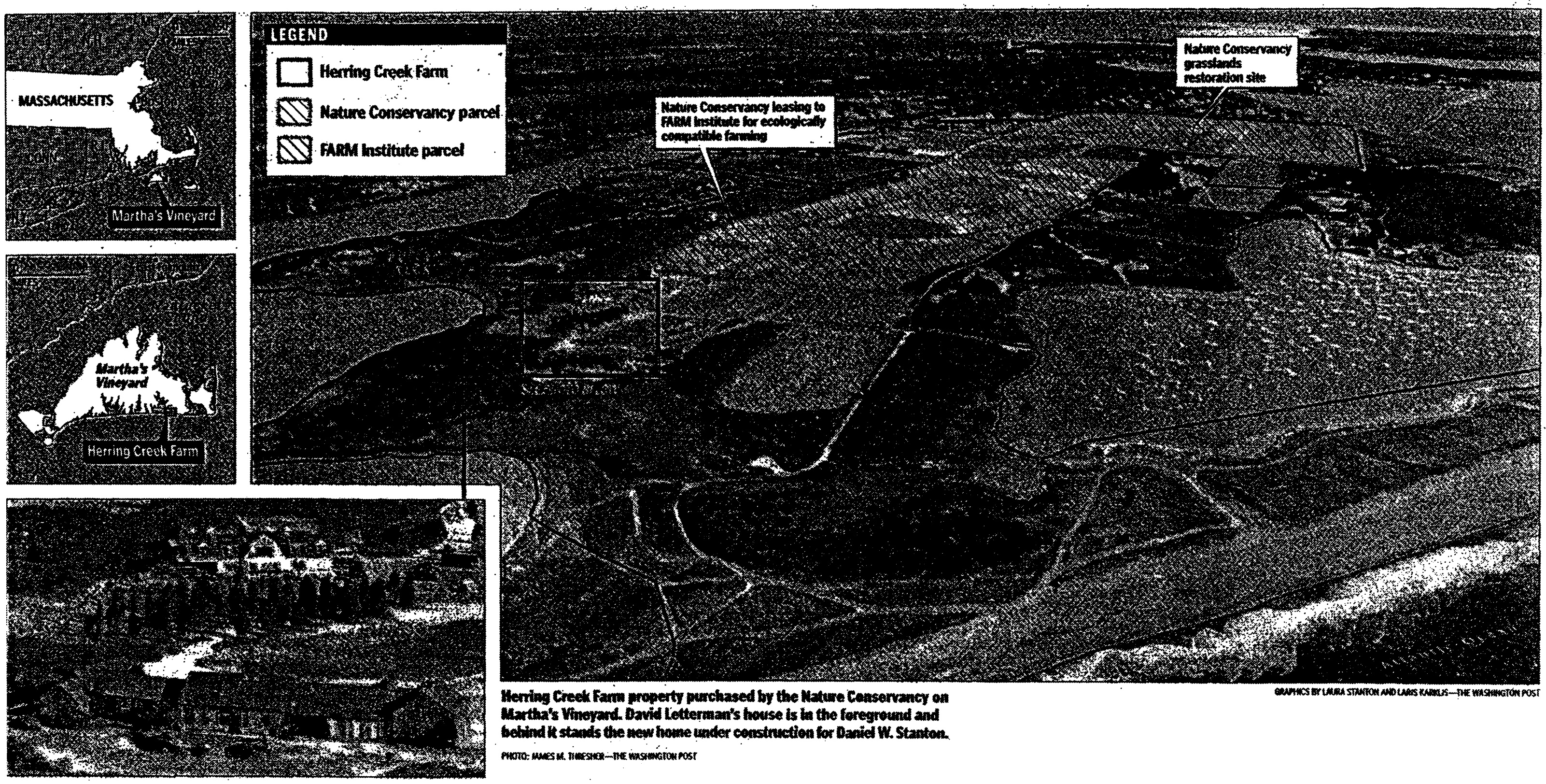
Five others are planned.

BIG GREEN | *A House in the Woods*

How a $64 Million 'Conservation Buyer' Deal Worked

As a way to promote conservation, the Nature Conservancy over the years has turned increasingly to "conservation buyers," individuals willing to accept building restrictions on their properties in exchange for tax benefits. In 2001, the Conservancy engineered one of its largest such deals, the $64 million purchase of the 215-acre Herring Creek Farm on Martha's Vineyard. The deal was intended to preserve rare sandplain grasslands. It also paved the way for multimillon-dollar home sites for a few wealthy families. The Farming Agriculture and Resource Management Institute (FARM), a small local nonprofit that originally hoped to receive a donation of more than 100 acres, ended up with only 7½.





Herring Creek Farm property purchased by the Nature Conservancy on Martha's Vineyard. David Letterman's house is in the foreground and behind it stands the new home under construction for Daniel W. Stanton.

PHOTO: JAMES M. THRESHER—THE WASHINGTON POST

GRAPHICS BY LAURA STANTON AND LARIS KARKLIS—THE WASHINGTON POST

The Washington Post

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BIG GREEN | *Conserving Land and Wealth*

Developers Find Payoff in Preservation

Donors Reap Tax Incentive by Giving to Land Trusts, but Critics Fear Abuse of System

By JOE STEPHENS *and* DAVID B. OTTAWAY
Washington Post Staff Writers

Mike Kahn, a Florida business consultant and former golf pro, advises celebrities and sports stars how they can save millions in taxes: Buy a golf course and prohibit building on the fairways.

"You make virtually risk-free easy money," Kahn's Web site says. He explained in one Internet posting how an investor paid $2.4 million for a golf course and reaped $4.8 million "in pure tax savings." Kahn will not identify the buyer but describes him as one of many who made big money—and got to keep the golf course as well.

"People who do it generally keep it quiet," he explained in an interview. "It sounds like a money grab."

It is all possible, Kahn explains, through a common environmentalist's tool called a "conservation easement."

Easements are permanent deed restrictions that limit some types of intrusive development—such as dense subdivisions or strip mines—while often permitting limited construction. Landowners "donate" the easements to a nonprofit land trust or a government agency that, in effect, certifies that the restrictions are meaningful and provide some public benefit, such as preserving open space or protecting wildlife. That allows the donor to seek federal income tax deductions for the reduction in the land's market value.

By taking such steps to limit construction, the owners of vacation resorts, country manors and dude ranches can seek big write-offs, too. Pennsylvania developer Kenneth C. Hellings says he restricted building on "unusable" portions of his new subdivision and took "a shocker" of a tax deduction. Luxury-home builders in North Carolina paid $10 million for a tract

See EASEMENTS, *A20, Col. 1*

EASEMENTS, *From A1*

in the mountains, developed a third of the land, then claimed a $20 million deduction. Such tax bonanzas have become a little-noticed byproduct of the maturing environmental movement, which increasingly entwines preservation of land with preservation of wealth.

Without question, conservation easements have done much good. Conservationists credit them with making preservation the fastest-growing arm of the environmental movement, fueling a boom in land conservation and helping to protect more than 6 million acres nationwide. Easements have helped safeguard fragile ecosystems, critical watersheds, land bordering national parks and some of the nation's most stunning vistas.

"There is an enormous amount of good that has been done," said Rand Wentworth, president of the Washington-based Land Trust Alliance. "Ninety-nine percent of these transactions are good, solid conservation."

But as easements have proliferated, so have problems and abuses.

The Senate Finance Committee earlier this year opened a wide-ranging inquiry into easement practices at the Nature Conservancy, the world's largest environmental group. The committee's investigation followed a Washington Post series that revealed the Conservancy had repeatedly bought scenic properties, added development restrictions, then resold the land at reduced prices to Conservancy trustees and supporters. The buyers, some of whom retained the right to build houses on the land, in turn gave the Conservancy cash donations that supplied them with hefty tax write-offs. After the series, the Conservancy board banned such sales.

Now conservationists are wrestling with other ethical concerns about easements.

Stephen J. Small, a leading easement consultant and former IRS attorney, warned that "some things are starting to get out of hand" in an address delivered at a conservationists' gathering earlier this year in Sacramento.

"We are getting calls from people who are totally misinformed about conservation easements and the potential tax benefits," Small said. "Lawyers and accountants and promoters and investors are giving them bad information, telling them they can do this or that and claim a big deduction, and there aren't enough people out there telling them they can't."

Conservation easements have been around for decades but only gained prominence after 1976, when Congress made them tax-deductible. Today, easements are held by a host of government agencies, national environmental groups such as the Conservancy and about 1,260 local land trusts—nonprofit corporations devoted to conservation.

Those trusts often operate behind closed doors as they decide which tracts to protect—and therefore which landowners get the tax breaks. The trusts also decide how much building can be done. The benefits often go to the wealthy, and routinely to board members and staff at the land trusts. And although the development restrictions are publicly described as lasting "in perpetuity," conservationists privately fret over whether this is true, partly because easements continue to face court challenges.

Enforcement is also a problem. Surveys of land trusts around the nation, often conducted by the land trusts themselves, show that hundreds—perhaps thousands—of easements have been violated or altered at the request of landowners. Many of the owners have already pocketed the tax savings generated by the easement. Many easements explicitly allow additional development if the land trust approves.

Meanwhile, companies and individuals claiming huge write-offs face little risk of audit. In the past two fiscal years, an IRS program aimed at identifying inflated deductions taken for easements and other non-cash gifts to charities produced thousands of leads but, because of competing priorities at the agency, did not produce a single audit, according to the General Accounting Office.

"It's complete smoke and mirrors," said John Echeverria, a former general counsel of the National Audubon Society. "Donations of conservation easements generally do not really give any value away."

Echeverria, who now directs the Georgetown Environmental Law and Policy Institute, instead favors preserving land through more time-tested processes, such as restrictive zoning and the issuance of building permits. Easements, he says, have "the potential to undermine the cause of environmental protection itself."

Fearful of damaging the land-trust movement, many conservationists are reluctant to broadcast the flaws in easements. They ruminate instead on easement shortcomings in the dry text of academic studies and legal journals.

An April 2000 survey of 18 New England land trusts and easement-holding public agencies, for example, found that 14 acknowledged that they had discovered one or more easement violations. Most said they had agreed to alter restrictions in one or more existing easements. Another study, in 1999, discovered that almost half of the protected tracts examined in the San Francisco area were not regularly monitored to make sure the restrictions were being followed.

"Failure to adequately monitor easements results in the public paying for nonexistent benefits," stated the report, by the Bay Area Open Space Council. A third study concluded bluntly: "There are serious threats to the use of easements."

Some tax specialists say deductions generated by easement donations increasingly are attracting the attention of affluent families seeking tax shelters.

Small, the conservation lawyer, estimated in a recent land-trust newsletter that a third of his potential clients "think they can get away with something by donating a conservation easement." Some developers argue that land separating homes in subdivisions qualifies for tax breaks; others produce land appraisals that appear wildly exaggerated. Although Small turns such clients away, he believes that an increasing number of abusive deals are quietly being made, sometimes facilitated by nonprofits with questionable credentials—what are known as "rogue land trusts."

Small reserves particular scorn for developers who donate easements on golf courses, then seek tax breaks for preserving open space. All but a few such easements, he said, are on their face "ridiculous."

He wrote in a recent e-mail to other conservationists, "This is a very, very bad direction the land trust business is going in and we need to stop it."

How It Works

Conservation easements generally work this way:

Landowners amend their deeds to permanently restrict some types of intrusive development—such as shopping malls or hotels—while often continuing to allow construction of homes or other limited improvements. The owner then finds a nonprofit land trust or a government agency willing to take the easement as a gift.

By accepting the gift, the land trust in effect certifies that the restrictions are meaningful and benefit the public. That allows the donor to seek federal income tax deductions and, in some cases, reductions in federal estate taxes and local property taxes. In many communities, the land trust becomes the sole entity responsible for monitoring the site and suing if violations are uncovered.

Easement donors can seek tax deductions for any loss of property value caused by the restrictions. That value is generally established by appraisers hired by the donor. Propelled by such savings, conservation easements held by the local land trusts have grown more than fivefold nationwide since 1990, to an estimated 12,000 today. Local land trusts hold easements totaling 2.6 million acres, more than double the land they own outright.

There are no reliable figures on the total value of the conservation tax breaks. But legislation to expand allowable deductions that passed the Senate this year would sacrifice more than $1 billion in additional tax revenue over the next decade, according to the Senate Finance Committee.

Unlike restrictive zoning, which is customarily established by public bodies working with land-use experts, easement restrictions often are initiated by individual landowners. The deals are made with private nonprofit corporations that may be simply a handful of local residents. Filed at the courthouse as deed amendments, the easements usually go unnoticed.

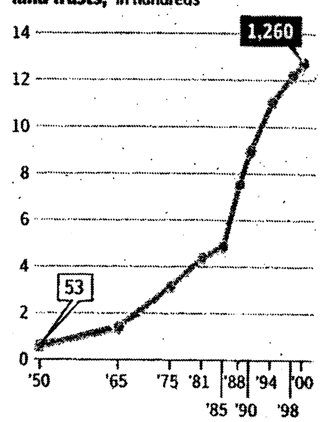
A recent survey by the Land Trust Alliance, a national trade association for conservation organizations, found that half of all trusts are run entirely by volunteers. Half have annual budgets of less than $27,000.

Such organizations decide

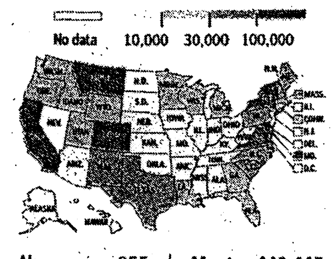
Local Land Trusts: A Closer Look

Land trusts—private, nonprofit corporations that work to conserve wildlife and open space—have exploded in number since 1976, when Congress first approved federal income tax deductions for gifts of conservation easements to land trusts. As of 2000, local and regional land trusts had used easements and other strategies to protect 6 million acres of open land, an area twice the size of Connecticut. These figures exclude national land trusts and government agencies, which also accept gifts of conservation easements, which are permanent restrictions that limit development on selected plots of land.

Number of local and regional land trusts, in hundreds



Land under conservation easements held by local and regional land trusts as of 2000, in acres



Ala.	855	Mont.	449,445
Alaska	1,250	Neb.	2,150
Ariz.	1,606	Nev.	no data
Ark.	173	N.H.	96,468
Calif.	160,671	N.J.	6,383
Colo.	293,864	N.M.	41,039
Conn.	19,821	N.Y.	280,499
Del.	1,274	N.C.	40,573
D.C.	3	N.D.	no data
Fla.	19,550	Ohio	9,390
Ga.	27,996	Okla.	no data
Hawaii	4	Ore.	13,597
Idaho	16,277	Pa.	88,316
Ill.	5,013	R.I.	9,292
Ind.	1,376	S.C.	71,209
Iowa	6,541	S.D.	7,760
Kan.	2,296	Tenn.	4,198
Ky.	1,545	Tex.	40,621
La.	13,385	Utah	28,404
Maine	61,452	Vt.	319,580
Md.	125,334	Va.	180,255
Mass.	50,061	Wash.	21,285
Mich.	20,877	W.Va.	4,004
Minn.	16,703	Wis.	10,883
Miss.	4,225	Wyo.	10,664
Mo.	1,452		

SOURCE: Land Trust Alliance

THE WASHINGTON POST

which tracts to preserve and who will pocket the tax savings "with no public input whatsoever," Echeverria wrote in a recent analysis. He describes the process as "a gross fraud on the U.S. taxpayer."

Land trusts say easement donations have helped many cash-poor families retain farms and ranches they otherwise might have sold to developers. But some of the biggest and best-known easements have been linked to major corporations and some of the nation's richest individuals, from Ted Turner and David Letterman to the Rockefellers and DuPonts.

University of Utah law professor Nancy A. McLaughlin, writing in a recent issue of the Idaho Law Review, described the use of tax incentives as "upside-down."

"It provides upper-income donors with disproportionately greater tax savings than middle and lower-income donors," she wrote.

To be sure, McLaughlin and many other environmentalists—including those pushing for reform—support easements and say they have done much good. While acknowledging a small but significant number of abuses and legal uncertainties, the proponents say most easements have never been violated. They add that although easements occasionally are amended, the environment rarely has been harmed and that amendments often increase conservation values. Most donors give out of a desire to protect land they cherish, and most ultimately lose money on the transactions, proponents say.

"Most in the land-trust community meet their ethical responsibilities, and well," Vermont Land Trust president Darby Bradley said in an October address to other preservationists meeting in California. Bradley nonetheless called for improvements, saying, "We must do better."

Big-Buck Deductions

There are mounting concerns about the size of the tax deductions that donors claim, based on the assumption that easements lower property values. Some academic researchers believe easements can increase property values by making neighborhoods more exclusive and scenic, with less density. Real estate ads sometimes tout easements as a selling point.

