

## **TREE FUND MEMORANDUM**

Date: September 22, 2016

To: TREE Fund Board of Trustees

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

Re: Report for October 3, 2016 Trustee Teleconference

### **INTRODUCTION:**

It was late September a year ago when I participated in my first full meeting of the TREE Fund's Board of Trustees during our late summer teleconference. In some ways, it seems like that was just yesterday – though when I reflect on the miles I've accumulated over the past 13 months, and the accomplishments we've achieved collectively, I do consider it to have been a busy and transformative time, for both me and for the organization. I remain grateful for your confidence and support, and honored to serve as our organization's chief executive.

As I've noted to you all before, I believe in frank and full reporting in my communications with you, as I believe you require such candid information to properly fulfill your own fiduciary and governance responsibilities to our corporation. By necessity, such candor also dictates that documents like this one be held closely by their intended recipients, and considered company sensitive information. I respectfully request that you do not forward or share this report beyond the Board of Trustees, Barb Duke and I accordingly, with thanks in advance for your discretion.

### **WORK WITH TRUSTEE COMMITTEES:**

Each of your committee chairs will be providing his or her own report of their respective groups' activities, but I wanted to provide brief summaries of key areas where I have been working closely with the committees to provide staff and executive support, since these activities sit at the heart of our endeavors for the past four months:

- **Finance Committee:** We have worked hard in 2016 to provide more timely and accurate reporting, moving from quarterly meetings to monthly, and segregating operating and endowment reports, so that we are able to review our operations within a couple of weeks of each month's close, rather than waiting an extra month for reports from Chicago Community Trust (CCT). Our news has been good thus far this year: we will break the budgeted full year's revenues by the end of September, and expenses are generally in line with budgeted levels, with some timing slips that will balance out over the next month or so (e.g. we gave more grants in May than originally planned, but will have less go out later in the year, so that we hew to budgeted goal). The one exception to this solid position on the expense side is related to contracted/consulting work: in addition to our auditor this year, we have engaged contract accountants, real estate brokerage assistance, the feasibility study

consultant, and management consulting to provide third party support of the Audit RFP process and to better document office policies and job descriptions to help us finally stabilize our bookkeeping functions. We have not yet seen offsetting decreases on the personnel side due to front-loading of some expenses, paying out accrued paid time off to departed employees, having to pay more for our development database administrator than expected, and a bonus to Barb Duke for her exemplary support in helping get through the office administration transitions. At bottom line, though, I remain certain that we will end the year well ahead of our net operating budget, as revenue gains will more than offset expense overruns. CCT will be making a presentation to the Finance Committee in advance of our December 2016 meeting, and I will be providing the draft 2017 budget to Finance Committee in late October to support a thorough review before it is sent to the Board for ratification in December. We also worked in committee this summer to evaluate all of our insurance policies, and have increased both our corporate umbrella policy, and a specialized umbrella policy specific to the STIHL Tour des Trees. As our assets grow in the campaign, we need to be mindful of increasing our coverage as well from a risk management standpoint.

- **Audit Committee:** We have completed the procurement action for a three-year contract with an independent audit firm, and Chairman Will Nutter will be recommending to you on our call next week that we engage Sassetti LLC to serve in this important capacity. I appreciate the Audit Committee's active support of this process, which is not an easy one. Our long-term auditors, Dugan & Lopatka, did bid on this engagement again, and were accorded an interview with the Committee, but they did not score high on either their proposed price or their independent rating and screening. Sassetti scored high on all fronts. At our May Board meeting, I had noted that considered that the way we have been reporting our endowment funds was inconsistent with the nature of our contracted relationship with CCT. The Audit Committee had extensive conversations and tasked me with doing extensive research into this matter, and I remain confident that the changes we made in May are the correct ones. CCT agrees with this position. This will be a key matter for Sassetti to evaluate as they get a baseline together for the Fiscal Year 2016 Audit. I remind you that our auditors work for the Board, not for management. We are looking to find ways in the year ahead to make sure that Audit Committee has regular reports from Finance Committee and management to ensure that their Committee is prepared to represent your interests when audit season begins.
- **Governance Committee:** I haveam been working with Governance Committee to review and update our Trust Agreement to reflect current realities (legal and organizational), as well as organizational aspirations. The document has been "edited by accretion" since our organization in 2002, with occasional edits to change committee names, number of trustees, titles of officers, etc. But it contains some language that is inconsistent with current nonprofit practice and our own policies, and it defines terms and commitments that are making it more difficult than it should be to recruit new Trustees. The committee has completed its review and has recommendations for you all in December, and I am running the revisions through a legal review to make sure they are sound and compliant.
- **Research and Education Committee:** I am grateful to this committee for being willing to tackle a supplemental review cycle this summer to give the Ohio Chapter Education Fund a second chance to secure viable applicants, and to complete the review of our

