

# **TREE FUND MEMORANDUM**

Date: April 29, 2016

To: TREE Fund Trustees

Fm: J. Eric Smith, President and Chief Executive Officer

Re: President's Report for Spring 2016 Meeting

## **Introduction**

I marked my eighth month as President and CEO of the TREE Fund this week, and I remain pleased with and proud of the opportunities you have provided for me to lead your organization. It has been a busy period as I work in Naperville to lay the groundwork required for a major endowment building campaign, while also traveling nationally to establish or reaffirm the personal networks required to bring that campaign to fruition.

As with my report to you in advance of our December 2015 meeting, I provide strategic or governance-level level analysis and information below, with the more granular details of our day-to-day operations being presented by staff members and me at the Trustee Committee level, and then summarized in the Committee Chairs' reports to you. I also note that this memorandum (as I intend all of my communications to you to be) is candid and frank in its contents, and contains information that could be sensitive to staff and volunteers beyond those entrusted with governance of our organization. I respectfully ask that you not reproduce it, forward it, or reply to it beyond the intended audience of Trustees, Barb Duke (as recording Corporate Secretary) and myself. Thank you.

## **Human Resources**

As I've previously reported, at the start of 2016 I "flattened" the office organization chart so that the five staff members all report directly to me, thereby eliminating the opportunity for "silos" to form, and better integrating all activities toward desired strategic goals. I provided current macro-level responsibilities via e-mail earlier this week, and reiterate my respectful request that I be kept in the loop in all communications between Trustees and staff.

It took longer than I would have liked to fill the vacancies created by Carol Holmes' planned contract expiration, and Deb Hettinger's unexpected departure, but I am very pleased to have Sharon Lenza and Robin Borgione joining us at the end of that process. Barb Duke is to be commended for her particularly significant role in successfully bridging that gap, and I have recognized her "above and beyond the call of duty" efforts with a one-time bonus. Sharon and Robin both have strong systems skills, and I intend to deploy them in evaluating our office technology suites to see if we can better integrate our accounting and development databases.

The hiring process for these two positions further affirms my sense that our staff members have been (and some remain) undercompensated against local market norms and against the value that they add to the organization. I am committed to working to improve this situation in future years' budgets. Sharon's and Robin's compensation terms both ended up higher on an hourly basis than I had budgeted, but for the current year, their increases are offset by savings during the hiatus period, so bottom line budget impact will be negligible in 2016.

Mary DiCarlo and Karen Lindell are in a directed period of transition this year. At the end of the October 2016 Tour, Karen will assume most of Mary's historic core duties, with Mary shifting into a more traditional nonprofit major gift development officer role to support me, the Trustees, and the Campaign Committee of the endowment building campaign. Managing change processes like this can be challenging for everyone involved, but I am hopeful that both Karen and Mary will thrive and succeed in their new roles once we come through the transition.

On a personal front, I had provided the Executive Committee with a set of goals and metrics as part of our Trustee and President Memorandum of Understanding last fall, upon which my performance was to be evaluated at the six month point. I provided my self-assessment against these goals to the Executive Committee for discussion and evaluation in early March. While I strive for 100% in all of my work, I was only able to score myself as having achieved 53 of 64 possible points, for an overall evaluation summary of "B -- Exceeds Expectations." I will soon be providing my goals for the remainder of 2016 to the Executive Committee, and will continue to strive to fully meet all defined goals.

### **Real Estate**

In early 2016, I engaged a real estate broker to help us evaluate office properties in advance of our September 30, 2016 lease expiration date. I limited the search to properties within 1.0 mile of the Naperville and Lisle train stations, to not overly inconvenience staff or myself with a move that would increase daily commuting times; it already takes me nearly two hours door to door each way. I set an ideal footprint of ~1,100 square feet, compared to the ~560 square feet we currently occupy with six people, in space originally configured for three. The current space makes many routine tasks (e.g. telephone conversations, personnel meetings, etc.) virtually impossible, resulting in staff often having to conduct business remotely, or scheduling meetings in offsite locations.