"Landowners may well be receiving double compensation," according to a recent analysis by Purdue University professor Leigh Raymond and University of California at Berkeley professor Sally K. Fairfax, writing in Natural Resources Journal.

Donors can pocket the tax breaks, then profit as well from the appreciation of their new, trophy-home sites. The authors described that possibility as "troubling, to say the least, given the involvement of public funds in financing their original transactions."

In the Great Smoky Mountains near Asheville, N.C., investors two years ago bought 4,400 acres, placed an easement on 3,000 acres and then began developing 350 home sites and an 18-hole golf course on the remaining property. A master plan for the development, called the Balsam Mountain Preserve, shows that the easement area is broken up by the fairways and home sites, which spot the land like mushrooms on a pizza.

Investors paid about $10 million for the land and shared in a tax write-off "in the $20 million range," said James A. Anthony, a partner in the South Carolina development firm of Chaffin/Light Associates. The deduction was based, in part, on an appraiser's assessment of how much the land would have been worth had they filled the acreage with 1,400 homes, Anthony said.

Far from a liability, the easement has become a marketing tool. Sales literature describes the subdivision as "a community within a park" and the undeveloped portions as maintained "for the quiet enjoyment of members."

Anthony said: "It does add value to the remaining land. Kind of like a limited-edition print—the fewer you have, the more the value."

Appraisers factored any appreciation into their calculations of the tax benefit due the investors, Anthony said. The firm is considering placing an easement directly on the golf course once it is completed, he added.

Broad data about the reliability of claimed deductions are scarce. But a 1984 IRS study examined 42 deductions for easement donations and determined that all but one appeared inflated, resulting in overvaluations totaling nearly $32 million.

According to a GAO report on the study, "The taxpayers generally overvalued their conservation easement deductions by an average of about 220 percent."

Setting values continues to prove nettlesome. In the case of Brandon Park, the personal retreat of chemical heiress Wilhelmina duPont Ross, New York state officials and federal officials came to different conclusions.

Visitors to the family estate in the Adirondack Mountains pull up at a gated and guarded entrance. The road then winds through a 27,000-acre private forest dotted with nine ponds and traversed by 10 miles of the St. Regis River. The grounds feature at least 16 homes, cabins and other buildings, linked by more than 60 miles of roads and trails, court records show.

In 1978, Ross gave the Nature Conservancy an easement restricting commercial development on the remote site and requiring that it remain forever a "natural and scenic area." Backed by an appraisal, she claimed that the restrictions slashed the property's market value by 44 percent. That qualified her for a federal income tax break of more than $1 million—$2.5 million in today's dollars.

Two decades later, during a local property tax dispute, a panel of state judges pointed out that Ross had retained the right to build 10 additional homes, mine gravel pits, drill for oil, cut trees, subdivide the land and expel the public. They pointed out that local governments already heavily regulated development of the estate, meaning that Ross actually had "parted with very little" when she donated her easement.

"Any further development of the land was unlikely, even if the land was not subject to the conservation easement," the court ruled in 1999, rejecting requests to slash her property taxes.

Ross died in 2000. Her lawyer, H. Dean Heberlig Jr., explained that, unlike New York officials, federal authorities factor in a property's potential future value when establishing tax breaks. The IRS initially challenged the deduction, he said, but ultimately agreed that $1 million "was an appropriate deduction."

The IRS said it could not comment publicly on an individual tax case. A Conservancy spokesman said his group strongly believes easement donors give up "real value."

Policing Conflicts

Preservationists laud the grass-roots nature of the easements: Decision-making devolves into the hands of private groups that know their community best. But that approach also makes the easements difficult to track and police.

Raymond and Fairfax describe conservation easements in general as protecting a patchwork of partially developed tracts, using restrictions largely designed by the landowners to meet their own needs.

"Conserved land thus comes under protection because it is available to a land trust, not necessarily because it is an appropriate parcel to conserve," they wrote in their analysis. "The land owner, rather than the trust, drives the process. Moreover, during negotiations private landowners . . . generally define the nature of the protection on the land to suit their own priorities."

Small, who wrote the federal income tax regulations on conservation-easement donations while working for the IRS in the 1980s, says that at the time he and his colleagues expected land trusts to reject abusive transactions and police the process. Regulators thought that charities would turn away easements that allowed too much building or were designed solely to benefit the wealthy, he said.

Today, however, organizations often are responsible for policing restrictions on property owned by their own officers, directors and donors. On an Internet discussion list, land-trust officials from across the country recently spoke out fervently in defense of employees and board members who donate easements to their own nonprofits.

Tom Bailey, executive director of Michigan's Little Traverse Conservancy, wrote on Oct. 9 that land trusts should "make every effort" to persuade insiders to donate.

In Chester County, Pa., the Tattersall golf course is covered by a "conservation easement" that includes the fairways. The property is part of a subdivision—built on 450 acres that once housed a historic farm—with 163 home sites.

"I certainly hope that a board member's having an easement on their land would not be considered a conflict!" Bailey wrote. "Or a staff member either. . . .

"Certainly when enforcement issues are involved, the board member would be required to abstain from discussion or decisions on the case. But let's not get carried away with this conflict stuff."

The Medina Summit Land Conservancy of Ohio holds easements on four properties owned by its trustees and two more deals with trustees are in the works, said its executive director, Chris Bunch. The North Branch Land Trust of Trucksville, Pa., is in charge of enforcing easements on farms owned by its president and its board secretary, who say they received tax deductions exceeding $300,000.

The secretary, Ed Zygmunt, said, "I personally don't see any conflict of interest."

Increase in Problems

Studies funded by land trusts show monitoring and enforcement problems are widespread and growing worse.

The 1999 survey of San Francisco-area easement holders, for example, found that only half of the preserved tracts in the region were regularly monitored by the nonprofit or government agency holding the easement. Many of the existing monitoring programs were inadequate, the survey said. And even that monitoring discovered violations at 14 percent of the sites.

"Problems are more likely to occur with second-generation landowners," added the report, by the Bay Area Open Space Council, a regional group of land trusts and conservation agencies. "Further changes of ownership in the future should be expected to increase the number of violations."

Nearly a third of the organizations surveyed had no list of the easements they held, and some failed to record the original condition of the restricted properties.

"Years may go by without any documentation on the easement," the study said. "Without proper, timely, and consistent monitoring, easements are difficult to defend legally, and violations become practically impossible to remedy."

Many of the nonprofits also

could not afford to defend an easement in court if necessary, the report concluded.

One California environmental group, Defense of Place, used data from the study to estimate that easement violations nationwide exceed 2,700. The group's director, Jason Kibbey, warned: "If you just let conservation easements unravel over the next 20 years, the movement is over."

Government agencies, which also hold thousands of easements, have their own problems. Conservationist Edmund Stiles found that his home of Hopewell Township, N.J., holds more than 400 easements, 103 of them stuffed into a box in the township hall basement. He visited a few dozen and found that 80 percent of the easements had been violated. Most were minor, he said, but in one case, a bridge had been built on the protected land.

"Governments don't like enforcing easements," Stiles said. "It's a difficult thing politically."

Hopewell zoning officer Robert Miller said the township has no one to monitor easements, so it depends on residents to report suspected violations. That happens about once a week, he said.

A voluntary survey of New England conservation groups and public agencies by the Land Trust Alliance in 2000 found that a third kept no records on inspections of land protected by easements.

Of 18 organizations participating, 11 admitted to having amended one or more easements already on file at the courthouse. Many of the easements reviewed during the survey were poorly written, making them difficult or impossible to defend in court, the report said.

An Alliance study in 1999 identified 498 easement violations nationwide, but its report struck a positive stance. It called 383 of the violations "minor." The 115 "major" violations included 32 cases of surface alteration, 28 of vegetation cutting and 18 of logging. In 25 cases, "prohibited/unauthorized" structures were built.

The report stressed that 93 percent of easements in the study appeared to have avoided violations.

Statistics show that more than half of all new nonprofits fail in their first decade. Over time, there may be no one to enforce many easements. And even when a land trust survives and has ample financing, it faces murky laws, according to a 1998 survey commissioned by the INNW Fund, a California preservation foundation. Some survey participants noted that easements are still relatively untested, and "not enough time has passed to determine whether they will hold up legally in perpetuity, as intended."

In a broader sense, some lawyers and environmentalists question whether it is wise for today's conservationists to impose their will on the future. Ecologists may one day determine that farmers do more damage than housing developments, they argue, or decide that conservation efforts would be more effective elsewhere.

University of Virginia professor Julia D. Mahoney, writing last year in the school's law review, described the easements as foolhardy. "We lack the technical competence to make land-use decisions for future generations," Mahoney wrote.

'Unusable Acres'

Hellings, the Philadelphia developer, said he has not spent much time weighing the philosophical implications. He has been busy building.

A few years ago, Hellings rolled bulldozers onto a historic 450-acre Chester County, Pa., farm and transformed it into an upscale commuters' subdivision, featuring 163 home sites on 100 acres surrounding an 18-hole golf course. Only after the plan was complete, Hellings said, did his lawyers hit on a way to capitalize on a leftover flood plain and some steep hillsides, a scattered jumble of land that Hellings describes as 131 "unusable acres."

Using guidance from a local land trust, Hellings's lawyers wrote an easement covering a dozen islands of protected land, one as small as six-tenths of an acre. Then they placed a second easement directly on 220 acres of the golf course, including the fairways, bunkers and putting greens.

The easements were accepted by the Brandywine Conservancy, a well-established Pennsylvania land trust. A Brandywine spokesman said the easements helped to protect sensitive natural resources, including water quality, and ensured that the golf course would remain "permanent open space, forever."

The easements mandate that the preserved areas "shall not unreasonably interfere with the business operations" and they authorize mowing part of the 131 acres for "temporary overflow parking." The open space boosts land prices, Hellings said, and has become a valuable sales tool.

Hellings would not say how much his tax break, calculated with the help of an appraiser, totaled. He described the final figure as "a shocker."

"It is nice to have when tax time comes," he said with a smile. "It was a bonus."

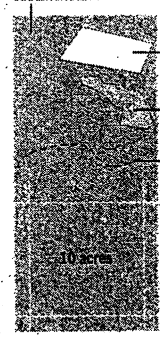
That bonus came as a surprise to West Bradford Township Manager Jack Hines Jr., who pointed out that under township ordinances Hellings would have had to dedicate at least 60 percent of his development to open space, anyway.

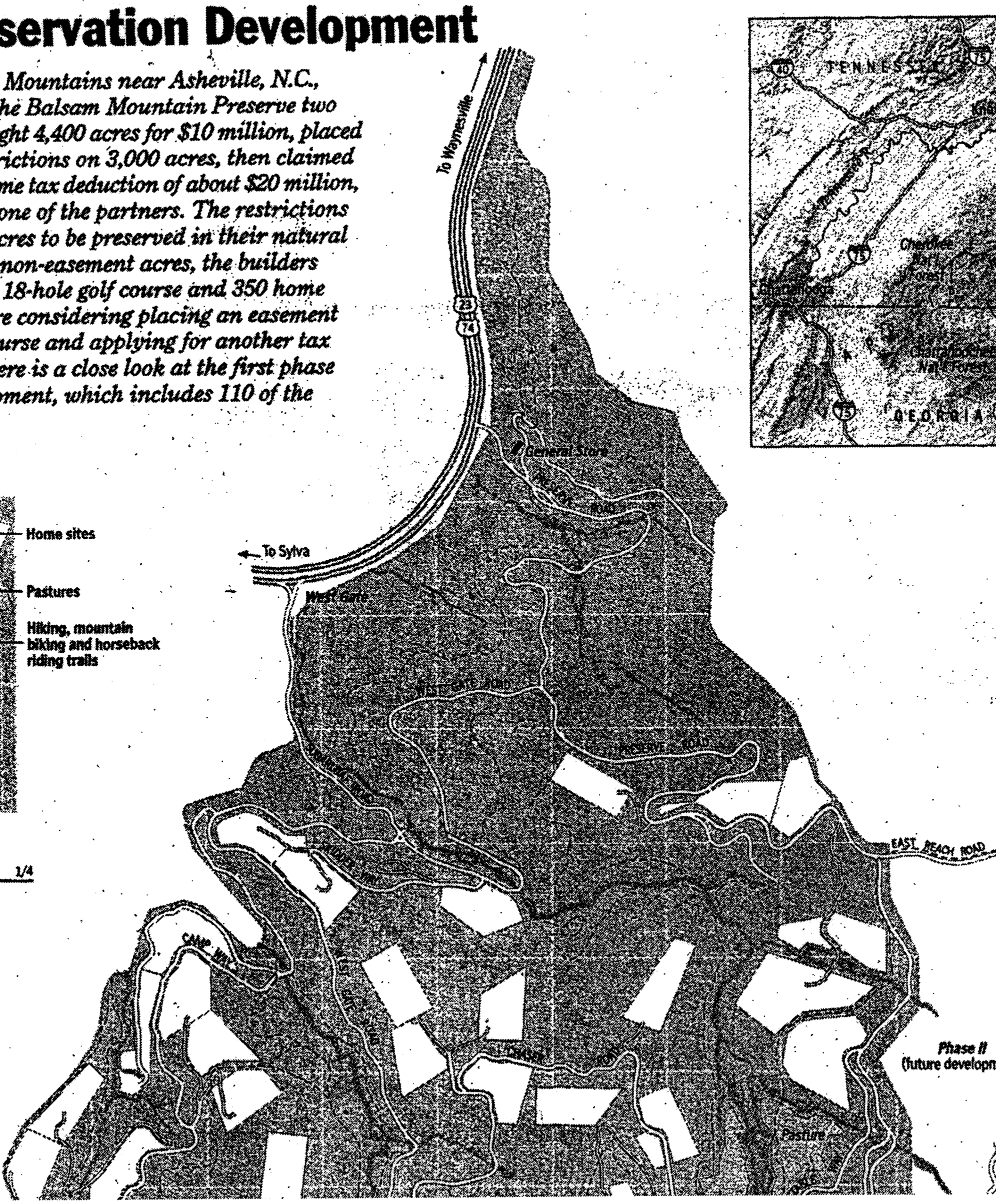
"I don't know how you could take a tax write-off for that," Hines said. "He shouldn't have gotten anything."

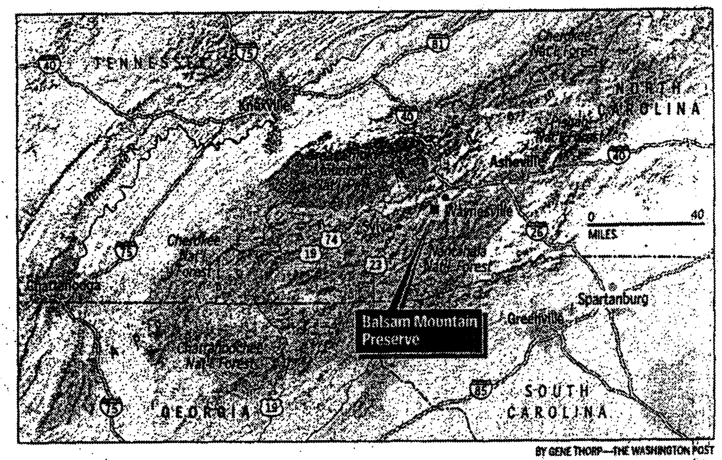
Researcher Alice Crites contributed to this report.

A Conservation Development

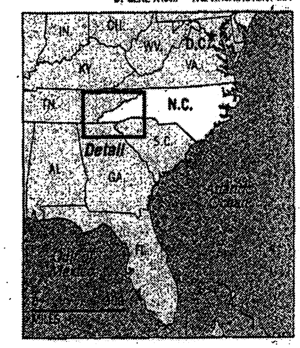
In the Smoky Mountains near Asheville, N.C., investors in the Balsam Mountain Preserve two years ago bought 4,400 acres for $10 million, placed building restrictions on 3,000 acres, then claimed a federal income tax deduction of about $20 million, according to one of the partners. The restrictions allow those acres to be preserved in their natural state. On the non-easement acres, the builders developed an 18-hole golf course and 350 home sites. They are considering placing an easement on the golf course and applying for another tax deduction. Here is a close look at the first phase of the development, which includes 110 of the home sites.