signature Research Fellowship program. We have the Duling and Kimmel grant cycle closing this week, so they will have to muster again in the fall to complete those reviews, with my thanks. I had hoped that we would be ready to issue a first grant under the Safe Arborist Techniques Fund this year, and we had an RFP for it ready to go, but Jim Skiera at ISA (who are sponsoring this grant program, and provide members to its review committee) asked that we defer a year, as they may wish to have the first grant be sponsored/directed rather than open call. (This is allowable per the fund's organizational documentation.) We will, however, be issuing a directed grant under the UARF program this year using \$240,000 provided to us by PG&E via UAA (this is separate from the PG&E challenge to build the endowment). PG&E has identified its research team from Sonoma State University in California, and we have issued them an RFP, with expectations that this one will also be reviewed in fall for Trustee action by December, so that the first year's installment of funding may go out this year, per our budget and plan.

- **Development and Communications Committee:** We have merged the Development Committee with two of its constituent subcommittees (Communications and Planned Giving) to create a single, larger committee in advance of the Feasibility Study and campaign. In addition to conducting individual interviews, CCS (the Feasibility Study Contractor; not to be confused with CCT!) will participate in the October committee meeting by teleconference. This committee will likely form the nucleus of a Campaign Steering Committee, but we need to wait until the CCS report in December before activating this initiative upon their counsel and your approval of same.
- **Liaison Committee:** In recognition of the fact that Liaison Committee is accorded standing committee rights and specific mention in our Trust Agreement, Barb Duke and I are taking the lead for staffing this committee in the same way that we do the other Board committees staffed by Trustees. By not having this direct, senior line of communication in the past, I believe the Liaisons have been forced into a more directive and operating role, rather than serving as our champions and partners in their chapters. I participated in the Liaison calls in September and announced this change, reminding them that we plan to have more Liaison/Trustee engagement in the future, within the bounds of the Trustees' unique governance/fiduciary responsibility. I also informed them I intend to eliminate the "Chapter Challenge" concept, which forces them into retail fundraising and sales to an exorbitant degree, causes more ill will than good will as we raise the bar year after year, is highly labor intensive in the office, and creates undesirable perverse incentives (e.g. we are so eager to post gifts to the Chapter Challenge that we have often credited and acknowledged Chapters as donors instead of solicitors, robbing the real donors of their proper and due credit; we need to keep two sets of books when corporate teams span multiple chapters for the Tour, etc.). I see the Liaisons as crucial to our success in "friendraising" in the years ahead, and as our closest friends, we need to give them the latitude to reduce dependence on fundraising events just as we seek to do organizationally, and not force our 20 unique U.S. chapters into any "one size fits all" rubric. I believe this change will help us achieve another strategic goal of getting Liaisons from international chapters as well.
- **Executive Committee:** This committee essentially overlaps and provides strategic coordination of all the others. I have no specific work to report here, other than to note that I consider it to be an important and helpful forum for bringing the disparate elements of our operation together once each month for review, reflection, and goal-setting.

## OFFICE OPERATIONS AND STAFFING:

As we prepare these reports for you, our office is going through its final renovation to double our available space in our current building for a rent increase of about 50% per year. We will be moving furniture back in next week, and getting everyone situated in their new offices. I am pleased to be able to offer the staff this significant workplace improvement, and also happy to have more room and a nicer environment for meetings, both internal and with visitors.

I am pleased to report that effective October 3 (the day of our call), Laura Flamion will be joining our team as our Bookkeeper and Administrative Associate [insert her proper title], working 24 hours per week. Laura is a very accomplished financial professional who for personal and family reasons is looking for a reduced weekly schedule with an organization she believes in. This engagement will be an independent contractor relationship, as was the case with Carol Holmes (except that Laura will be working twice as many hours per week). The initial contract is through December 31, 2017, with option years to follow upon mutual agreement. Laura will be taking on some of Barb Duke's office administration assignments, so that Barb can work more closely with me on strategic, governance, and grants management matters; Barb's title will change to Grants and Operations Manager [insert her proper title] on October 3 as well, to reflect these new assignments.

