

# TREE FUND MEMORANDUM

Date: April 24, 2017

To: TREE Fund Board of Trustees

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

Re: Report for May 8, 2017 Trustee Meeting

## INTRODUCTION:

While all of our TREE Fund Trustee meetings are important and add value, I feel that our December joint meeting of the Trustees and Liaisons was particularly significant in many ways:

- You approved a Restated Declaration of Trust, bringing our core governance document up to date to reflect current legal, financial, accounting, governance and management best practices, 15 years after our founders first signed us into existence as the successor organization to the ISA Research Trust and National Arborist Foundation;
- You approved the largest annual grant-making level in our history (~\$550,000), including the largest single grant we have ever awarded (\$175,000 for Utility Arborist Research Fund work with Sonoma State University).
- Following a presentation from our development consultant, CCS, on findings and recommendations from their four month long Feasibility Study on our behalf, you authorized me to proceed with a 150-day additional engagement with CCS to complete the planning phase of a \$3.0 million endowment building campaign.
- You approved an operating budget that incorporated several significant and sensitive organizational changes, most especially personnel adjustments required to create the team I need to complete a campaign, changes in approach for the Tour des Trees and After Hours events, the inclusion of significant new campaign expenses, and a resumption of earnings draws from our Chicago Community Trust (CCT) endowment after a year's reprieve.
- You engaged the ISA Chapter Liaisons in a new way, supporting my decision to cancel the Chapter Challenge program, encouraging them to become champions and "friendraisers" for us around the country, and including them in establishing the schedule and parameters for our December 2017 meeting, with a commitment to collaboratively evaluate different models in years ahead.

The changes embodied in those actions are fairly profound for our charitable endeavor, and I continue to appreciate your ability to assess where TREE Fund has been, and where we want it to go, and to adapt to get us there. After our December meeting, Chairman Sayers and the Executive Committee seated a new Strategic Planning Task Force that will meet for the first time the day before our Board Meeting to continue this forward-looking, transformative focus. I have been asked to assist in this process in the year ahead as a moderator or facilitator to the Task Force, so I am looking forward to that process in the months ahead with our current Strategic Plan expiring in December 2017.

As I prepare my regular report to you in advance of our meeting in two weeks, I find myself thinking in some ways “Well . . . that’s not *quite* as exciting as what we did in December!” That’s not to say that we haven’t gotten a lot done here – we have been quite busy in Naperville and around the country over the past four months – but I will apologize in advance that this report to you doesn’t have quite as many “Wow!” actions to advise you of or request of you this time around. Establishing a functional major gifts development cycle (identification → cultivation → solicitation → stewardship) is crucial to our success, but it is a quiet, individualized process, which we are actively pursuing at this time.

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

## **ENDOWMENT BUILDING CAMPAIGN**

After you approved the \$3.0 million campaign goal in December, a motion was made and approved to have me provide a report on the CCS 150-day work plan at the May Trustee meeting before we made any public announcement of the campaign. This engagement was completed in March, and CCS fulfilled their plan in all material ways. Paige Azuma from CCS actually worked in our offices in Naperville throughout the length of the engagement, and she did excellent work on our behalf. A summary of our key activities with CCS follows:

### **Case Statement Development:**

- Identified and recruited members of the Case Statement Task Force.
- Developed recruitment materials for Task Force members outlining the role and expectations.
- Conducted three Task Force meetings to collect member reactions and edits to the case statement document.
- Developed a lead gift table supported by the Case Statement.
- Created a comprehensive, modular case document that will serve as the basis for all future campaign communications.

### **Campaign Leadership Identification and Recruitment:**

- Developed proposed list of campaign cabinet members.
- Determined initial recruitment strategy and timeline for 22 campaign cabinet prospects.
- Developed and implemented recruitment strategies for cabinet members; process is underway at time of this report.

### **Prospect Identification and Cultivation:**

- Completed wealth screening process of all names in donor database and identified current and new major gift prospects.
- Created customized engagement strategies for high-priority leadership gift prospects.
- Developed prospect briefings for all identified leadership gift prospects.

- Developed customizable briefing and proposal templates.
- Developed suite of leadership gift opportunities.
- Developed sequencing and strategy for all leadership gift phase prospects.
- Continuing ongoing discovery and research of new prospects.

Based on activities completed to date, both CCS and I are confident that we have established the correct campaign level at \$3.0 million paid or pledged by the end of 2020. Based on cultivation work ongoing, I am equally confident that we will be able to quietly secure pledges for at least half of that amount by the end of 2018, so it is my firm recommendation that we continue moving forward with the campaign as planned. At our meeting in May, I would respectfully request a motion from the Board to accept my report on and recommendation from the 150-day plan, closing out this open December action item for the corporate record.