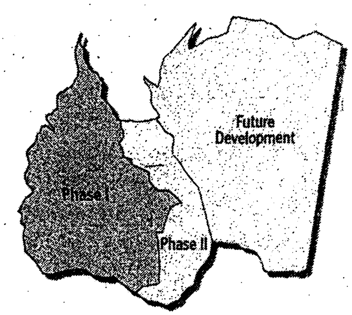


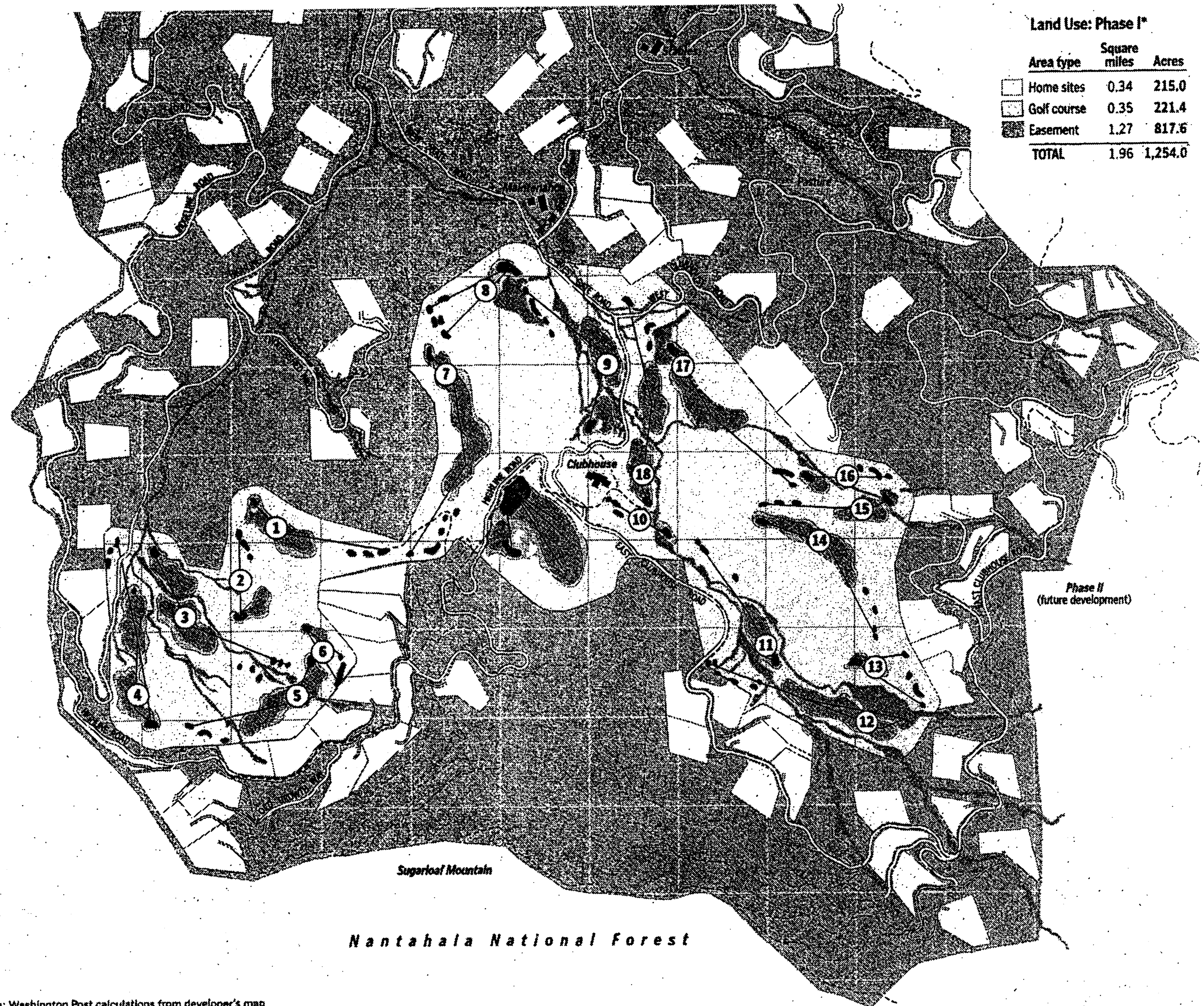




BY GENE THORP—THE WASHINGTON POST







Land Use: Phase I*

Area type	Square miles	Acres
Home sites	0.34	215.0
Golf course	0.35	221.4
Easement	1.27	817.6
TOTAL	1.96	1,254.0

*Note: Washington Post calculations from developer's map
SOURCE: Balsam Mountain Preserve

Land-Trust Boom A Boon for Habitat

By DAVID B. OTTAWAY
and JOE STEPHENS
Washington Post Staff Writers

The use of easements to protect open space has a long history.

The U.S. Fish and Wildlife Service bought easements in Minnesota and the Dakotas in the 1930s to preserve bird habitat. The National Park Service bought easements to preserve vistas along the Blue Ridge Parkway.

But conservation easements came to prominence only after 1976, when Congress approved tax deductions for land and easements given to environmental charities for conservation purposes. Since then, easements have been widely heralded for helping safeguard the environment, protecting wildlife and making many regions more attractive places in which to live and play.

They also have sparked a land-trust boom. The number of private, nonprofit land trusts swelled from 887 in 1990 to an estimated 1,300 today. The largest, the Nature Conservancy, has assets of more than $3 billion and ranks as the world's richest environmental group. It is the eighth-largest American nonprofit of any type.

Altogether, the trusts hold more than 13,000 easements. The leafy view across the Potomac River from Mount Vernon was protected with easements. So was a wildlife corridor along the Potomac in West Virginia.

The Vermont Land Trust has protected more than 7 percent of total acreage in that state, mostly through easements. The Grand Traverse Regional Land Conservancy is using easements to protect 6,000 scenic acres along Lake Michigan.

"The vast majority of land trusts are doing an excellent job in saving land," Rand Wentworth of the nonprofit Land Trust Alliance said in a statement Friday. "But the Land Trust Alliance is proposing new standards to control the isolated reports of activities that do not measure up."

Although concerns remain about the legal foundation for such easements, land trusts have scored many legal victories—none more dramatic than that won by the French and Pickering Creeks Conservation Trust of Pennsylvania.

In November 1998, after a ruling by a Chester County judge, sheriff's deputies looked on as a wrecking machine crashed through the walls of a 4,800-square-foot Colonial-style house. The judge had ruled that the $350,000 structure near Philadelphia had been built in violation of an easement granted to the trust three decades earlier.

Even that victory had its costs, though: It came after a nine-year battle that the Land Trust Alliance said cost the nonprofit easement holder almost $100,000—an amount exceeding the total annual budget of most land trusts.

While hailing the demolition as a milestone for the conservation easement, an article in the Land Trust Alliance's newsletter at the time nonetheless described the rancorous feud with the builders as "a cautionary tale for all land trusts."

Supplemental Materials

The Washington Post

Charity's Land Deals To Be Scrutinized

Senators to Send Letter to Nature Conservancy

By JOE STEPHENS
Washington Post Staff Writer

The Senate Finance Committee's chairman and its ranking Democrat said yesterday that they are troubled by reports that the Arlington-based Nature Conservancy sold scenic properties to its own trustees and that they will demand an accounting from the charity's leaders.

Committee Chairman Charles E. Grassley (R-Iowa) and Sen. Max Baucus (D-Mont.) are drafting a letter to the Conservancy, the world's richest environmental group, seeking answers to a range of concerns about the deals and other issues. The senators' interest stems from a three-part Washington Post series, which detailed this week the organization's rapid growth and described the charity's financial transactions with its supporters, including Fortune 500 companies.

"The Post reports shed light on very questionable practices by this charity that many have viewed as a pillar," Grassley said in a statement issued yesterday. "I'm committed to holding the Nature Conservancy accountable."

While the Finance Committee focused this week on President Bush's tax cut plan, the senators and their staffs found time to discuss a range of possible responses to the reports on the respected conservation group, which boasts a million members and assets worth more than $3 billion.

"I'm very concerned by reports that individuals and organizations are improperly benefiting from tax breaks on charitable donations and developing on environmentally sensitive lands," Baucus said.

"It's very important that we dig deeper to examine what's going on in these situations. If the allegations are as serious as they appear on the surface, we must look at ways to increase enforcement of laws that are already on the books. I also won't hesitate to move forward with additional legislation to protect the integrity of our natural resources and halt tax abuses if we find that's needed."

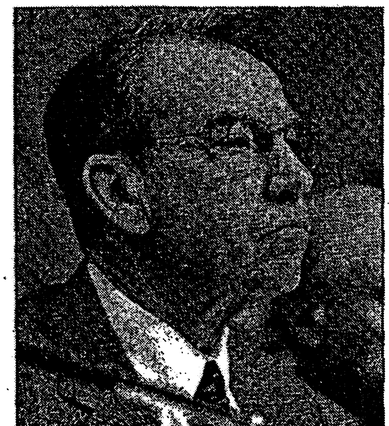
The Post series, titled Big Green, reported that the Conservancy had, time and again, bought ecologically significant tracts of land, attached some development restrictions and then resold the properties to trustees and supporters at greatly reduced prices. The sales were part of a program that limits intrusive development but generally allows buyers to build homes on the land.

The buyers then gave the Conservancy cash that was roughly equivalent to the amount of the discounts. That allowed the new owners to take significant tax deductions for charitable gifts.

The articles described how the Conservancy has logged forests and drilled for natural gas in Texas, under the last native breeding site of an endangered species of bird.

One article detailed how the Conservancy had given conflicting reports about the compensation of its president, Steven J. McCormick, and had underreported the interest rate on a $1.55 million home loan the organization extended to McCormick. McCormick's compensation totaled $420,000 last year. The organization said he will make less this year and that he recently paid off the loan.

Senate Finance Committee members have grown concerned by the appearance that Conservancy officials have dismissed the controversy, without issuing any public statement that the nonprofit plans a self-examination. Committee staffers focused in particular on a full-page advertisement published Friday in The Post and paid for by the Conservancy's board.



FILE PHOTO/BY RAY LUSTIG—THE WASHINGTON POST

Sen. Charles E. Grassley (R-Iowa) said: "I'm committed to holding the Nature Conservancy accountable."

"For 52 years, The Nature Conservancy has taken action in pursuit of a clear mission—to preserve the diversity of life on Earth," the ad states. "The job is far from complete, but the accomplishments are real.

"The Nature Conservancy has worked to protect over 116 million acres of the world's most ecologically important places. Those who know conservation recognize the invaluable contributions we have made in preserving the natural world."

Grassley is the sponsor of legislation, backed by the Conservancy, that would expand tax breaks for conservation. The measure would provide a variety of tax breaks for charitable donations, including a 25 percent reduction in the capital gains tax on the sale of undeveloped land for conservation purposes.

Grassley's bill passed the Senate by a vote of 95 to 5 on April 9, but final language for the legislation—known as the Charity, Aid, Recovery and Empowerment Act—must be hammered out with the House.

"With the significant new tax incentives provided under the CARE Act, taxpayers have the right to know how the Nature Conservancy conducts its business," Grassley said. "I'll be overseeing the charity's actions, asking tough questions and following through until satisfactory answers are given."

Nature Conservancy Suspends Land Sales

Board of Nonprofit to Review Practices

BY JOE STEPHENS
and DAVID OTTAWAY
Washington Post Staff Writers

The Nature Conservancy has suspended a range of practices, including the sale of ecologically sensitive land to its trustees as home sites, in the wake of press accounts describing the Arlington-based nonprofit's activities and concerns expressed by some of its 1 million members.

The Conservancy, the world's richest environmental group, said it has halted all "conservation buyer" real estate transactions until the charity's board of governors reviews the practice in June. A Washington Post series last week reported that many buyers have been current and former Conservancy state trustees.

The Senate Finance Committee's chairman and ranking Democrat announced last week that they plan to look into the sales, which are designed to limit intrusive development but generally allow buyers to construct houses.

Under the program, the charity buys raw land, attaches some development restrictions and then resells the properties to supporters at greatly reduced prices. Buyers give the Conservancy cash payments for roughly the amount of the discount, a sum that is then written off the buyers' federal income taxes.

Other articles described how the Conservancy's board and leadership council today include executives and directors from corporations that have paid millions in environmental fines. The series also showed how the 52-year-old charity's alliances with Fortune 500 companies had helped it amass assets totaling more than $3 billion.

In a statement posted on the Conservancy Web site, *nature.org*, the organization said it also has:

■ Suspended all new logging and other "resource extraction activities" on its nature preserves. The Post articles detailed how in Texas City, Tex., the organization had drilled for oil and natural gas under the last native breeding ground of a highly endangered species of grouse known as the Attwater's prairie chicken. The suspension will not stop natural gas production on the Texas preserve, a spokesman said.

■ Suspended all new "cause-related marketing partnerships." The articles told how the Conservancy had sold its name and logo for use on consumer goods, including toilet cleaner and other products made by corporations whose executives and directors had sat on the Conservancy's governing board and advisory council.

■ Suspended all new loans to employees. The articles disclosed that the Conservancy had extended a $1.55 million loan to its president, Steven J. McCormick, and then misidentified the interest rate. After being questioned by reporters, McCormick repaid the loan.

The Conservancy statement criticized The Post series, titled "Big Green," for containing what it described as "mischaracterizations" and a "lack of context." Even so, the organization plans a detailed review of the programs discussed.

"We take the broad issues the articles raised very seriously," the statement said. "The Conservancy's Board of Governors will dedicate its entire June meeting to a frank and open discussion of our practices, policies, and procedures. The board will focus on the Post's specific charges....

"We will be paying particularly close attention to issues relating to how we engage and work with our Board and state chapter trustees. We are committed to making permanent and substantive changes where needed."

The meeting will be closed to Conservancy members, but will include time for "some sort of public discussion," a spokesman said.

Over the past week, the Conservancy's board has paid for three full-page advertisements in The Post, each stressing the organization's accomplishments and its dedication to preserving undeveloped land.

Sen. Charles E. Grassley (R-Iowa), chairman of the Finance Committee, and ranking Democrat Max Baucus of Montana are drafting a letter to the Conservancy seeking answers to a range of concerns about the land deals and other governance issues.

"Taxpayers have the right to know how the Nature Conservancy conducts its business," Grassley said in a statement on Friday. "I'll be overseeing the charity's actions, asking tough questions and following through until satisfactory answers are given."

Charity Hiring Lawyers to Try to Prevent Hill Probe

By JOE STEPHENS
and DAVID B. OTTAWAY
Washington Post Staff Writers

The Nature Conservancy is hiring outside lawyers and one of the nation's largest public relations companies to help head off a congressional investigation following disclosure that the nonprofit has sold scenic properties to its own trustees, internal Conservancy memos show.

The Arlington-based charity has retained Edelman Public Relations, whose Washington office is headed by former Republican and Democratic advisers, as part of a damage-control strategy that includes Capitol Hill meetings, calls to donors, third-party letters to newspapers, full-page advertisements and attempts to pacify charitable foundations, the memos show. Conservancy staffers also are working to "place stories" in the media that describe successful conservation projects.

"We will be hiring a law firm by the end of the day today that will help us with the Capitol Hill issues," a Conservancy staffer wrote this week, recounting a conference call among the organization's senior managers. "There are Congressmen that are concerned and as you know we need their support.

"We do not want them to launch an investigation of [the Conservancy] and this firm will help us on these issues."

Senate Finance Committee Chairman Charles E. Grassley (R-Iowa) and ranking Democrat Max Baucus (Mont.) said last Friday that they planned to ask the charity to account for a range of practices, including the sale of raw land at reduced prices to the organization's trustees for use as home sites. Some of those deals have coincided with charitable contributions to the Conservancy from the buyers, who then benefited from significant tax breaks.

The senators' interest stems from a Washington Post series last week that detailed the organization's rapid growth—its assets now exceed $3 billion—and described how the charity's financial transactions have benefited its supporters, including corporations that have paid pollution-related fines.

The Nature Conservancy
SAVING THE LAST GREAT PLACES ON EARTH


BY SARAH L. VOISIN—THE WASHINGTON POST
President Steven J. McCormick wrote that the charity's reputation has been damaged on Capitol Hill.

The articles reported how the Conservancy had drilled for oil under the breeding ground of an endangered bird, and how it had bought land and services from corporations whose executives sat on the nonprofit's governing board.

Grassley said in a written statement yesterday: "In my view, the best thing for the Nature Conservancy to do when it comes to both its donors and oversight from Congress is to be transparent in its practices and forthcoming with information."

In a May 5 memo, Conservancy President Steven J. McCormick told his staff, "As the story rolls out, we will continue our approach of answering all questions and harboring no secrets." This week, his spokesman declined to identify which law firm was being retained, how much its services would cost and whether the bill will be paid with donors' contributions.

Other Conservancy memos obtained by The Post show the organization is mounting a coordinated, global campaign to protect its interests.

"We ... are working to identify firms that can help us gain access to key offices on the Hill," said one memo, bearing McCormick's name and e-mailed on Monday to the organization's executives in the United States and abroad. "We have launched a proactive effort to reach out to all critical members of Congress, key legislative staff and federal agencies."

Longtime supporters stand by the charity, McCormick wrote, but others "have serious questions about our business practices, especially surrounding the use of conservation easements and our relationships with corporations."

Conservation easements are legally binding agreements to restrict some commercial development, which the Conservancy routinely attaches to properties before resale. In many instances, however, the easements have allowed the new owners to construct one or more houses on the ecologically sensitive sites, the series reported.

"In markets where the series has run, I think it is safe to say that our reputation has been dealt a serious blow," McCormick wrote in the memo, which was labeled "Importance: High."