As we move into this next phase, we are grateful to management consultants John Suffern and Maggie McCoy, who have been working with us since May 2016 to support activities both routine (bookkeeping, monthly close and reporting, etc.) and transformative (properly documenting work flow, cleaning up accounts and records, developing procedures to be used by Laura, crafting a well-balanced and meaningful allocation of office duties, etc.). They have been exceptionally helpful partners, and we are better positioned to face "fresh eyes" from a new auditor, and to be better able to produce and manage the increased volume of activity that will be required as we get deeper into our campaign.

On this note, I have asked CCS to provide us with their independent and candid sense of our staff's fundraising capacity and personal capabilities going into the campaign as part of their feasibility study. In something roughly approximating current staffing configuration, it took eight years to raise the endowment from \$1.0 million to \$3.0 million – and about half of that \$2.0 million growth was actually just market improvement over that span of time. Our current plan has us growing \$6.0 million in four years, or three times as much in half the time, beginning when markets are high, not low, thereby providing less opportunity to just ride market forces upward.

When you remove market improvements from 2007 to 2016, this equates to a twelve-to-fifteen-fold increase *annually* in the amount of endowment fundraising we have to do in the years ahead. While we want to reduce financial dependence on the STIHL Tour des Trees and ISA International events, and are already taking steps to streamline both events significantly without reducing their community engagement value, we will still need to staff them, and as we add endowment lines, we may also need to add additional community engagement opportunities to create attractive naming opportunities or mission-based activities to generate philanthropic interest. So the workload on those elements is not likely to decline much – while

the campaign workload is likely to explode, and I can only effectively carry so much of it on my own.

To achieve such a radical transformation in our fundraising sea state, I am going to need a deeply skilled philanthropic development team, which is something very different~~ly~~ from a retail and fundraising event oriented team. At bottom line, we simply can't raise millions of dollars by selling more bandanas at trade shows and conferences, and by putting more logos on Tour jerseys, as has been our wont. The skills needed to solicit and secure larger, more complex, and fully philanthropic gifts are unique, and I may need to make staffing changes, add additional staff, or continue to rely on contract support through the campaign period to acquire them.

I have already made some shifts and transitions within the office, and have offered both internal mentoring and paid training in development principles and approaches, but I am not certain that it is going to be sufficient to meet needs, or that we have the required skills in house, beyond my own. CCS has helped many organizations evaluate such needs, and I look forward to their assessment of our current capabilities, and their recommendations on needed changes, if any. I will build flexibility into the draft 2017 budget to be able to accommodate such changes.

As I have noted many times over the past year, I am grateful that you have thus far been collectively willing to let me increase spending in several key areas to position us properly for our campaign. There is no question in my mind that we will need to continue spending more (or spending differently) to continue the desired growth rate – but there is also no question in my mind that these are expenses that will reap sizable dividends and benefits for us in the years ahead, with excellent return on investment making them well worth our while.

### **CURRENT ENDOWMENT BUILDING ACTIVITIES:**

Through the end of August, we have already added ~\$361,000 in new funding to the endowment at CCT, and we have another \$12,000 [how much?] in hand right now that will be transferred in the next week or so. We have already raised the \$250,000 for the UARF in 2016 required to achieve the first year's PG&E challenge match payment of \$125,000, and will be invoicing them for this in the first week of October. We have pledges of over \$100,000 for 2017 already, so I am confident we will max out the second year of the challenge as well. Special thanks to Will Nutter, Brent Asplundh, and Randy Miller for their help in securing these gifts.

These are not the only funds that are being transferred to the endowment in close to real time, as we are encouraging donors to restrict their gifts to the endowment if that is what motivates them philanthropically, since that supports our strategic goals. In the past, we have generally discouraged donors from designating their gifts to Tour riders or other operating appeals to the endowment, noting that "we have to keep the lights on" first. This is simply bad fundraising *and* friendraising, and I am not allowing staff to take such positions with donor requests anymore, since we have adequate cash reserves to support endowment transfers as they come in.

As a reminder from our May meeting, when gifts are restricted by donors to funds that have already been established within the CCT pool, we will continue to direct those to CCT, so we do not split those accounts. When gifts to establish new named funds emerge, however, I have it as an assignment to hold them and recommend to the Trustees whether CCT is the best custodian for them, or whether we want to invest them elsewhere. I have had a meeting with a consulting brokerage who specialize in pension and endowment funds to lay groundwork for when such new named funds emerge.