Chairman Sayers recently sent you all a memorandum regarding the Board of Trustees' commitment to the campaign. I will be respectfully seeking a simple resolution from the Board at our May meeting that you are 100% committed as a body to the campaign, and will demonstrate that commitment through your own personal giving during the campaign. There is no gift minimum, and there will be no forms passed out at the meeting to pressure you into any immediate specific commitment. I will connect with each of you in the weeks after the meeting to discuss this privately with each of you. (Please note that volunteer time and travel expenses are not considered charitable support for the purposes of a campaign).

Having managed campaigns in the past and having also worked with other grant making organizations, I know first-hand that this 100% Board commitment is an essential early step toward campaign success. Paige Azuma and Steve Manno from CCS reiterated this point in a March presentation to our Executive Committee, noting that within the environmental sector of their client base, 100% of successful campaigns they have administered were anchored by 100% board giving. Such a commitment is crucial because it demonstrates strong organizational leadership to sophisticated major donors, who expect such an investment from the highest level of governance. Many competitive foundations also use 100% board giving as a "first pass" filter for applications: if the answer is "no" to this question, your proposal does not advance.

My requested resolution will give me the documented "proof" I need of your group commitment with such donors and foundations, so that I and other solicitors may in good faith tell donors that you are 100% behind our efforts to build this endowment. Thank you in advance for your action on this item.

## **2016 FINANCIALS**

I am pleased to report that our Audit Committee voted on April 14 on behalf of the Board of Trustees to accept our 2016 Draft Financial Statements and SAS 114 Letter (usually called "The Management Letter"). This year's audit was our first with Sasseti LLC, and I was very pleased with the process and outcomes of their work with us over the past few months. The rigor and quality of their field work, the acuity of their analysis, and the timeliness of their work products were all excellent, frankly demonstrating a marked change for staff and I compared to the prior year's audit. As Audit Chair Will Nutter will report at our meeting, the Auditors' overall opinion

is that the financial statements fairly present our position in all material respects in accordance with generally accepted accounting principles.

Our audited financials now reflect the change in accounting classification I requested from you last May regarding permanent restriction of our “Beneficial Interest in Investments Held By Chicago Community Trust” (a.k.a. our endowment). This was a complex, year-long process involving conversations between management, accounting staff, Trustees, Audit Committee, Finance Committee, CCT and our prior and current auditors to properly account on our books for these assets held by CCT. Sassetti has affirmed the position we reached and recommended, which has resulted in a fairly sizable prior year adjustment on our books.

I am comfortable and confident that we have now done all due diligence on this matter, and respectfully request that the Board affirm the Audit Committee’s acceptance of these audited financials for the corporate record at our May meeting. Based on the Audit Committee’s acceptance of the auditors’ findings on April 14, Sassetti has prepared our annual tax filings for on-time submission on May 1, 2017. This will be the first year in many (if not ever) that we have not had to request a filing extension.

While no formal Board vote is required on the 990, since it reflects the financial statements approved in the audit, the 990 asks us to declare that “the organization provided a complete copy of this Form 990 to all members of its governing body before filing the form,” so we will email it to you all in advance of filing. Please contact me if you have any questions, comments or concerns with anything contained therein.

As a final 2016 financial note, I am pleased that our statement of functional expenses shows that program services constituted 57% of our total outlays for the fiscal year. For perspective, over the five preceding fiscal years, the program services percentages documented in our 990s were 32%, 43%, 32%, 35% and 33%. While I’m not a blind adherent to ratio analysis, and while I recognize that it is difficult for organizations that are as event-dependent as we are to ever get to the “magic” 80% number, I am committed to increasing this number further in years ahead, as I know it is seen by donors as a key metric for measuring our organizational effectiveness.

## **2017 FINANCIALS**

Our budgeted net income for first quarter 2017 was \$93,746. Our actual net income for first quarter 2017 was favorable to budget at \$174,611. Most of this surplus is related to timing variances, and I expect us to remain generally on budget on a macro basis for the year. Tour des Trees planning continues apace, with reminder that the first three days of the Tour are contemporaneous with the ISA International Conference, and now incorporate our traditional auction event; it will be held Tuesday night, avoiding our usual conflicts with Davey’s Monday night event. (Asplundh’s traditional Tuesday night event is moving to the Trees and Utilities Conference in September).