"This is definitely the case on Capital Hill. There is some evidence that the series is being distributed to other audiences that we care about, such as the foundation community."

The conference-call memo states that the articles "upset" foundation officials, particularly at the Doris Duke Charitable Foundation, which has given the nonprofit more than $10 million.

A fourth memorandum says that the Conservancy is encouraging "anyone, including partners and staff," to write letters to the editor protesting the series.

In an opinion column published Tuesday in The Post, McCormick said that, in response to the series, the Conservancy had suspended a range of activities highlighted in the articles, including land sales to trustees. The column said the Post articles were distorted and lacking in context, and that they mischaracterized the group's mission and motives.

Edelman's Washington office is headed by Michael F. Deaver, a former Reagan administration adviser, and Leslie Dach, a former Clinton administration adviser. Edelman represented the Red Cross after charges that the organization had misled donors after the Sept. 11, 2001, terrorist attacks. Other clients have included major corporations that have representatives on the Conservancy's governing board, including General Motors Corp., Georgia-Pacific Corp. and Southern Co.

"We have sought the advice of independent outside experts to help us navigate through all stages of this process, from dealing with issues of governance and transparency to how best to communicate to Washington-area audiences about the steps that we are taking," the Conservancy said in a written statement to The Post. "Our expertise is in conservation. It seems only prudent to engage others more versed in some of these areas to offer us their perspectives as we work through these issues."

12 Home Loans at Conservancy

Nonprofit Says All but 2 Have Been Repaid; 5 Came Interest-Free

By JOE STEPHENS
and DAVID B. OTTAWAY
Washington Post Staff Writers

The Nature Conservancy, which earlier this month issued a statement of regret to Congress for misreporting the terms of an internal loan to its chief executive, has over the past decade extended 11 housing loans to other employees, including five who were not charged interest.

In one transaction, the Conservancy's California director, Graham Chisholm, received a no-interest $500,000 mortgage that requires no payments until 2011, property records and an IRS filing show. The Conservancy will share in any rise or fall in his home's value.

Another loan, this one to a North Carolina employee, remains outstanding nearly eight months after its maturity date, said Conservancy spokesman Jim Petterson.

Each loan was made to retain or recruit a worker who was relocating, he said, and all but Chisholm's and the North Carolina employee's loans have been repaid. Although incentive loans to executives are not uncommon in the business world, some charity specialists questioned whether nonprofits should offer such loans, especially interest-free.

"It's legal, but it's not ethical," said Peter Dobkin Hall of Harvard University's Hauser Center, which researches charities. "It's very bad practice and not the sort of thing that will make donors happy."

The Conservancy's board is set to meet today at its Arlington headquarters to review the executive loans and other financial practices described last month in The Washington Post. Senate Finance Committee Chairman Charles E. Grassley (R-Iowa) and Sen. Max Baucus (Mont.), the committee's ranking Democrat, have said they plan to ask the nonprofit environmental group to account for activities that Grassley has described as "very questionable."

The Post reported that the Conservancy had used nonprofit funds to extend Steven J. McCormick, the organization's president and a member of its governing board, $1.5 million toward the purchase of a McLean home. Although Conservancy executives reported the loan was made at an interest rate of 7 percent, property records showed that the actual rate was 4.59 percent.

The Conservancy suspended new loans to executives after the disclosure, and McCormick recently repaid his debt. In a 16-page response to the Post series delivered this month to each member of Congress, McCormick wrote that "we regret the error."

Petterson said this week, in response to questions, that the Conservancy has extended a dozen housing loans to employees since 1993. All were home mortgages, except for $4,000 extended to help an employee rent housing in Indonesia, he said.

Interest rates ranged from zero to 6.02 percent, according to Conservancy records. Ten loans required no monthly payments. Of those, five were interest-free.

Chisholm, former head of the Conservancy's Nevada chapter, was named to the organization's senior California post in January 2001. Six months later, the Conservancy extended Chisholm $500,000 toward the purchase of a $925,000 house in Berkeley, according to property records and the Conservancy's IRS tax filing. The interest-free loan enabled Chisholm to buy a California house comparable to his home in Nevada, where property is cheaper, Petterson said.

No repayment is required until July 2011 if Chisholm does not move or switch jobs. On the 10th anniversary of the loan, the Conservancy will receive the principal plus a share of any appreciation in the property. If the house's value falls, the Conservancy will share the loss. Chisholm did not respond to phone calls seeking comment.

Chisholm's "shared appreciation loan" is uncommon, according to mortgage specialist Keith Gumbinger, vice president of HSH Associates. He calculated that, over 10 years, a standard mortgage with 5.125 percent interest would earn the Conservancy $235,000.

Last year, the Conservancy extended to Terry Severson, who manages land preserves in North Carolina, a $30,000 loan with 2.88 percent interest for the purchase of a new home. The IRS filing lists a maturity date of Oct. 15, 2002, but Petterson said the balance remains outstanding. Severson explained that he could not immediately repay the loan because a home he owns in Wisconsin remains unsold. Severson said he is leaving the Conservancy for family reasons on June 18 and has agreed to fully repay the loan in July.

The filing shows that the Conservancy last year extended to one of its lead scientists, John A. Wiens, and his wife a loan of $375,000 for six months with 5 percent interest. A commercial lender extended Wiens a second mortgage at 6.1 percent.

Wiens, who did not respond to requests through the Conservancy for comment, used the loans to buy a $1 million home in Vienna, Va. He later sold a Colorado home and used the proceeds to repay the Conservancy, interviews and records show.

The IRS filing states that the Conservancy loan was secured by Wiens's home in Virginia, an assertion not supported by property records. Petterson said this week that the filing was in error and that Wiens used his Colorado home as security.

Researcher Alice Crites contributed to this report.

The Washington Post

MD VA SATURDAY, JUNE 14, 2003

Conservancy Abandons Disputed Practices

Land Deals, Loans Were Questioned

By JOE STEPHENS
and DAVID B. OTTAWAY
Washington Post Staff Writers

The Nature Conservancy announced last night that it is permanently abandoning a range of practices, from drilling for oil to lending employees money to selling undeveloped land to its trustees as home sites.

The board's actions followed a daylong, closed-door meeting at the charity's Arlington headquarters, during which it weighed issues and criticisms raised over the past month by two U.S. senators and by some of the nonprofit organization's 1 million members.

"The actions taken today by the Conservancy's Board of Governors are significant and concrete and demonstrate the board's commitment to continuous improvement," charity spokesman Jim Petterson said in a written statement. "These steps will assure the Conservancy's supporters and partners of the organization's commitment to integrity beyond reproach, and will better equip the organization to address the world's conservation challenges."

The 52-year-old Conservancy, best known for its ads featuring the voice of actor Paul Newman, is the world's richest environmental group, with $3.3 billion in assets. The charity has 3,200 employees and operates in every state and

See CONSERVANCY, A10, Col. 1

CONSERVANCY, *From A1*

30 countries. It owns 2 million acres, much of it held in 1,400 nature preserves.

The board outlined its actions yesterday in a six-page statement. One of the decisions prohibits the buying or selling of land in transactions involving board members, state trustees, employees and employees' immediate families. In recent years, the Conservancy bought millions of dollars worth of land and services from board members and companies with which they were associated.

The board also decided to stop the practice of accepting charitable gifts in connection with its conservation buyer program unless the gifts are documented and explicitly part of the deal.

Under the program, the Conservancy bought raw land, attached development restrictions and then resold the land to state trustees and other supporters at greatly reduced prices. Buyers then voluntarily gave the Conservancy charitable contributions roughly equivalent to the discounts, sums that were written off from the buyers' federal income taxes. The deals generally allowed the buyers to build homes on the land.

"With respect to the specific conservation buyer transactions highlighted in recent media reports, outside tax counsel advised the Board, based on a review of documentation provided by the Conservancy, that there were no legal problems with the transactions from a federal income tax perspective," the Conservancy statement said. Nevertheless, the board decided to take action "to remove even the perception of conflict of interest or impropriety related to conservation buyer transactions."

In its actions, the board "reemphasized the well-established conclusion that development restrictions, asserted via conservation easements, have significant monetary value."

The board also voted to conduct scientific assessments of the conservation properties and to widely advertise all real estate the Conservancy offers for sale.

Another action prohibited new loans to employees. Two outstanding employee loans will be repaid within 90 days.

In recent years, the Conservancy extended housing loans to 12 of its workers, including five employees who were not charged interest. Conservancy President Steven J. McCormick received $1.5 million, at an interest rate of 4.59 percent, toward the purchase of a McLean home; his loan has been repaid. In another transaction, the Conservancy's California director, Graham Chisholm, received a no-interest $500,000 mortgage; this must be repaid in 90 days.

In addition, the board voted against authorizing any new projects to drill for oil or mine for minerals.

The Conservancy in 1999 began drilling for natural gas in Texas, under the last native breeding ground of the Attwater's prairie chicken, which it calls the most endangered bird in North America.

A report by Conservancy biologists said the drilling operation led to a "higher probability of death" for some of the birds.

The Conservancy will continue collecting natural gas on the Texas preserve.

The board decided to require additional levels of approval, sometimes by the board itself, before the Conservancy sells the use of its name and logo to private companies. In the past, the organization allowed companies to place its name on products in return for cash.

Finally, the board will hire independent outside advisers to help it review its governance and oversight policies.

The Conservancy's actions came as its activities were coming under increasing scrutiny on Capitol Hill.

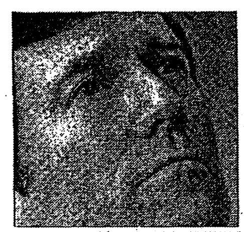
Last month, after a three-day series of articles in The Washington Post, Senate Finance Committee Chairman Charles E. Grassley (R-Iowa) and ranking Democratic member Max Baucus (Mont.) said they planned to ask the charity to account for its programs, especially the sale of raw land at reduced prices to its state trustees.

Facing public concern over its activities, the Conservancy recently suspended many of the practices that it permanently abandoned yesterday.

"This sounds like a big step in the right direction," said Peter Dobkin Hall of Harvard's Hauser Center for Nonprofit Organizations, a research group. "The donor public feels self-dealing transactions should be avoided."

The Conservancy's actions will lead to greater accountability, he said.

"Transparency, that's the name of the game," Hall said. "I hope they mean it."



BY SARAH L. VOISIN—THE WASHINGTON POST

STEVEN J. McCORMICK

Petterson said the policy changes were approved by an overwhelming majority of board members, with only "one or two nays" on several points under discussion.

"On the agenda was a wide-ranging and thorough review of some of the tools and strategies the Conservancy has pioneered or used in pursuit of its mission," the Conservancy's statement said. "That review, initiated a year ago and accelerated, in part, by recent media reports, led the Board to create some new policies. Additionally, the Board reaffirmed the importance and contribution of the Conservancy's mission, strategy and values."

Thursday, July 17, 2003 A19

Nature Conservancy Faces Panel Review

By Joe Stephens
and David B. Ottaway
Washington Post Staff Writers

A Senate committee is seeking thousands of pages of internal documents from the Nature Conservancy as part of an "independent review" of the charity's practices.

In a letter sent yesterday to Conservancy President Steven J. McCormick, the Senate Finance Committee asked for records reaching back a decade and spanning 18 broad topics. Along with general explanations of Conservancy policies, the committee is requesting information as detailed as the Social Security numbers of individuals who received loans and land from the nonprofit.

The letter is signed by committee Chairman Charles E. Grassley (R-Iowa) and ranking Democrat Max Baucus (Mont.). The senators said in May that they might consider legislation after The Washington Post reported on a range of Conservancy practices, including the group's sale of scenic property to trustees who then made tax-deductible donations to the organization.

In the seven-page letter to the Nature Conservancy, the senators cite "serious questions about TNC's practices regarding land sales, purchases and donations; executive compensation; and corporate governance, among others."

As part of its review, the committee plans to seek information independently about the Conservancy from the Internal Revenue Service, a committee staff member said yesterday.

The Arlington-based Conservancy said in a statement that it "has been in discussion with Committee staff, and has conveyed to them that the Conservancy will work cooperatively and expeditiously with the Committee to address all matters within the scope of the inquiry."

The Conservancy also pointed out that, independent of the inquiry, the group had thoroughly reviewed its practices, and its board of governors had made several changes.

The Senate letter includes more than 100 questions and requests for information, some of which could elicit hundreds of pages in response.

BY SARAH L. VOISIN—THE WASHINGTON POST

Senators asked President Steven J. McCormick for Conservancy data.

The letter asks for information on all of the Conservancy's land deals with private individuals, including so-called "conservation buyer" deals. In those deals, the Conservancy bought raw land, added development restrictions, then resold the land at a reduced price. The buyers then made tax-deductible gifts to the nonprofit.

Many of the conservation buyers were current or former Conservancy trustees, who built homes on the rustic sites. When the Conservancy board announced major policy changes on June 13, it included a prohibition on land sales to trustees and other Conservancy insiders.

The committee wants to examine details of all loans the Conservancy has made in the past decade, including those extended to a power company and other for-profit corporations. Its request covers a dozen home loans to Conservancy employees, including $1.5 million extended to McCormick and a no-interest $500,000 mortgage extended to California state director Graham Chisholm.

The senators also want to examine all audits of Conservancy operations from the past five years. The committee seeks details of land sales to government agencies, including appraisals and any profits banked by the Conservancy. In particular, the letter asks for a list of grants and contracts involving three nonprofits: the National Fish and Wildlife Foundation; the National Forest Foundation; and the National Park Foundation.

The committee asked that the material be submitted within a month.

Land Trust Alliance Rewriting Its Ethics Standards

Organization Is Responding to Increased Scrutiny of Preservation Practices

By DAVID B. OTTAWAY
and JOE STEPHENS
Washington Post Staff Writers

The nation's largest coalition of land preservationists is rewriting its ethical standards in response to recent reports of conflicts of interest and questionable land deals cut in the name of the environment.

At its annual conference last weekend in Sacramento, the Washington-based Land Trust Alliance announced plans to add ethics training to its professional workshops, begin an ethics column in its quarterly magazine and develop regulations governing land-preservation techniques.

An alliance "strategic plan" distributed at the conference said: "The U.S. Senate has launched an investigation of land trust practices, and land trusts are receiving increased critical scrutiny from the national media. Sooner or later, the government will demand stricter standards and credentialing for land trusts. . . . The best solution is a single, national set of standards and a credentialing process that is designed and managed by the land trust community."

Ethics discussions dominated the conference, where 1,600 preservationists attended workshops with titles ranging from "Land Trusts Behaving Badly" to "Easements Today: The Good and the Not So Good." Speakers told how sellers had inflated land appraisals and how developers had used taxpayer-financed conservation projects to pepper landscapes with mansions.

Time and again, experts emphasized that preservationists need to be careful about passing along real estate and tax breaks to friends and colleagues. "For a long time now, the land trust movement in this country has been a cozy little field," conservation lawyer Stephen J. Small said. "Those days are over."

The nation's 1,300 land trusts represent the fastest-growing arm of the environmental movement. The nonprofit organizations protect land by buying and holding real estate, and by accepting donations of conservation easements—permanent deed restrictions that bar some types of intrusive development. The alliance said those methods have helped protect more than 6 million acres of open space in the United States.

The alliance's emphasis on ethics comes after a Washington Post investigation into the Arlington-based Nature Conservancy, the association's largest member and the world's wealthiest environmental group. The three-day Post series published in May reported that the conservancy had logged forests and drilled for oil under the last native breeding ground of an endangered bird species. The charity's governing board and advisory council included executives and directors from corporations that had paid millions in environmental fines, the series pointed out, and the conservancy had engaged in multimillion-dollar business deals with those executives and their companies. Other stories told how conservancy officials had extended low-interest loans to charity executives and sold scenic properties to conservancy employees and state trustees, who often built homes on the sites and reaped large tax breaks from the Internal Revenue Service.

After some members of Congress and the conservancy expressed concerns, the organization permanently banned most of the practices described in the series. Earlier this year, the Senate Finance Committee began an ongoing investigation.

At the alliance's gathering, conservancy President Steven J. McCormick acknowledged in a keynote address that his organization had "fallen short" and promised to improve. "We can do much, much better at governance," he said. "Very often, the zeal to save something can overcome our judgment."

Alliance President Rand Wentworth called the conservancy revelations a "wake-up call," and said his organization is moving "lightening fast" to create new ethical standards. The alliance is also proposing an accreditation system under which land trusts would adopt standards approved by the alliance. "Most land conservation is legitimate and done well, but we're trying to get in front of the trend lines," Wentworth said.

In recent editions of the alliance's magazine, Small called for "heightened vigilance" regarding fraudulent deals, abusive tax shelters and groups that are nothing more than fronts for developers seeking tax breaks.