With all of these activities currently in play, I feel reasonably confident that (absent massive market collapse) the endowment will reach \$4.0 million by the end of 2017 (we are at about \$3.4 million now) absent any other campaign activity. I have asked CCS to test a campaign goal of \$5.0 million accordingly, if you are wondering where that number comes from when they connect with you.

## **COMMUNITY ENGAGEMENT EVENTS:**

The “TREE Fund After Hours” event at ISA International was a success. We had 175 people in attendance at the peak, grossed over \$90,000, spent less than \$20,000 (we still have some final bills and invoices in process, hence round numbers here, but we beat budget in both cases), and *dramatically* decreased the amount of time that staff and chapters had to invest into managing and shipping silent auction items and pursuing other highly labor intensive retail elements of the prior configurations of the event. Things weren’t perfect (e.g. we had P.A. and sound issues oin the trade show floor), but we will likely keep this model going forward, with tweaks to improve the layout and flow of the event. Jim Urban has also committed his design expertise to helping us make our booth more engaging and interesting next year.

The STIHL Tour des Trees is two weeks away, and things are pulling together well for that. We are working very hard to stress the community engagement element of this signature event, with support from STIHL’s media and marketing team, and seeking to make public as many events as possible along the way, rather than focusing primarily on rider-oriented entertainment and activities. This is truly the one time each year that we organizationally “take our show on the road,” and we want to maximize its friendraising and “open the circle” opportunities as much as we do the fundraising opportunities.

That being said, as I prepare to send this out (Thursday afternoon), we have more than covered our budgeted expenses for the event through our partnerships, and the riders have raised ~\$264,000 toward the goal of \$325,000. We will have a large burst of payments in the next 10 days as some riders wait until the end to self-fund their rides, some chapters do similarly for their rider sponsorships, and we collect ancillary fees (e.g. private hotel room premiums, etc.) in advance of check-in day. The event should be both a financial and community engagement success, at bottom line.

Next year is the 25<sup>th</sup> anniversary of the original Tour, and we will be holding the event in the Washington, D.C. metro area, hosted by ISA’s Mid-Atlantic Chapter. ISA International and ITCC are “together again” next year, and we are planning to hold the Tour in a “hub and spoke” configuration the week of those combined events. This will increase visibility, reduce



costs, allow more people to participate (e.g. ride after the International Conference?, or before the ITCC, when committing to a full week might be prohibitive), and potentially turn our “After Hours” event into something truly signature with all of our riders on the scene to celebrate a quarter-century of success. Paul Wood (engaged on a new three year contract earlier this year) has already drafted preliminary route maps, and we will be convening the planning committee almost immediately after this year’s tour is over. (They have already had a couple of advance meetings).

## **LISTENING TOUR:**

Last December, I committed to visiting all 20 U.S. ISA Chapters on a “listening tour” to get the lay of the land in our community, meet key constituents, and assess TREE Fund’s reputation in the field. I’ve also sought (and been granted, most of the time) the opportunity to briefly speak to membership and/or chapter leadership, and have carried three key messages to each of these groups:

- We are committed to increasing the size and number of grants issued, starting immediately
- Friendraising is as important as fundraising in the long term
- We must open the circle to new donors to meet our goals

As I type this, I have either visited or have a visit scheduled to 18 chapters. Two of them (Rocky Mountain and Michigan) have unfortunately been impossible for me to visit this year due to schedule overlaps with other key TREE Fund, ISA or TCIA events where my attendance is required. I have it as a priority to get to those chapters sometime early in 2017.

## **CONCLUSION:**

I look forward to seeing some of you<sup>r</sup> on the Tour, some when I visit your chapters in October or November, and hopefully all of you at the usual location in Rosemont, Illinois, in December. As a reminder, we are looking to streamline the meeting to one longer day, and I will work with Executive Committee to plan and schedule that agenda to support all necessary activities (including time with Liaisons) over the next month or so.

Please don’t hesitate to let me know if you have any questions, comments, or concerns with anything contained in this report. I remain excited about my work, happy to represent our organization around the country, and pleased with the leadership and wise counsel you have provided to me.

All best,



J. Eric Smith,  
President and Chief Executive Officer