Barb and I visited several sites with our broker, and the affordable options were, frankly, disappointing. We identified one property in Lisle (near the site of our May 16 meeting) that seemed to meet our goals, but in the negotiation phase, additional fees and limitations emerged that moved it outside of my desired budget. While I would have preferred to move us to something more closely approximating "Class A" office space, I have negotiated with our current landlord to add an adjacent suite to our current office footprint, reconfiguring both to provide five offices (one shared, four private) and a conference room where we can meet as a group or with guests.

The consolidated suites will provide ~1,080 square feet of usable space. The conversion of the new portion of the suite will be completed for occupancy in August, and renovations on the current office will be completed while three of us are in the Carolinas for the Tour in October. We will be fully resident in the completed new space by the end of October.

Our current rent is \$1,439 per month (~\$30.80 per square foot), and the new rent over a proposed five year lease will escalate from \$2,150 per month in year one to \$2,420 per month in year five (~\$24.60 to ~\$26.90 per square foot). These are “all in” costs, including water, electricity, housekeeping, maintenance, etc. We will incur some modest furnishing and retrofitting costs (e.g. conference room furniture, phone relocations, etc.), but will not need to hire a commercial mover to support the relocation, so there are savings associated with remaining in place.

Overall, the impact of this decision is favorable to what I had proposed in the 2016 budget. I will request your approval to sign this lease at our meeting next week.

### **Current Year Financial Overview**

We reported a strong first quarter to Finance Committee with expenses on track to budget for the quarter, and revenues exceeding budget for the quarter. Some of these surpluses are simply timing matters (e.g. donors and corporate partners making expected gifts earlier than in prior years), while some are from new funding sources. I expect this trend to continue through the year. The only revenue area I have mild concerns about is the unrestricted operating line, since we were not able to launch this program as effectively as I would have liked given staffing shortages in early 2016. I think we will be able to make it up going forward.

As reminder, we do not intend to draw earnings from the Chicago Community Trust (CCT) this year, but will instead draw down surplus operating reserves to address any net shortfall. The budget was based on a reserve draw of ~\$56,000 (from ~\$500,000 in operating reserves at the start of the year), and I am optimistic that any net variances in budget performance at year end will have the effect of reducing this draw.

Our auditors, Dugan and Lopatka, have presented their findings related to our 2015 financials to our Audit Committee, who will in turn present them to you at our meeting in May. No findings of significance were reported to me. As I have mentioned before, I would like to run an RFP process this summer to evaluate auditing firms for the next five years. Dugan and Lopatka will be invited to bid. I see this process as being an important periodic step in ensuring that we are receiving both good pricing and strong audits. I have some mild nagging concerns on both fronts with the process and outcomes I observed for the 2015 closeout that I will discuss at our meeting, most especially related to how we account for the funds held by the Chicago Community Trust to support our work.

## **Endowment Building Campaign**

I've provided you with an extensive written proposal for our campaign, and come to the meeting in May having vetted it with the Development, Finance and Executive Committees. We will have additional expenses in 2016 associated with launching this campaign, including wealth screening, Feasibility Study, and a public relations retainer (the latter will not be placed until late in the year, so will have nominal impact on 2016 spending plans). We will issue a public RFP for the Feasibility Study upon Board approval in May. The last one I ran cost about \$25,000 in Iowa; I would estimate it should not exceed \$30,000 in the Chicago market. The wealth screening costs will be less than \$10,000. These new items are manageable within the approved 2016 budget, given savings achieved by remaining in the same office building, and costs for the ISA International event (discussed below) looking as if they will be lower than budgeted.

I will be seeking your approval to move forward with the campaign at our May meeting.