"Bad conservation deals are starting to happen, albeit in small numbers," wrote Small, a former alliance board member and IRS official who helped write regulations governing conservation easements. "In the last two or three years, at least one-third of the inquiries about conservation easements come from people who think they can get away with something by donating a conservation easement. . . . The trend greatly concerns me."

BY JAMES M. THRESHER—THE WASHINGTON POST

The Nature Conservancy bought this Herring Creek farm property on Martha's Vineyard, Mass. The house belongs to Daniel W. Stanton of Goldman Sachs.

The Washington Post

C MD VA — Monday, November 10, 2003 — M3

Senate Panel Intensifies Its Conservancy Probe

By Joe Stephens
and David B. Ottaway
Washington Post Staff Writers

A six-month inquiry into the Arlington-based Nature Conservancy by the Senate Finance Committee has raised "new questions in a wide range of areas," leading investigators to intensify their pursuit of internal audits and property records they have been seeking since last summer, according to committee Chairman Charles E. Grassley (R-Iowa).

Committee investigators, who have been looking into the charity's management and real estate sales, are now particularly interested in the "valuation of land donations and the conservation-buyer program," Grassley said. The charity uses that program to sell property to private individuals, including Conservancy members.

In a statement, Grassley said he is reserving judgment until the investigation is concluded, but added: "I expect it will become even more clear that reforms to existing law should accompany any new incentives for taxpayers to donate land for conservation." Grassley is sponsor of a bill backed by the Conservancy that passed the Senate earlier this year and which would provide hundreds of millions of dollars in new conservation tax breaks.

"The Conservancy always anticipated there would be additional questions," the charity said in a statement Friday. "Should the Committee identify reforms it feels are needed, the Conservancy stands ready to work with the Committee to design and implement them."

Grassley's comments came as committee staffers and Conservancy officials met last week to resolve issues that have delayed the release of key Conservancy documents, which detail some of the charity's largest and most controversial real estate deals.

"There are some areas where the Finance Committee has yet to receive a complete response or will require additional information," Grassley and ranking Democrat Max Baucus (Mont.) wrote to the Conservancy last week. The Conservancy had said it could not hand over some of the records because it was bound by confidentiality agreements or did not want to release proprietary information. In its letter, the committee offered to subpoena the documents.

Baucus said in a statement last week: "The Nature Conservancy has been cooperative with the information requested to this point, and I expect this willingness to continue." The senators also asked the Conservancy for a written promise not to retaliate against whistleblowers who "have been chilled by confidentiality agreements."

Conservancy officials said in Friday's statement that they expected "in a matter of days" to resolve all issues holding up release of the documents, including concerns about individual privacy.

"The Conservancy has cooperated voluntarily and fully with the Committee and its staff throughout the inquiry and it will continue to do so," the group's statement said. "The Conservancy is eager to produce the remaining documents as soon as possible."

The Conservancy said it has obtained confidentiality waivers and is awaiting "confirmation from the committee of the Conservancy's understanding of how Senate disclosure rules will be applied."

With $3 billion in assets, the Conservancy is the world's largest environmental group and has preserved millions of acres worldwide.

The areas where the committee is seeking additional information include: internal Conservancy audits, Conservancy land sales to government agencies, a $64 million land deal on Martha's Vineyard that involved talk show host David Letterman and "details of sales, donations or purchases of land with certain private individuals and companies," the senators' letter says. The Conservancy said that 11 of its land transactions were covered by confidentiality agreements.

The Washington Post independently obtained one Conservancy audit, of a project on Virginia's Eastern Shore. The audit found widespread accounting problems and violations of Internal Revenue Service regulations. The audit also states that managers helped a contractor "hide personal income."

The Senate inquiry began after a Post series in May reported on a wide range of Conservancy practices. Articles detailed how the charity had sold scenic properties to its state trustees, who reaped large tax breaks. Other stories disclosed that the charity engaged in multimillion-dollar business deals with companies and their executives while they sat on the charity's governing board and advisory council. The Conservancy responded by banning a range of practices.

The senators wrote the Conservancy in July seeking internal records covering 18 broad categories and set an Aug. 18 deadline. The Conservancy pledged to cooperate and has provided about eight boxes of documents. But it has withheld a number of other records. They include:

- Private records from a $64 million deal in which the Conservancy acquired 215 acres in Martha's Vineyard, Mass., and immediately resold half. In a complicated chain of transactions, Letterman's holding company acquired several of the ocean-side tracts for use as luxury home sites.

The deal generated $32 million in potential tax breaks for the families and businesses of Boston developers Neil and Monte Wallace, two major Conservancy donors. The Conservancy defended the deal, which was outlined in the Post series in May, as a bold initiative to restore ecologically valuable grasslands.

- Details of a gift to the Conservancy of certain development rights on 11,000 acres of rugged canyon lands near Los Angeles from the Irvine Co., one of the nation's largest development companies. The gift allows the Conservancy to preserve the land, while Irvine can seek to write off the value of the rights as a tax-exempt donation.

Interviews and internal records show that the Conservancy valued those rights at $120 million and listed that amount as revenue on its books. An internal memo obtained by The Post shows that last December a Conservancy official said during a teleconference that he was concerned that the media could view such valuations "as subjective and a tool we used to inflate our income."

A Conservancy spokesman declined to comment on the gift Friday, and the Irvine Co. did not respond to requests for comment. The Conservancy said at the time of the gift that it allowed the group to preserve "relatively pristine tracts of land" and rare species in a rapidly developing area of California.

- The audit of the Virginia project, obtained by The Post after its May series, examined the Conservancy's purchase and management of millions of dollars in land through a project known as the Virginia Coast Reserve, or VCR. Stamped "Confidential," the March 2002 report said that auditors originally uncovered widespread problems two years earlier.

"Its runaway debt and deficits were essentially overlooked by corporate management," auditors wrote. The program had an operating deficit of $2.3 million, $3.3 million in external debt and $18 million in internal debt owed to the Conservancy's Land Preservation Fund.

"VCR owns numerous real properties and capital assets that were never properly recorded in the general ledger," the report states. "Several million dollars worth of land costs . . . could not be identified either in the files or from the county tax records."

The report noted that VCR hired an employee's family member to handle deposits and receipts and said that many transactions were improperly recorded.

For years, the report said, the IRS was not told that the charity provided some employees with free housing and free use of a car, a lapse described as an IRS violation.

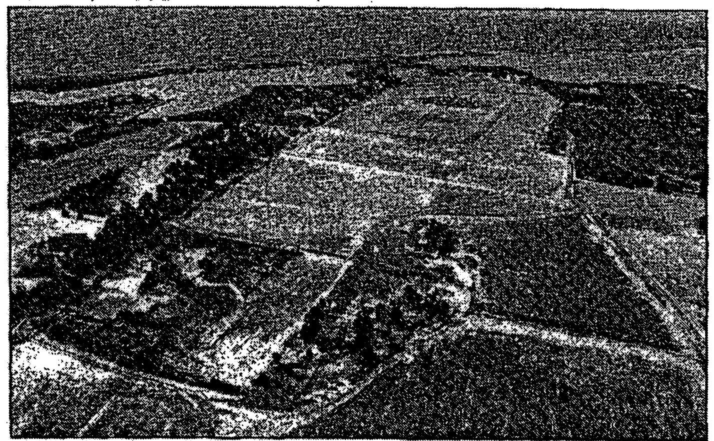
The audit said a Virginia farmer, who oversaw property leases for the Conservancy, negotiated and managed six farm leases with his own father. The report said Conservancy officials paid the farmer's wife, instead of the farmer.

The report does not name the employees involved. Auditors sent their findings to Conservancy President Steven J. McCormick on May 24, 2002. It is unclear whether McCormick alerted the IRS.

Asked about the audit, the Conservancy said in its statement, "The Conservancy declines to comment about the specific details of the internal audit, except to say the matters highlighted in the audit have been addressed to ensure activities at the Virginia Coast Reserve are in compliance with the Conservancy's policies and procedures." The statement also said the audit's findings "played a significant role" in reforms of the VCR program.

According to the senators' letter, the charity earlier offered to release additional records sought by investigators in exchange for confidentiality protections "modeled after the agreement entered into between the Finance Committee and Enron Corp." But the senators said that agreement was narrowly tailored to allow the committee access to Enron data protected under IRS regulations.

The senators' letter said that "a number of whistleblowers" had approached the committee. "We would ask that TNC make a public written statement that it will take no action against any former or current TNC employees or contractors who cooperate with the Finance Committee's investigation," they wrote. The Conservancy statement said the group would issue such a public, written promise.



BY JAMES M. THRESHER—THE WASHINGTON POST

The Nature Conservancy acquired 215 acres on the Atlantic in Martha's Vineyard and resold half. David Letterman's house is in the left foreground.

The Washington Post
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SATURDAY, JANUARY 17, 2004

IRS to Audit Nature Conservancy From Inside

By JOE STEPHENS
and DAVID B. OTTAWAY
Washington Post Staff Writers

A team of IRS examiners will move into the global headquarters of the Nature Conservancy in Arlington to begin auditing the charity, the world's largest environmental organization.

A letter sent to the Conservancy by the Internal Revenue Service last month indicates that the audit will be of uncommon scope for a charity, tax specialists said. The memorandum proposes a preliminary meeting between four IRS examiners and the Conservancy's chief financial officer to discuss logistics, communications, telephone access, equipment and accommodations. The IRS will examine 2002 tax returns, the letter said.

"It is unusual," said former IRS commissioner Donald C. Alexander, now a private tax lawyer. "This is an extraordinary case.... It is an indication of a pretty strong audit."

Conservancy spokesman James R. Petterson said officials there have not been told the scope of the examination or its genesis. In a statement on the group's Web site, the Conservancy promised to cooperate fully and provide examiners comment. Alexander and other specialists said such an audit could take a year or longer.

"If they go into General Motors, this is what they do," said attorney Sheldon Cohen, a former chief counsel and commissioner of the IRS. "This is a major audit, of consequence."

Live-in IRS auditors have become a fact of life at some Fortune 500 conglomerates but remain rare at nonprofit corporations, the specialists said. The charity has assets of more than $3 billion and ranks as the eighth largest nonprofit of any type in the nation.

The developments follow articles in The Washington Post over the past year that examined financial irregularities and conflicts of interest at the Conservancy. One story described alleged IRS code violations at a Conservancy project in Virginia, and another disclosed a dozen loans that the Conservancy extended to its employees. A $1.5 million home loan went to Conservancy board member and President Steven J. McCormick, who repaid the debt after he was questioned about it by a reporter.

The stories also reported that the Conservancy had repeatedly bought land, added some development restrictions, then resold the properties at reduced prices to its trustees and other supporters. The buyers made cash gifts to the Conservancy roughly equal to the difference in price, thereby qualifying for substantial tax deductions.

In the wake of the stories, the Conservancy banned a range of practices, saying it would no longer lend money to insiders, sell land to trustees or drill for oil on nature preserve land. The charity is conducting a broad internal review of its management practices and says more changes are expected.

The Senate Finance Committee began looking into the charity last year. Investigators have spent months sifting through internal Conservancy documents, debriefing whistle-blowers and weighing legislative reforms.

The IRS letter says auditors will examine the Conservancy's fiscal 2002 tax return, which was filed on what is known as an IRS Form 990. Past Conservancy tax returns contained misstatements and omissions.

For example, the Conservancy's 2001 tax return showed that the charity had lent the utility firm WEPCO, the Wisconsin Electric Power Co., $2.2 million. The lending was made in connection with a project aimed at protecting Central American forests and could have generated greenhouse-gas credits for the utility.

Conservancy officials later said the WEPCO loans totaled only $1.5 million. The rest of the money went to corporations whose names were mistakenly omitted from the filing, Conservancy Vice President Michael J. Coda said.

"That has no relation to reality,"

Coda said of the IRS Form 990 filing, during a June 2002 interview in which he acknowledged the errors.

Months later, the Conservancy filed its 2002 tax return—which again showed that the loans to WEPCO totaled $2.2 million.

A specialist in nonprofit corporations who reviewed the Conservancy's tax returns described them as confounding.

"It stunned me," said the specialist, Peter Dobkin Hall, of Harvard University's Hauser Center for Nonprofit Organizations. "It's not exactly what I'd call a transparent organization.

"I find that very peculiar. I couldn't find out a damn thing about them. It was a brick wall."

Internal Conservancy documents show that the organization's auditor has complained about problems that could lead to IRS scrutiny or, in the words of one memo, to "the possibility of public exposure."

One internal audit report on a Conservancy project known as the Virginia Coast Reserve—or VCR—found numerous irregularities. Many financial transactions were improperly recorded, according to the March 2002 report, which is stamped "Confidential." The IRS was not told for years that the charity provided some employees with free housing and use of a car, lapses the report described as IRS violations.

One Conservancy contractor, identified in the report as a Virginia farmer, received payments though his wife, the report said.

"VCR negotiated [an employment contract] in the farmer's wife's name and issued an IRS Form 1099 [which reports miscellaneous income to the IRS] in her name and social number even though her husband performed all of the work under the contract," the report said. "VCR management wrote the contract in the wife's name so that the farmer could hide personal income."

Nature Conservancy Retools Board to 'Tighten' Oversight

By Joe Stephens
Washington Post Staff Writer

The Arlington-based Nature Conservancy, facing independent examinations by the Internal Revenue Service and the Senate, has announced a broad restructuring of its governing board to strengthen accountability and oversight at the $3 billion nonprofit organization.

The changes include creation of an 11-member executive committee that will wield power formerly distributed across the 36-member board.

"The Board of Governors recognized the need to become more directly involved," Conservancy Chairman Henry M. Paulson Jr., chief executive of the investment bank Goldman Sachs Group Inc., wrote in a memo discussing the changes. "We need to tighten up our oversight and risk management controls to ensure we operate at the highest standard."

The Nature Conservancy described the changes as a "complete restructuring." The executive committee will meet more frequently than the full board and "will be responsible for providing oversight and guidance as new policies and procedures are put in place and as the Senate inquiry and IRS audit proceeds," the statement said.

Henry M. Paulson Jr., chairman of the nonprofit being audited by the IRS.

The announcement comes as the Senate Finance Committee revealed yesterday that it is seeking thousands of pages of additional documents in its 10-month-old investigation into the world's largest environmental organization. An 18-page letter sent to the Conservancy this week refers to a number of business transactions never before made public.

The changes announced by the Conservancy include a reorganization of other board committees. An audit committee will focus on ethics, whistle-blowers, conflicts of interest and "broad legal issues that have ramifications across the Nature Conservancy." The Conservancy will also appoint an internal audit director who will conduct investigations and have powers similar to federal inspectors general.

The changes were approved Jan. 30 but were announced to the media only this week.

The action comes at the urging of a panel of outside experts led by Ira M. Millstein, a New York lawyer and expert on business ethics. Other panelists included former Harvard University president Derek Bok and former Los Angeles Times publisher Richard T. Schlosberg III.

The Conservancy created the panel last year, after a series of articles in The Washington Post in May spotlighted controversial practices at the organization. In the wake of the reports, the Conservancy banned a range of practices, saying it would no longer lend money to corporate insiders, sell land to its trustees or drill for oil on nature preserve land.

The Senate Finance Committee, which has been investigating since May, wrote to the Conservancy on Wednesday, requesting a range of documents that included records related to tax-sheltered "conservation easement" deals.

The letter seeks the identity of a woman who documents show was paid $350,000 over 11 months. The woman's duties included hiring and supervising Conservancy employees, the letter says, but she is listed in the charity's records only as a "contractor." The letter referred to an internal 2002 Conservancy audit report that questioned the woman's role at the Conservancy and pointed out that, if the IRS later determined that she actually should be considered a Conservancy employee, "her compensation could be viewed as excessive."

Excessive compensation paid to employees can jeopardize the tax-exempt status of a nonprofit organization. In interviews, former Conservancy employees identified the woman as a former senior adviser to Conservancy President Steven J. McCormick.

Conservancy spokesman James Petterson declined to comment on the questions.

In a written statement, the Conservancy said: "As it has throughout this review, the Conservancy will work cooperatively and expeditiously with the Committee to address all areas of inquiry. . . . The Nature Conservancy is committed to doing everything necessary to make the organization stronger and better equipped to fulfill its mission of addressing the world's conservation challenges."

The letter also asks Conservancy officials to explain whether the organization makes a profit by buying land and reselling it to federal and local governments. The letter cites one unidentified parcel that the Conservancy bought and then resold to a government body at an apparent profit of $1.3 million. Conservancy officials have repeatedly said that the organization does not make money reselling land to the government.

The letter poses a string of questions regarding the Conservancy's monitoring and enforcement of conservation easements—permanent deed restrictions that limit some types of intrusive development. Landowners "donate" the easements to the Conservancy and other land trusts, thereby qualifying for federal income tax deductions aimed at preserving open land. The easements have become controversial in recent years because of their use by developers of golf courses and luxury subdivisions.