We expect the number of full-time riders to decline a bit from 2016 to 2017, primarily due to the relative attractiveness of riding the DC Metro in August vs the Carolinas in October, some “hardcore” riders’ stated lack of interest in trail riding (the only safe way to navigate portions of the DC Metro), and some riders’ commitments to the ISA Conference itself. (I will only ride five days this year, for example, though I am fundraising for seven, as I expect many others will). On

the flip side of this, we expect to pick up a good number of new part-time riders who will attend the ISA Conference, then join us for the final three or four days of the Tour.

For 2016, we budgeted \$245,000 in rider fundraising, set a \$325,000 public stretch goal, and ended up raising \$406,000. For 2017, we budgeted \$280,000 in rider fundraising, and set a \$310,000 public stretch goal. I am very confident that we will achieve the budgeted level, and reasonably comfortable that we will hit the public stretch goal. I believe that the friendraising and community engagement benefits of staging the Tour this way in 2017 on the occasion of its 25<sup>th</sup> Anniversary and our own 15<sup>th</sup> Anniversary add intangible values that make it well worth the effort. We are beginning conversations with Ohio Chapter ISA about 2018 staging and scheduling, and hope to implement a “virtual tour” component that allows individuals around the country to ride and fundraise on our behalf without actually joining the Tour route.

Our corporate partner portfolio for the year is mostly in place, as you can see by checking the array on our partners’ page on the website. Bartlett reduced its unrestricted operating support this year, but remains committed to providing significant in-kind support for the Tour. Our contract with STIHL for naming rights on the Tour expires after this year’s event, so I will be reaching out to them this month to assess their intentions in 2018 and beyond, ideally being able to either announce their continued support at this year’s Tour, or announce a new title sponsor if we go that route. We have only about \$102,000 remaining to achieve the \$500,000 PG&E matching challenge, and I am optimistic that we will have that done in time for the Trees and Utilities conference in September, four months before the original year-end deadline.

## **OTHER MATTERS**

Most other significant management activities are conducted in conjunction with our various Board Committees and will be documented in their chairs’ reports. I provide the following brief summaries of these and other related activities so as to not duplicate them:

- Barb Duke and I have been working with Governance Committee to simplify our corporate policies, and ensure they reflect our Restated Declaration of Trust. The Trustee Handbook on our website has been significantly streamlined and organized, and my next step in supporting Governance Committee is to consolidate the remaining policies into a smaller number of master governance documents. I expect we will complete this project before our December meeting.
- I have suggested to Research/Education Chair Dr. George Hudler that we hold a “clean slate” calendaring exercise this summer to look at the entire cycle of all grants in 2018 to make sure our RFP, review, approval and contract phases are less “lumpy” on the calendar, and allow our volunteer committee members appropriate time to complete reviews at times when their usual academic and professional calendars are not at their busiest. It is possible this review could lead us to suggest different board meeting times in 2018.
- At our December meeting, we had a conversation about whether our community engagement and education grants are restricted to K-12 programs (as our RFPs currently specify), or whether we may award grants in current and new grant lines for other cohorts and age groups. I noted at the time that our Restated Declaration of Trust has no restrictions on non-K-12 programs, and the consensus among the Board was that TREE Fund may fund other activities to supplement K-12 programs, but not eliminate them. There was no vote to approve this slight shift in focus, and there may not be one required, but I would like to

formally document for the corporate record that I have your blessing on seeking endowment funding for non-K-12 community engagement, and/or that we should not automatically screen out non-K-12 applications from our current education grant lines.

- Mary DiCarlo left TREE Fund in January per the plan I discussed with you in December, and Robin Borgione (part-time data manager) left in February; I have not refilled either position. We are advertising now for a full-time Development Manager with a goal of hiring around the beginning of June. At that time, our team will include me, Grants and Operations Manager Barb Duke, Community Engagement Manager Karen Lindell, Contract Accountant (part-time) Laura Flamion, plus our new hire. The net effect of these personnel changes will be to reduce our staffing level by one full-time equivalent (FTE) compared to our organizational structure when I was hired. I consider this to be the appropriate staffing level for the foreseeable future, as we have worked hard together to eliminate or reduce a lot of time-consuming, non-productive activities in the office. This is a very good team, and I am taking my time to make sure that our new development person has very strong skills and is a good fit for us. It was refreshing to have a true development professional in the office during Paige Azuma's time under the CCS engagement, so I look forward to having that again after June.

## CONCLUSION

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 (though with a little less travel than last year!), and pleased with the leadership and wise counsel you have provided to me.

All best,



J. Eric Smith,  
President and Chief Executive Officer