## **STIHL Tour des Trees**

The STIHL Tour des Trees is off to a strong start with nearly 80 riders registered, five weeks before our normal registration period ends. Team Bartlett and Team Rainbow are both working hard to recruit new riders, with our gratitude, and the Carolina Tour location has allowed us to bring in new riders and corporate partners from within that arboriculture-friendly market. Corporate partnerships have already been secured to cover all budgeted expenses in aggregate, though we still have some stops requiring support, etc. Our goal at this point is to ensure that we maximize rider-raised funds, and then see an amount equal to or greater than their total lift go out the door in 2017, either to current year's research, or to the Endowment.

Note that there are several riders who are requesting that gifts to their campaigns be designated to the Skiera Fund or to the Utility Arborist Research Fund (UARF); funds designated to UARF are eligible for the 50% Pacific Gas and Electric match. While we have been somewhat lukewarm about such designations in the past, I am fine with riders taking this approach, as it supports our strategic goal to build the Endowment, as Tour costs are defrayed by corporate partners, and as we are seeking other sources of unrestricted operating funds to ensure that the Tour is not perceived as subsidizing our office expenses. We have also changed our approach to Corporate Partnership marketing to make gifts less single event specific and advertising oriented where possible, and more about corporate investment in our overall work and mission. Gifts can be allocated across multiple functional areas this way as we acknowledge our partners' contributions via multiple platforms, not just via single event sponsorship.

Paul Wood of Black Bear Adventures has been our Tour Director for 11 years. The 2016 Tour is being staged on a one-year contract signed immediately before I arrived. Having seen Paul's management of the Tour and the esteem in which our riders hold him, reviewed the results of the most recent RFP for Tour services (completed before I was hired), and having participated in similar rides with other organizations, I am confident and comfortable with extending Paul's engagement on a sole source basis for an additional three years.

We have held Paul's fees constant throughout his 11 year service with us at \$40,000 per year. I do not consider this to be sound business practice as the Tour's financial success has grown throughout this time, but the person hired to serve as its "field marshal" has received no financial benefit from its success.

Using a retroactive 2.0% annual increase (conservative, and generally below consumer price index and other inflation indices of purchasing power) from the inception of Paul's service with us, on a constant dollar basis, his fee would be about \$50,000 per year today if our payments to him are to have the same purchasing power that they had when we first hired him. Paul's proposal for the 2017 to 2019 Tours includes about 1,050 hours, plus use of his physical and material infrastructure without additional charge; this equates to a rate of about \$45/hour, which is very reasonable for professional contract services of this nature.

I will be requesting your approval to contract with Paul and Black Bear Adventures to manage the 2017 to 2019 Tours at an annual fee of \$50,000 at our meeting in May.

### **Network Building**

I have visited 14 ISA Chapters in the United States (some multiple times) since arriving at TREE Fund, and have two more scheduled between the date of this memorandum and our meeting in May. I am on track to visit all 20 U.S. Chapters by the end of the year, along with attending various TCIA events (Expo and Winter Management Conference) and other organizations' conferences and meetings. I will be visiting ISA headquarters in Champaign between now and then as well to discuss various items of mutual interest with their leadership.

While our history and our liaison structures have justifiably put the focus squarely on ISA Chapter conferences and events as the cornerstone of our outreach programs, I have also been seeking nontraditional (for TREE Fund) venues to create engagement, e.g. I attended the Iowa Shade Tree Short Course and Randy Miller attended the Minnesota Shade Tree Short Course this year, and both of these events were exceptional in their programming and their attendance (700 people in Iowa, and 1,200 people in Minnesota). These are "tree people," but not ones who necessarily have any existing connections with TREE Fund. I see such events as key to "opening the circle" to new donors as we move into Campaign mode.