The letter asks how many easements the Conservancy has abandoned as "unenforceable," and how many times the Conservancy has allowed landowners to modify the restrictions on their land. "A number of conservation easement amendments or modifications would appear to benefit the landowner," rather than the environment, the letter says.

Staff writer David B. Ottaway contributed to this report.

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Overhaul of Nature Conservancy Urged

Report by Independent Panel Calls for Greater Openness

By JOE STEPHENS
Washington Post Staff Writer

An independent panel of experts created by the Nature Conservancy last year to revamp the environmental group's operations has issued a final report calling for sweeping reforms that the group hopes will become a model of ethical standards for nonprofit organizations.

The panel is urging the Conservancy to make its finances more public, to scrutinize tax deductions taken by its donors and to vow to "walk away" from financial transactions that fail to meet the proposed standards.

Conservancy board members and their companies should be barred from selling land to the Conservancy or buying property from the group, the report says, and the Conservancy's conflict of interest policy for board members and executives should be extended to cover major donors of cash or land.

The report also says board members and their companies should not enter into "cause-related marketing" campaigns with the Conservancy, where the group's logo is stamped on products and used in corporate ads.

The panel urges the Arlington-based nonprofit to bar its board members and their companies from claiming federal income tax deductions for giving land to the charity.

See NATURE, *A11, Col. 5*

NATURE, *From A1*

The recommendations come in a 28-page report prepared over six months by an outside committee led by Ira M. Millstein, a New York lawyer and an expert on business ethics. Other panelists include former Harvard University president Derek Bok and former Los Angeles Times publisher Richard T. Schlosberg III.

The Conservancy, the world's largest environmental group, created the panel last year, after articles in The Washington Post described controversial practices at the organization. The Conservancy also immediately after the articles were published in early May banned many of the practices, saying it would no longer lend money to corporate insiders, sell land to its trustees or drill for oil on nature preserve land.

The Conservancy already has adopted one of the panel's major recommendations, made months ago in an interim report. In January, the environmental group approved a "complete restructuring" of its governing board to strengthen accountability and oversight at the $3 billion organization. The changes include creation of an 11-member executive committee that will wield power formerly distributed across the 36-member board. A major focus of the executive committee will be to promote greater openness at the Conservancy.

In the final report distributed to Conservancy board members this week, the panel did not dwell on past practices at the Conservancy, choosing instead to focus on setting new standards to increase efficiency and safeguard the charity's reputation.

"I have a high degree of confidence this will be carried out," Millstein said of the recommendations. Conservancy spokesman James Petterson said most of the changes are already underway.

In a statement, Conservancy board Chairman Henry M. Paulson Jr. said the organization has made a "commitment to strive for the best standards in governance in the nonprofit sector. With the assistance of this esteemed panel, and through our own comprehensive internal review of our governance structure, we have made significant progress toward that commitment."

Senate Finance Committee Chairman Charles E. Grassley (R-Iowa), who has been investigating Conservancy practices since last year, welcomed the report as an important step and said the proposed reforms might have wider applicability to other charities.

"I'm pleased that it looks like Nature Conservancy has gotten the message that business as usual won't cut it," Grassley said in a statement. "People should have confidence that when they write a check for charity, the money will help the needy, not the greedy."

Millstein, the panel chairman, said he hopes the recommendations will become a benchmark for the charitable industry's best practices.

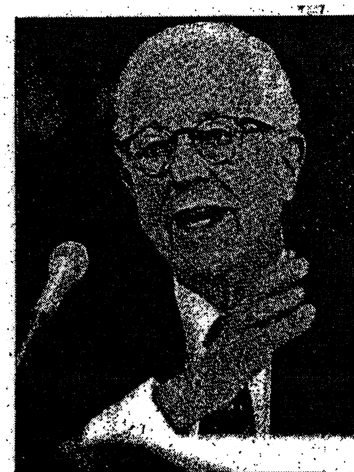
"It is essential that a non-profit board . . . scrupulously operate in a transparent, lawful and ethical manner," the report stresses.

The report says appropriate concerns have been raised about the validity of appraisals used to justify tax deductions claimed by individuals and companies that donate conservation easements, which restrict some types of intrusive development on particular tracts of land. In many cases, the donors continue to use the land as home sites.

"The panel recommends that TNC [the Nature Conservancy] put in place careful, systemic and strict procedures that will ensure compliance with all aspects of the spirit and letter of the rules for charitable contributions of conservation donations, with particular emphasis on appraisals," the panel wrote.

The Conservancy should refuse to sign Internal Revenue Service documents, known as Form 8283s and used by the IRS to document noncash gifts to charities, unless the value placed on the gift of land or an easement is backed by a report from a qualified, state-certified appraiser, the report says.

The Conservancy, the panel wrote, "must demonstrate that it is willing to 'walk away' from an otherwise advantageous transaction where all aspects of the transaction do not meet TNC's new standards, including where a donor wishes to claim a tax deduction based on an appraisal that is not justified."



Ira M. Millstein, chairman of the panel, hopes the recommendations become a benchmark for nonprofits.

The report urges the organization to strengthen efforts to monitor and enforce the development restrictions created by the easements and to take "aggressive action" against land owners who violate them.

"Adequate monitoring and enforcement of easements is critical to achieving long-term conservation results," the panel wrote.

The report also urges the Conservancy to use its annual return filed with the IRS, known as a Form 990 and available for public inspection, as a sort of annual report to its members. The Conservancy should make more disclosures in the filings than is required by law, the report says, and should include details about executive compensation, conservation activities and the organization's ethical record.

The annual Form 990 return, the panel wrote, could serve as the nonprofit's version of the Sarbanes-Oxley reports, which are now filed by publicly traded, for-profit companies. Those reports were created by Congress after disclosures of self-dealing and profiteering at Enron and other Fortune 500 companies.

In an interview, Millstein said, "What we are saying is, go along with the spirit of what the law requires, not just the letter."

Staff writer David B. Ottaway also contributed to this report.

THE NATURE CONSERVANCY RESPONDS TO *THE WASHINGTON POST* SERIES

For more than 50 years, The Nature Conservancy has sought to preserve plants, animals and natural communities by protecting the lands and waters they need to survive. We have made laudable progress toward our mission, helping protect more than 116 million acres around the world. But with development pressures mounting over the past few decades; with the world's population expanding and increased demands placed on precious resources from fisheries to forests, the challenge of protecting natural areas and biodiversity has grown ever steeper. We began to recognize in the 1980s that land purchase alone – our signature conservation tactic – was not sufficient to meet the challenge. We had to become more innovative and collaborative to effect long-term conservation, working with communities of people, businesses and others to protect *their* landscapes, *working* landscapes, places that support economies and ways of life, wildlife and ecosystems. Because time is not on our side, we had to learn to take risks.

On May 4, 5 and 6, 2003, *The Washington Post* ran a series of highly critical articles that focused on several of those risks and implied that we had neglected or failed in our mission because of them. We write to set the record straight – both about the risks we've taken, our mistakes and how we propose to correct them; but also about our record of achievement, grossly neglected and misrepresented by the *Post*. We must and will continue to take risks in our work to protect lands and waters today, before they and their wealth of life are lost to us and to our children.

Although the *Post* series was fraught with mischaracterizations and omissions of fact, we at The Nature Conservancy recognize some mistakes we have made in pursuit of innovation and conservation change. Many of these we had begun correcting and learning from before the *Post* investigation began. We take full responsibility for our actions, as we always have. Through intensive self-examination across the Conservancy, as we have done throughout our history, we know we will emerge a stronger organization, one better able to accomplish our conservation goals.

With this document, we aim to set the record straight for our members, supporters and detractors about the issues of oversight, judgment and integrity raised by the *Post*. Before we address specific issues, we begin by reviewing our mission, strategy and values. We conclude by summarizing the steps we are taking to correct our missteps and to convert the criticism leveled at us into a real dialogue about the future of how we do conservation.

The Nature Conservancy's Mission, Strategy and Values

Throughout our 52-year history, The Nature Conservancy has been known for our unique and highly successful approach to land conservation. We initially used land acquisition to "preserve wild nature," the organization's statement of purpose in the 1950s and 1960s. But as the Conservancy expanded over the years and as increasing threats to natural lands created even more demand for action, the organization tightened its focus and expanded the array of tools it uses to achieve lasting conservation results.

Today The Nature Conservancy is widely regarded and respected as an effective conservation organization, with conservation projects in all 50 states in the United States and in 26 other countries. We are known for our focused mission; our strategic framework to achieve that mission, Conservation by Design; and the unique set of values that guides how we pursue our work.

Mission. The mission of The Nature Conservancy is to preserve plants, animals and natural communities that represent the diversity of life on Earth by protecting the lands and waters they need to survive. We are dedicated to preserving biological diversity, and, as described below, our values compel us to find ways to ensure that human activities can be conducted harmoniously with the preservation of natural diversity. We aspire to the vision articulated so wisely more than 50 years ago by Aldo Leopold in his book, *A Sand County Almanac*: conservation is a state of harmony between man and nature.

Strategy. Our strategic framework for pursuing our mission is called Conservation by Design. It has two key components:

First, through a rigorous, science-based approach, we identify the lands and waters that represent the biodiversity of a given ecoregion. (An ecoregion is a large geographic area defined by natural features such as vegetation and geology; the Sonoran Desert is an example of an ecoregion.) Six years ago, we began an effort to develop an assessment of the places most critical for the long-term protection of ecosystems, plants and wildlife within and across the ecoregions of the Western Hemisphere, Asia and the Pacific. All together, they create a conservation blueprint

Second, Conservation by Design describes a four-step, disciplined process that enables us to develop the appropriate mix of actions to abate threats in a given place and to secure tangible, lasting conservation results. Different places require different strategies; we tailor our tools and strategies to local circumstances. Given the wide variety of threats we encounter, we must be innovative in developing flexible, uniquely tailored action plans.

Conservation by Design ensures that we focus on the right places and take the right action to achieve conservation results. The efficacy of this approach is increasingly recognized and lauded by others who are eager to use a science-based, pragmatic strategy for fulfilling their own commitments to protecting biodiversity. The Doris Duke Foundation, for example, has said:

> *Because the problem of biodiversity loss dwarfs our current resources to combat it, funders and conservationists alike must make hard choices about where and how to make our stand. To achieve deep and durable success, we will need great vision and discipline, the ability to marry strategy with the right opportunity and a commitment to learn from our failures, instead of simply trumpeting our successes. Conservation by Design offers a thoughtful and well-conceptualized framework to achieve these goals.*
>
> *As a philanthropic investor, we recognize the power of such a framework to help us identify the best and highest use of our funds. We have increasingly incorporated the key principles underlying Conservation by Design into both the selection of the sites in our*

place-based portfolio, and into how we are now funding key strategies in those sites. We believe the framework represents a critical contribution to the field of biodiversity conservation.

Values. We hold ourselves to high standards, staff and trustees alike. We freely adopted these values to guide our work, for they offer ideals to which we aspire in fulfilling our mission:

- *Integrity Beyond Reproach*: We hold paramount the trust and responsibilities placed in us by our donors, members, colleagues, partners and the public.
- *Continuity of Purpose*: We look to our mission to provide focus and guidance for everything we do.
- *Commitment to People*: We respect the needs of local communities by developing ways to conserve biological diversity while enabling them to live productively and sustainably. We value the active involvement of individuals from diverse backgrounds and beliefs in conservation efforts.
- *Effective Partnerships*: We are committed to forging public and private partnerships that combine diverse strengths, skills and resources.
- *Innovation and Excellence*: We are strategically entrepreneurial in the pursuit of excellence, encouraging original thought and its application, and willing to take risks based on sound business judgment.
- *One Conservancy*: We act as "One Conservancy," with each program assisting other programs in reaching their full potential, thereby ensuring the success of the overall organization.
- *Commitment to the Future*: We commit ourselves, individually and collectively, to leaving future generations a biologically rich world.

Setting the Record Straight
Regarding *The Washington Post* Series

The Washington Post series about The Nature Conservancy was based on a two-year investigation conducted by reporters from the *Post*. The Conservancy cooperated fully with the *Post*, providing literally thousands of pages of requested documents and scheduling interviews with dozens of staff, partners and other experts, including four separate interviews with our president, Steve McCormick. Instead of a balanced report, however, the *Post* series lacked a fair contextual description of our accomplishments and simplified complex issues, explored in depth in the following pages.

CORPORATE SUPPORT

The charge that the Conservancy is too cozy with corporations is not news. It has been made time and again, stemming from a myopic notion that there is an unbridgeable chasm between conservation and industry – and never the twain shall meet. But in all our actions, we seek to break down this stereotype and find common ground that can advance conservation. In fact, the Conservancy occupies a unique niche in the conservation movement, what some have called "the radical center." As one journalist has said of our work: "The Nature Conservancy judges its success by how many times its victories are not reported as victories, by how many times its fights are not perceived as battles by the participants."

Our long history of working with business is no secret. We accept their financial and land donations; we create collaborative ventures that further both our interests. Most of the conservation community recognizes and applauds the role we play, and many Conservancy members support us because we work *with* corporations, not against them. Only the Conservancy can and does enjoy the support of both the chairman of General Motors and a founder of Earth First!.

We do not apologize for our partnerships with the corporate world. They, along with partnerships with local communities, private landowners and government agencies, are essential to protect and restore entire functioning landscapes. In 1973, the Conservancy broke new ground when we received a donation of 49,000 acres in the Great Dismal Swamp in Virginia from Union Camp Corporation – land that is now part of the National Wildlife Refuge system. Ever since, we have continued to push the envelope to develop creative partnerships with corporations that result in tangible, lasting conservation.

Business Sector Giving to The Nature Conservancy

The *Post*'s series wrongly implies – through its graphic treatment as well as text – that The Nature Conservancy is either controlled or at least is manipulated by extractive industries. The facts show the opposite: in four out of the past five fiscal years, corporate donations represented less than 10 percent of the Conservancy's total support and revenue. Instead of using this figure, the series reports that the Conservancy received $225 million from corporations last year – "approaching the amount given by individuals." Although technically accurate, this distorts the reality. More than half of the $225 million that year was in the form of a one-time gift of a large conservation easement, now set aside as open space for the people of Orange County, California. Of the total $225 million, more than $199 million was in the form of gifts of land and conservation easements from corporations.

Cause-related Marketing

When a company advertises the name and logo of a nonprofit organization on its products, the organization receives a financial contribution as well as expanded name recognition, and the company can be viewed in a favorable light by the public for having supported the nonprofit cause. This well-established venture is called "cause-related marketing." Revenues from these types of agreements have brought in more than $10 million to the Conservancy in the past five years and the exposure has brought our conservation message to millions of people. The *Post* series neglected to put cause-related marketing in the proper context, leaving the impression that the Conservancy is the only nonprofit organization engaging in such co-branding, when in fact dozens of nonprofits from the Boys and Girls Clubs of America to the American Cancer Society to the World Wildlife Fund (WWF) engage in cause-related marketing. Additionally, the Conservancy follows the Better Business Bureau's "Standards for Charitable Accountability," which includes guidelines for the use of cause-related marketing.

The *Post* indicated that in pursuing corporate contributions, the Conservancy allowed its logo to be used on brands of toilet cleaner produced by S.C. Johnson. The facts are different. Through a cause-related marketing partnership with S.C. Johnson, the company ran a special coupon section in Sunday newspapers around the country in which the company promised to donate 10 cents from every coupon redeemed to the Conservancy – up to $100,000. The advertisement featured the Conservancy's logo and included a variety of S.C. Johnson products, but the logo did not appear on the coupon or on the products. The ads ran once each fall from 1995 through 1999. The total proceeds to The Nature Conservancy from this partnership were $465,000.

International Leadership Council

Our International Leadership Council (ILC) is a corporate forum focusing on the challenges confronting biodiversity preservation, habitat conservation and natural resource management. These issues lie at the heart of a growing number of corporate responsibility programs. The ILC brings together companies from many industries – finance, manufacturing, forestry, consumer products, information technology, etc. – to seek solutions to conservation challenges through cooperative partnerships between the business community and the Conservancy. We want America's largest corporations to participate in this group; they have a large and significant opportunity to make enduring contributions to biodiversity conservation. The ILC has no governance responsibility for the Conservancy.

Climate Change

The *Post* implied the Conservancy had reluctantly taken up the issue of global warming and climate change only in the winter of 2001. In fact, the Conservancy was in the forefront of the movement to set aside forests as a mechanism to offset atmospheric carbon emissions, with our first "climate-action project" taking place in Belize in 1994. Working with governments and industry, the Conservancy created climate-action projects as an innovative conservation tool to protect threatened forests, especially in the tropics, and to reduce atmospheric carbon levels. Climate-action projects help abate the long-term threat of climate change by protecting standing forest, which acts as a "sink" that captures and stores atmospheric carbon dioxide.

The *Post* series neglected to report that the $10 million contributed by General Motors toward a "pollution credits" plan actually funded an important climate-action project whereby the $10 million was used to acquire and restore 30,000 acres of the Atlantic Forest in Brazil, one of the most endangered ecosystems in the world. The *Post* also implied that we let our relationships with GM and other corporations cloud our perspective and get in the way of taking a public stand opposing proposed drilling in the Arctic National Wildlife Refuge in Alaska. But those who know us know we do not take vocal, public stands advocating one position or the other. This would compromise our "radical center" position. We leave outspoken advocacy to fellow conservation groups.

Conservancy Action

We are sensitive to the concern that the Conservancy's logo not be used to mislead consumers. To ensure that our logo is used only in appropriate cases, our Board of Governors is reviewing the current standards and guidelines that govern if we will permit others to use our logo, including the conditions imposed when we do permit our logo to be used. Until the review is complete, we have temporarily suspended all new cause-related marketing partnerships.

CONFLICT OF INTEREST POLICY
FOR OUR BOARD OF GOVERNORS

The Washington Post raised concerns about conflicts of interest, accountability and disclosure at the Conservancy. Specifically, the series implied that members of the Board of Governors used their positions with the Conservancy to offload marginal, low-value lands. The series also mischaracterized a pool of funds called the President's Discretionary Fund.

In each "conflict of interest" case cited by the *Post*, the involved Conservancy board member (or his or her business) donated or offered at a reduced price either an interest in land, goods or services. It is not unusual for members of a board of a nonprofit organization to give generous financial support, time and expertise, and in our case, donations of ecologically significant lands. That is, in part, why people are recruited to serve on boards. We view these donations with gratitude. All financial transactions between members of the board and the Conservancy are governed by conflict-of-interest and recusal policies.

All board-related conflicts of interest are fully disclosed on IRS Form 990, a form the Conservancy and all nonprofits are required by law to file annually. That form, and the accompanying conflict-of-interest descriptions, is available at http://nature.org.

Georgia-Pacific –
Cat Island, Louisiana

The *Post* examined a 9,500-acre parcel of land that the Conservancy acquired from Georgia-Pacific for $7.5 million in 2000. The CEO of Georgia-Pacific, A.G. (Pete) Correll, is a member of our Board of Governors.

An independent appraisal of the property was conducted prior to our purchase to establish its fair market value. Georgia-Pacific agreed to sell the property for $1 million less than fair market value. Mr. Correll did not participate in the actions of the Board on this acquisition.

The article describes the property by saying "much of it stripped of trees by clear-cutting." The parcel in question is now part of Cat Island National Wildlife Refuge. In a 2000 Congressional hearing on the establishment of the refuge, the Chief of Refuges for the U.S. Fish and Wildlife Service pointed out that this parcel "supports one of the highest densities of virgin bald cypress trees in the Nation. Many of these trees are estimated to be between 500 and 1,000 years old, and they include the nation's largest bald cypress tree, which is 17 feet in diameter and has a circumference of 53 feet. Overall, the forested wetlands typical of Cat Island represent one of the most valuable and productive wildlife habitat types in the United States."

Georgia-Pacific –
Roanoke River, North Carolina

The *Post* cites the Conservancy's joint management agreement in 1994 with Georgia-Pacific as "the Conservancy helped Georgia-Pacific manage environmental risks arising from its logging along North Carolina's Lower Roanoke River." This agreement with Georgia-Pacific set aside

21,000 acres of Georgia-Pacific-owned land in the Lower Roanoke River landscape. Under terms of that agreement, two biologically significant areas exceeding 6,000 acres were permanently placed off limits to logging. The rest could be logged selectively by helicopter but only with the joint approval of Georgia-Pacific and the Conservancy. Since that agreement, no logging has occurred except on three demonstration plots totaling fewer than 40 acres where logging preceded the 1994 agreement. When the paper company approached the Conservancy to change the easement to make logging easier, we declined. On January 21, 2003, all 21,000 acres were donated by Georgia-Pacific to the Conservancy's North Carolina chapter.

Orvis Services Company –
Jefferson County, Florida

The *Post* mentions the Conservancy's purchase of an easement from The Orvis Services Company. Orvis owns a 1,622-acre property in Jefferson County, Florida. This property contains important habitat for the imperiled red-cockaded woodpecker, a species that the Conservancy has targeted for conservation action throughout its range. The Conservancy's Red Hill Conservation Area plan identified these lands as a high protection priority, both because of the high quality of the habitat and increasing fragmentation of the surrounding landscape. An outside appraisal placed a fair market value on a conservation easement for the property at approximately $1.3 million. Orvis agreed to sell the Conservancy a conservation easement for 50 percent of the fair market value, or $649,000. The Conservancy's Florida chapter then acquired the easement.

Composition of the Board of Governors

In the *Post*'s quest to portray our Board of Governors as unduly influenced by Fortune 500 companies, the series overlooked a number of well-known scientists and others from academia who serve on the Board. They include John Fitzpatrick of Cornell University, Joy Zedler of the University of Wisconsin, Joel Cohen of The Rockefeller and Columbia Universities, Fran James of Florida State University and Bill Murdoch of the University of California. Esteemed biologists such as E.O. Wilson of Harvard and Dan Simberloff of the University of Tennessee have also served on the Conservancy's Board in the past. Of the corporate leaders who do serve on the Board, they serve enthusiastically as individuals, not as representatives of their particular businesses.

Conservancy Action

The Conservancy has in place a conflict-of-interest policy that covers insiders such as Board of Governors, chapter trustees and staff, and the circumstances under which they must recuse themselves from decision-making. At its June 2003 board meeting, the Conservancy is conducting a thorough review of its existing conflict-of-interest policies affecting members of the Board of Governors, trustees and staff.

COMPATIBLE DEVELOPMENT AND RESOURCE EXTRACTION ACTIVITIES

We are committed to seeking innovative conservation strategies that are aligned with our values. No one organization, or even a combination of all conservation organizations, has the financial resources to simply buy up all the world's most important wildlife habitat and fragile landscapes. Instead, we must find ways to work with private and public landowners and local communities to balance biodiversity conservation and sustainable, ecologically compatible economic development. Over the years, we have launched ventures ranging from sustainable logging to ecotourism. Of these many innovative experiments – often the first of their kind – some have succeeded; others have not. Such is the nature of innovation.

The *Post* series alleged that the Conservancy engages in resource extraction activities on ecologically sensitive lands at the risk of the species we seek to protect. The Conservancy is committed at every level of our organization to putting biodiversity protection first, while exploring innovative ways to achieve conservation goals.

The *Post* mis-states that "the Conservancy is best known for acquiring tracts of wilderness." But protecting wilderness is *not* our mission. Wilderness, as defined by the Wilderness Act of 1964, is "recognized as an area where the earth and its community of life are untrammeled by man, where man himself is a visitor who does not remain." Some places we do protect for their core, pristine and often wilderness values. But we also look to the larger landscape and the ability of this landscape to buffer core natural areas and to sustain communities of people.

Most of the landscapes in which we work are "working landscapes;" they have hosted logging, grazing and farming for generations. We and our partners have found compatible development to be a valuable conservation tool in these landscapes when used effectively. Some of our innovative efforts, however, have failed. We acknowledge our mistakes and have tried to learn from them, adapting and changing course when necessary. Of all the thousands of projects that have proven successful for the Conservancy, the *Post* not surprisingly chose to focus on three projects that appear problematic and questionable at face value.

Texas City Prairie Preserve, Texas

Attwater's prairie chickens are on the brink of extinction due to the loss of their habitat, a small remnant of which is the Conservancy's Texas City Prairie Preserve, near Galveston. The natural life span of this bird is only about four years. Attwater's prairie chicken populations have fluctuated greatly in the past few years, always gradually diminishing; their existence is precarious.

Oil and gas were produced at the Texas City site for some 50 years before the Conservancy created a preserve there. Since this site was donated to us, we have substantially improved the habitat, including control of invasive species that had degraded the bird's habitat. Our production of natural gas on the preserve began only after a review by the U.S. Fish and Wildlife Service that included their recommendations on preventing adverse impacts to the

Attwater's prairie chicken. Those recommendations were made contractual requirements in our drilling agreements with private contractors.

Our staff and independent scientists have confirmed that the protection of the Attwater's prairie chicken has not been compromised by our decisions regarding oil and gas activity. Small remnant populations such as this one eventually disappear because they are simply not large enough to cope with the vagaries of their genes (which are inbred), their demography (it is typical for numbers to fluctuate widely) and their environment (which is subject to devastating hurricane damage). We regard the Texas City Prairie Preserve as a temporary home for the prairie chickens, until they can be reintroduced to a larger, more suitable habitat.

The only remaining large areas of prairie chicken habitat are on privately owned lands, and convincing landowners to cooperate with a reintroduction will depend on demonstrating that the needs of the Attwater's prairie chicken can be compatible with cattle ranching and oil and gas extraction, as is being done at Texas City. The scientist cited by the *Post*, Dr. Stanley Temple, supports continuation of oil and gas activity at the preserve, provided the funds are allocated exclusively to the management of the site and to the protection of prairie chickens at other sites. This is the course we are pursuing. The funds raised by natural gas recovery at the preserve represent the only significant private funds supporting Attwater's prairie chicken recovery efforts.

In fact, Dr. Temple believes the *Post* distorted his conclusions and the tenor of the report he issued about the Texas City prairie chickens. In a letter to the *Post* following publication of the series, Dr. Temple wrote: "Over my career as a professional conservation biologist, I have developed a keen sense of when I am being used by a reporter who is writing a hatchet job with selected quotes that bolster a preconceived story-line while ignoring my main conclusions.... The management of the prairie chicken population at the Texas City Preserve is at best a holding action, maintaining the birds under challenging conditions until the Conservancy can eventually reintroduce the birds to a larger area of suitable habitat elsewhere within their former range. That's the Conservancy's long-range plan, and it's a good one that I endorsed wholeheartedly."

Texas City offers only a tiny pocket of habitat for the prairie chickens surrounded by heavy industry, with little opportunity for expansion of the preserve. The Conservancy has, therefore, looked for additional habitat for the birds – working with private landowners in an area known as the Refugio/Goliad Prairie in South Texas. The potential habitat there is on private land and will require intensive restoration before it is suitable for the release of captive-bred birds. Discussions are under way with interested private landowners to initiate habitat restoration efforts.

There is no way to know with certainty whether activity to retrofit a gas pipeline at Texas City Prairie Preserve in 1999 contributed to the deaths of 17 captive-bred Attwater's prairie chickens that were released on the preserve. However, only seven of these birds actually were released in November.

According to records from the U.S. Fish and Wildlife Service, 10 juvenile Attwater's prairie chickens were released on the preserve on Sept. 13, 1999. All but one of those birds died within

30 days, and the final bird had died by 180 days after release. July and August are considered optimal times to release this species into the wild, yet factors such as weather (a severe drought that year made natural food scarce), the presence of predators and the number of birds released all effect the survival rates of the birds. An additional release of seven captive-bred birds took place on Nov. 3, 1999, also without any of those birds surviving.

It is interesting to note that in that same year, 47 birds were released in August at the Attwater Prairie Chicken National Wildlife Refuge, with only three of those birds surviving to May 1. In 1998, before the Conservancy commenced its drilling operations at the preserve, none of the Attwater prairie chickens released on the preserve survived.

It should be recognized that oil and gas extraction have been going on at this site for at least 50 years, with far fewer restrictions in place than the Conservancy's drilling operation. As Dr. Temple said in his report, "... the birds have persisted there even when the property was managed by previous profit-seeking owners not nearly as sensitive to the needs of the birds as TNC has been."

At Texas City, we believed we were extracting natural gas from a reservoir in which the Conservancy was the only leaseholder. We later learned that this reservoir was situated differently than we first believed, and that revenues should have been assigned in part to the Conservancy and in part to other leaseholders. When this issue was brought to the attention of our president, he took immediate steps to rectify the situation and settled with the other leaseholders for $10 million. No donor funds were used in the settlement; the settlement is funded by the oil and gas revenue and by insurance.

We readily admit we made mistakes at Texas City. We relied heavily on the advice of an advisor, as our expertise is in conservation, not oil and gas exploration. It was uncharted territory for us. We also miscalculated the public perception of our well-intentioned actions at the preserve: Things *looked* worse than they were, given the complexities of the birds' chances of survival and the drilling operations.

Virginia Coast Reserve, Virginia

The Virginia Eastern Shore is one of the largest intact, undeveloped coastal landscapes remaining on the Atlantic seaboard, due largely to more than 30 years of innovative and steadfast conservation efforts by the Conservancy and our many partners and supporters. We have engaged dozens of partners in our efforts: towns and local communities, farmers, fishermen, nonprofit organizations, universities, foundations and companies. To protect such a vast system, encompassing 14 barrier islands and mainland-side marshes, creeks, fields and forests, we have experimented with many economic development projects designed to address a daunting challenge: How to help communities create much-needed economic opportunity while protecting the ecosystem and critical habitat for migratory birds and other creatures.

Since February 2002, the Conservancy has been updating its conservation plan for the entire Virginia Eastern Shore based on Conservation by Design, the Conservancy's strategy for guiding conservation results everywhere we work. The resulting action plan includes more than 30 strategies designed to increase the Conservancy's effectiveness. These strategies are intended to enhance both operations and conservation – from positioning the program on more sustainable economic footing, to protecting more bayside habitats, to addressing the complex needs of migratory birds and marine animals.

As we have forthrightly admitted long before the *Post* series was published, we have made some mistakes at the Virginia Coast Reserve. Because it was a model project for us, one from which all of the Conservancy would learn and emulate, we were perhaps too eager to demonstrate success there and so were not as objective as we should have been. It was the only Conservancy program allowed to operate outside the state chapter structure, and as result we allowed this situation to persist too long without taking corrective measures. We also let foundering projects such as the Virginia Eastern Shore Corporation (VESC) continue without addressing their problems and failures. It's not that we should have avoided experimentation; we launched these efforts in good faith to accomplish conservation objectives. But we should have been more circumspect in assessing our work and halting work that was not yielding good results.

When Steve McCormick became president in 2001, he initiated a thorough overhaul of the Virginia Coast Reserve, part of a wider organizational change effort aimed at correcting deficiencies and improving the way the Conservancy worked. The management of the Virginia Coast Reserve was brought under the Virginia chapter oversight. And after a programmatic analysis and internal audit, we began to develop new management plans and to reduce the reserve's debt.

The *Post* cited the Conservancy's "liabilities of $24 million" as a result of VESC. In reality, $18 million of the Conservancy's investment was in land on the Eastern Shore; that debt has been reduced to $4 million over the past two years through the sale of seaside farms whose development potential has been restricted through conservation easements. Between $3.5 million and $5 million was the investment lost on operations and the Cobb Island Station venture. An independent report by the Corporation for Enterprise Development, requested by the Conservancy, explains the failure of the VESC and lessons learned. The report is available online at: http://www.cfed.org/sustainable_economies/econDev/VESC_full_report.pdf.

Conservancy Action

We have suspended any new resource extraction activities on Conservancy lands pending an in-depth review to ensure that these activities are fully compatible with the needs of rare and threatened species and do not jeopardize the conservation values we are dedicated to protecting.

In addition, we began acting on the mistakes at Texas City and the Virginia Coast Reserve before the *Post* began looking into these projects. At Texas City, we are implementing the recommendations of a scientific review conducted by Dr. Stanley Temple. At the Virginia Coast Reserve, we are following the findings of an internal audit conducted in 2002. In both places, we have new leadership in place, with new management plans evolving.

CONSERVATION BUYER PROJECTS

The *Post* series' portrayal of the important and well-recognized role of conservation easements (and conservation buyer projects in particular) in saving critical habitat was fundamentally inaccurate and flawed.

A conservation easement is an agreement between a landowner and a private or public organization in which the landowner agrees to sell or donate certain rights associated with his or her property – often the right to subdivide and develop – and the organization agrees to hold those rights in trust. There restrictions are legally binding in perpetuity. Because use is restricted, land subject to a conservation easement is worth less on the market than comparable unrestricted and developable parcels. Land trusts around the country rely on this mechanism as an effective, efficient way of protecting open space and natural areas.

In recent years, the Conservancy has bought land in critical conservation areas (including land that buffers and surrounds core natural areas), placed conservation easements on the land, and then resold the restricted property. We refer to this as a "conservation buyer" project. It was misleading of the *Post* to suggest that the Conservancy sells these properties "at a loss." In every case, we retain valuable development rights that have been established over two decades of case law as having real value. In every case, the purchasers of these properties gave up valuable rights to subdivide or otherwise develop the lands *in perpetuity*.

There are generally four types of conservation buyer transactions.

- In the first transaction, the Conservancy purchases a property and places a conservation easement on it. The conservation buyer pays a price over and above the value of the restricted land (typically the same price the Conservancy paid for the property before the easement was imposed), allowing the Conservancy to recover its entire project costs. The conservation buyer, under the tax law, may then take a charitable tax deduction for the difference between the appraised value of the easement-restricted property and the amount the conservation buyer paid to the Conservancy.