Other examples of such networking opportunities: I attended the American Society of Landscape Architects conference in Chicago, with a kind invitation from, and excellent introductions to ASLA leaders by Jim Urban; I attended the Northwest Ohio Tree City Awards Ceremony, where we screened the TREE Fund supported "Trees in Trouble" documentary for ~200 enthusiastic participants, most of them municipal tree care professionals; Tom Wolf introduced me to the City Manager in Annapolis, Maryland, and that has lead to connections with the Smithsonian Environmental Research Center; and Alan Jones from Bartlett connected me with leadership of the Journey Through Hallowed Ground Partnership, who I will be visiting in Loudoun County, Virginia, in May.

These last two connections could be very valuable to us as we prepare to stage the Tour in the greater Washington D.C. metro area in 2017. I cite these examples to perhaps get you all thinking of other such connections you can help me make with events or organizations beyond our traditional ISA and TCIA calendar focus. Those organizations are our parents and our most important partners, of course, but there are a lot of opportunities out there beyond their circles, and it is important that we are open and receptive to them all.

We are also working to expand our visibility within our home market: I will be meeting with City Managers in Evanston, Illinois in May, to propose collaborative programs there, and we are conducting four community engagement events this week with local schools and businesses to mark Arbor Day. When I walked through the Chicago Loop last weekend, I noted that Morton Arboretum had (safely) tagged 2,000 street trees with “Trees Need Space, Trees Need YOU!” placards that direct viewers to their website as part of a well-funded, multi-partner initiative to create a sense of community ownership of our urban forest. There are many funders and many other nonprofit organizations involved in this initiative, and none of them thought to contact us as a potential partner, indicating a significant lack of awareness of our mission and work here. We need to be viable and known in our home market, and tap community resources here better than we have in the past.

### **Grants and Programs**

With thanks to Dr. Hallie Dozier and her Research and Education Committee review teams, we will be seeking Board approval at the May meeting for our Spring Grant Cycle, which includes the Hyland Johns Grants (now up to \$50,000 each), the Arboriculture Education Grants and the Robert Felix Scholarships.

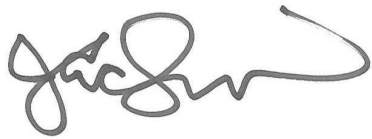
Also with Hallie’s blessing and help, we will be opening an extra grant review cycle on June 1, 2016, with applications due by September 1, 2016. These will be for an additional Fellowship Award (\$100,000), the initial Safe Arborist Techniques Fund grants (\$10,000), and the Ohio Chapter ISA Education Grant (this one was opened this spring, but did not receive applications; we are working with OCISA to ensure we receive some viable ones over the summer). We are also expecting guidance from UAA in May on an RFP for the first directed grants under PG&E’s initial \$250,000 gift to UAA, most of which will be transferred to us for grant administration. If we have this in time, we will also open this during the supplemental cycle.

All of these programs will require Board approval, and I would like our fall teleconference to be scheduled for the first week in October (slightly later than usual) to support this cycle. Reminder: we have budgeted \$450,000 in grant awards this year, a sizable increase for us, but crucial if we are to make a case for our work having deep and broad impact as we work to secure gifts under the endowment building campaign. We need to be fairly aggressive about running RFPs and issuing awards (e.g. if we have solid, viable candidates, I like to see us award two Hyland Johns grants in May) to reach our goal. I recognize this is extra work for the review teams, and I am grateful for their assistance in this regard.

## **Conclusion**

2016 is going to be a significant pivot year for us in many ways, and I appreciate your support and enthusiasm as we seek to adapt our messaging, our outreach, our finances and our organizational structure to achieve the goals of our Strategic Plan. Please let me know if there are additional areas beyond those covered above on which you would like a report from me, or would like me to be prepared to present at our May meeting. I look forward to seeing you all soon, and remain grateful for the trust you've placed in me.

All best,

A handwritten signature in black ink, appearing to read "J. Eric Smith". The signature is fluid and cursive, with a large loop at the end.

J. Eric Smith  
President and Chief Executive Officer