- In the second type of transaction, the Conservancy purchases a property, places a conservation easement on it, and resells the land to a conservation buyer at a lower fair market value reflecting the restrictions of the easement. The fair market value of the property is lower because the property is now worth less due to the permanent, restrictive conservation easement placed on the property by the Conservancy. The Conservancy then raises private funds from other sources to cover the remainder of the cost of the original transaction.

- In the third type of transaction, as in the example above, the Conservancy purchases a property, places a conservation easement on it and resells the land to a conservation buyer at a lower fair market value (again, reflecting the reduction in the fair market value due to the placement of the conservation easement on the property). In this third type of transaction, the conservation buyer makes a tax-deductible charitable donation to the Conservancy in the amount of the difference between the Conservancy's cost and the conservation buyer's purchase price. Donations such as these enable the Conservancy to facilitate land conservation by private landowners without spending government or donated funds.

- In the fourth type of transaction, the Conservancy purchases a property and sells the property to the buyer for full fair market value. As a condition of the sale, the buyer grants to the Conservancy a nominal (but legally enforceable) option to buy back a conservation easement over the property. At a later point in time the buyer either donates the conservation easement to the Conservancy, or in the alternative, the Conservancy exercises its right to buy the conservation easement.

All these methods have the same conservation impact – reducing the development threat forever – and the same tax impact, allowing an individual or individuals to take a tax deduction for permanently reducing the value of the land in order to protect important natural values. In every case, the value of the land before and after the restriction is established by professional, independent appraisals.

As it became clear there would be questions about the mechanics of conservation buyer transactions, the Conservancy asked a leading charitable giving tax advisor and attorney to review the various ways these transactions are structured. His analysis concluded that under tax law, the buyer in these cases is entitled to a federal income tax deduction. To review his analysis, go to http://nature.org/pressroom.

For all conservation buyer projects, the Conservancy obtains independent documentation of land values and the impact on those values of the permanent restrictions on development imposed by those easements. In any event, under tax law, the buyer is required to support any tax deduction with an appraisal as well.

Conservation buyer projects are only a small part of our habitat conservation activities. Since 1990, the Conservancy has completed more than 15,500 conservation land transactions – direct purchases, easements and others. Of those, 270 parcels of land were sold to conservation buyers; approximately 20 involved trustees or staff.

The *Post* series also repeatedly mischaracterizes the lands involved in conservation buyer transactions. On Martha's Vineyard, for example, the land sold to a conservation buyer has been farmed since the 1700s; it is not "pristine beach and grasslands." In fact, there are no beachfront lots. For our conservation efforts, which aim to *restore* grasslands long since lost to the plow, the conservation buyer parcels are buffer land – land surrounding the core areas we intend to restore to a natural, native grassland. The series overlooks our motivation for engaging in these transactions in the first place: These lands are *not* environmentally sensitive, but they buffer places that are.

Martha's Vineyard, Massachusetts

In July of 2001, The Nature Conservancy purchased one of the largest unprotected pieces of open space on Martha's Vineyard – the 210-acre Herring Creek Farm. The project enables the

Conservancy and its partners to restore the globally rare sandplain grassland habitat that is characteristic of Martha's Vineyard, and to prevent a 33-lot subdivision originally approved for the property. Because land on Martha's Vineyard is some of the most expensive and coveted real estate in the country, we needed to work with buyers having significant resources to protect this land.

The Herring Creek Farm property originally was of interest to the Conservancy because of its close proximity to Katama airfield. (Katama is an excellent example of existing sandplain grasslands, and we have an agreement to manage the land of this grass-strip airfield.) By restoring the farm fields of Herring Creek Farm to their native condition, the Conservancy is expanding this rare habitat to create a better functioning, less fragmented ecosystem. This is especially beneficial to animals that require large spaces to forage and reproduce, like the northern harrier, a species of hawk. Once restored, the grassland and beachfront habitats at Herring Creek Farm will support rare local bird species like the grasshopper sparrow and short-eared owl as well as rare native plants such as the Nantucket shadbush and bushy rockrose; 102 acres are permanently protected from development.

This approach meant limited new development, but not on "pristine beach and grasslands." Rather, the conservation easement prohibits any beachfront development, and no more than six new homes may be constructed on former farm pasture and previously cleared land nearby (significantly less than the approved 33). None of the new home development may occur on actual sandplain grasslands, as inferred by the *Post* article.

The Conservation Commission of Edgartown and the Conservancy jointly hold the conservation restrictions that apply to all current and future owners on the land. As a result of the conservation restrictions, the number of new houses to be built on the land is limited to six, none of which are sited in the sensitive restoration area. Currently, one new home is actively under construction.

An editorial in the *Vineyard Gazette* reveals local opinion: "The [Herring Creek] farm sale agreement brings peace and an important close to more than a decade of political warfare and lawsuits between developers and conservationists over this sensitive farmland...." The editors went on to recognize the Conservancy and "its critical conservation buyers" for their "supremely important role in the agreement and in the future conservation stewardship of this treasured piece of the Vineyard."

Shelter Island, New York

The Conservancy's Mashomack Preserve on Shelter Island, off the east end of Long Island, New York, is a natural area of 2,039 acres that encompasses several diverse habitats necessary for the survival of many species of plants and animals, including sensitive neotropical migratory songbirds and four rare plants.

The 9.38-acre Thompson Hill property is adjacent to the Mashomack Preserve. The property contains bluff frontage and shoreline; steep slopes run down to a pristine creek and tidal marsh that are part of the preserve. This tidal marsh is habitat for several species listed as threatened by the state. Conservancy scientists determined that while it was not necessarily important to own the Thompson Hill property as part of the preserve, it was important to protect the hillside from development to prevent runoff that would adversely affect the salt marsh and other natural resources.

In the 1990s, when the owners of the property expressed serious interest in selling the property, the local chapter of the Conservancy did not have resources necessary to purchase the Thompson Hill property outright, so the Conservancy was pleased when the owners agreed to work with the organization to find a conservation buyer who would agree to forego intense development. The Conservancy found two conservation-minded couples who were interested in buying the property from the original owner. (The property was also listed with a local realtor.) After both couples learned of the very restrictive conservation easement, only the ultimate purchaser remained interested. The Conservancy bought the property for $2.1 million and placed an easement on it. Independent appraisals calculated the value of the property with the easement to be $500,000. The Conservancy then sold the easement-restricted property for its appraised value of $500,000. The buyers were a husband and wife: The husband was a former trustee of our South Fork/Shelter Island chapter and his wife is a current trustee of the Mashomack Advisory Board, as she was when the transaction took place. The new owners made a contribution of $1.6 million to the Conservancy that allowed the Conservancy to reinvest its resources in priority protection projects elsewhere.

As a result of this transaction, the Conservancy was able to safeguard the long-term heath of our Mashomack Preserve and the important ecological features of the Thompson Hill property by reducing the number of buildable lots from four to one. The new owners received a tax deduction for their cash contribution, and the Conservancy – and the public – are assured that environmentally important permanent restrictions are in place limiting the owners' rights and the rights of future owners to develop this property.

Garrard County, Kentucky

The Conservancy has preserved some 2,000 acres in the Kentucky River Palisades of Garrard County. The palisades, majestic limestone cliffs rising out of the river, are part of a landscape that harbors more rare plants than any other place in the Bluegrass Region. Farmland adjacent to the Conservancy's preserves came on the market in 2000. Although no rare species existed on the farmland, the lands were nonetheless ecologically significant and valuable as a buffer between core preserves and areas of more intense land use. More, the owner had indicated he planned to develop the property with a large number of mobile homes.

To find buyers for this farmland, the Conservancy advertised its conservation buyer projects in the Kentucky chapter newsletter and consulted its database of more than 100 conservation-minded people who had expressed an interest in purchasing land, should the opportunity arise. Lisa Estridge was among this group, as she had first contacted the Conservancy in 1998 about buying an unrelated property. The Conservancy contacted Ms. Estridge to determine whether she was interested in the farm property. We also showed the same property to more than 10 other potential buyers. Ms. Estridge made the first offer to purchase a 146-acre portion of this farmland.

The Conservancy learned shortly before closing that Ms. Estridge's father, Philip Reed, Jr., a trustee of the Conservancy's New Jersey chapter, would actually be purchasing the 146-acre tract. Mr. Reed purchased the property subject to conservation use restrictions and paid restricted use fair market value for the property as determined through an independent appraisal. Mr. Reed made a subsequent contribution to the Conservancy that exceeded the difference between the restricted use value of the land and the Conservancy's purchase price.

Ken and Vicki Brooks purchased a 54-acre portion of the property subject to conservation use restrictions. This parcel was shown to more than 10 other potential buyers before the Brookses made an offer. They paid the restricted use fair market value of the property as determined through an independent appraisal. The Brookses also made a charitable contribution to the Conservancy that covered a substantial portion of the difference between the restricted use value of the land and the Conservancy's purchase price.

Northern Lake Huron, Michigan

The Northern Lake Huron shoreline was identified through the Conservancy's ecoregional planning process as a priority for protection. The U.S. Environmental Protection Agency and Environment Canada also identified this shoreline as a critical Shoreline Biodiversity Investment Area in a joint 1996 report. Thirteen species that are listed as threatened or endangered rely on this habitat. More than 250 species of migratory songbirds and waterfowl fly through this shoreline and use this habitat as a critical resting and feeding stopover site.

The property in the transaction described by the *Post* was slated to become a golf course and condominium complex. Undeveloped Michigan shoreline property is valued between $300 to more than $3,000 per waterfront foot. Without the help of conservation buyers, the Conservancy would not have been able to protect this area. The Michigan chapter of the Conservancy turned to a past chapter trustee for help. He said he would be the conservation buyer of the property, sparing the chapter considerable time and cost in marketing the property. The property was sold to him subject to conservation use restrictions for its restricted use fair market value as determined by an independent appraisal. The buyer also made a substantial charitable gift to the Conservancy.

Conservancy Action

The Conservancy has suspended all conservation buyer transactions pending a thorough review of our policies and procedures for these transactions.

EXECUTIVE COMPENSATION

The *Post* questioned the compensation arrangements for President and Chief Executive Officer Steve McCormick. Although his compensation is comparable to that for CEOs of other large charities, this became an issue because we made a mistake in reporting the details of a home loan that was offered to Mr. McCormick as part of a compensation package when he was recruited to lead our organization. We made mistakes in reporting accurate information regarding Mr. McCormick's salary to the *Pos*t. There was never any intent to mislead the *Post,* and we regret the error.

Mr. McCormick's compensation is set by the Board of Governors and is in proportion to that of executives of similar-sized nonprofits.

The total amount of Mr. McCormick's compensation for fiscal year 2004 (July 2003 through June 2004) will be $360,000, plus standard Conservancy fringe benefits. This amount reflects a voluntary 5 percent cut that he and the rest of the Executive Leadership Team took in light of the current economic situation.

As part of a negotiated compensation package to encourage him to move from California to Virginia, the Conservancy provided a home loan for $1.55 million with a 1-year adjustable interest rate starting at 4.59 percent. (The rate of the loan was based on outside advice as to what a market rate would be.) He has since refinanced the Conservancy loan with a commercial lender and repaid the Conservancy's loan in full.

Mr. McCormick's total compensation for each year is listed on the Conservancy's IRS Form 990, a form all nonprofits are required to file with the IRS. The 990 Form is available at http://nature.org.

Conservancy Action

Until our Board of Governors takes a thorough review of our loan policies, we have temporarily suspended any new loans to current or prospective employees.

PRESIDENT'S DISCRETIONARY FUND

The President's Discretionary Fund (PDF) was created in the early 1990s by former Conservancy President and CEO, John C. Sawhill, who saw a need for a special fund to address important organizational needs. Funding for the PDF came primarily from undesignated bequests and other unexpected, unrestricted contributions.

Allocation of these funds was decided by the President after conferring with members of the Board of Governors and assessment and discussion by senior management of high-priority conservation needs. Projects that received funds through the PDF include NatureServe (the former Natural Heritage programs), other science programs, the Conservancy's endowment, international programs, our Fundraising Management System software and a public education campaign.

Steve McCormick abolished the PDF in fiscal year 2002 and replaced it with a much smaller "Quick Strike Fund." That fund received an initial budgeted allocation of $3.5 million. Due to a decrease in revenues, it will likely disburse approximately $1 million to organizational priorities this coming year.

COMMITMENT TO SCIENCE

The *Post*'s online sidebar about the Conservancy's science programs distorts the findings of our External Science Review Committee and uses a personnel dispute in our Wyoming office to create the false impression of an organization that is not committed to science.

The implication that we are moving away from our roots as a science-based organization could not be further from the truth. Good science has always been and will remain our hallmark. We use sound science to guide our actions, from deciding where to work, to the methods we employ to conserve ecosystems and target species.

The online sidebar quotes extensively from the report of the Conservancy's External Science Review Committee, which we commissioned in 2000 to ensure that our science capacity was sufficient to meet the organization's changing needs for conservation science. We turned to outside, independent scientists to help us evaluate our organization's science capacity and implementation. The *Post* cited the report's negative comments, but none of its positive comments. The *Post* selectively plucked quotes from the staff survey while skirting the far more complex and substantive issues raised in the review.

After the report was issued in 2001, newly appointed President Steve McCormick acted quickly to make changes recommended in the report. These changes have been difficult in some cases, and some good scientists left the organization as a result of the uncertainty change always brings. To view the report of the External Science Review Committee, go to http://www.conserveonline.org/2001/06/b/exsciencereviewweb

To address some of the erroneous and misleading points made by the *Post*:

- Publishing by Conservancy scientists is encouraged by the organization's leadership. In the past year, the rate of publication has more than doubled. Since Steve McCormick became president, papers written by Conservancy scientists have appeared in prestigious journals such as *Science, Nature, Ecological Applications, Bioscience* and *Conservation Biology*.

- There is no "thought police" at the Conservancy. Although papers submitted for publication are reviewed by peers, there is no mechanism or policy by which anyone can control what a Conservancy scientist says in his or her publication.

- Among the large research projects funded in FY03 is a study examining the impact of grazing on biodiversity. We do not avoid candid assessments of contentious issues such as this.

- The Conservancy is leading the way among conservation organizations in documenting the implications of climate change for existing conservation projects. We do not avoid this topic in our research or conservation plans.

- The vast majority of Conservancy scientists and science talent and innovation is in the field – not at our Worldwide Office in Arlington – spread throughout all 27 countries in which we work. The dispersing of scientists in the field is a deliberate management strategy for better connecting science to conservation work.

LEARNING FROM THE CRITICISM

Despite our collective disappointment and frustration over the lack of balance in the *Post* series, we realize that it raises some valid questions for our organization. We have not been as sensitive as we should have been about how things were perceived by others not familiar with our conservation methods. We do take it seriously when someone questions our oversight, judgment and integrity, and we are committed to changing practices that do not live up to our mission and values. What we should be judged by is not whether we made mistakes, but how we learn from them and how we ensure that our most serious errors are not repeated.

More than a year ago, we began a thorough internal audit of our policies and procedures as part of our commitment to our members to be leaders in nonprofit management. The June meeting of the Conservancy's Board of Governors will be dedicated to a full discussion of governance issues generally, as well as the issues outlined by the *Post*. Our intent is to review and where necessary change our policies and procedures to ensure that we meet the highest standards of public integrity and sound conservation science in all of our activities. We will be aided in that review by a number of independent and highly regarded outside experts.

Pending the outcome of the Board review, which may extend beyond the June meeting, we have temporarily suspended the following practices:

- All new conservation buyer transactions;
- All new resource extraction activities at Conservancy preserves;
- All new cause-related marketing partnerships; and
- Any new loans to current or prospective employees.

In addition, we began resolving problems at Texas City and the Virginia Coast Reserve before the Post series ran. At Texas City, we are implementing the recommendations of a scientific review conducted by Dr. Stanley Temple. In both places, we have new leadership in place, with new management plans evolving.

We will certainly focus on the *Post*'s specific charges. But our intent is to conduct a thoughtful and wide-ranging review to ensure that the Conservancy's actions are in every case consistent with our mission. We will pay close attention to how we engage and work with our Board and chapter trustees, as well. We know any self-examination of our organization can only make us a stronger, more resilient force for conservation.

We are proud of our record of on-the-ground results. In the past two years – the length of time of the *Post*'s investigation – we have protected more than 2 million acres, an area the size of Yellowstone National Park. We believe that our record of innovation, of working with the private sector, private landowners, government and the environmental community to achieve science- and market-based solutions to conservation, is an important contribution to a pressing global issue. We are especially grateful to the more than 1,500 distinguished Americans who volunteer without pay as our trustees.

Our work depends on the trust placed in us by our donors, members, volunteers, partners and the public. We recognize our responsibility to earn that trust every day, through all of our actions.