

# ANNUAL REPORT 2010



## INTERNATIONAL YEAR OF FORESTS • 2011

## A Word from the Chairman and the President

In 2010, the Endowment celebrated four years of progress and growth. For our Board of Directors and staff it has been an exciting ride. We've tried to rise to the challenge set by our past chairman, Dick Molpus, who urged us to advance "systemic, transformative, and sustainable change." In short, we've set our sights on being risk takers in the best sense of the term. Foundations such as ours are uniquely positioned to "do what others can't or won't." The non-profit business model allows great latitude on the one hand, while on the other, demanding responsibility to mission.

### Putting our Work in Global Context

As we reflect on 2010, we also look expectantly to 2011, which is designated by the United Nations as the **International Year of Forests**. That declaration notes that "forests play an integral part in the livelihoods of 1.6 billion people worldwide." That's true even in developed countries such as the U.S. Our forests provide habitat for wildlife, places for recreation, renewable products, help mitigate climate change, and bolster the economy with millions of family-sustaining jobs. The work described in this report illustrates how the Endowment is helping ensure that sustainable working forests remain an integral part of the American economy and culture.

### Systemic...

To create new markets for low-value wood and enhance forest health, we launched a major partnership with the USDA Forest Service to develop "right-sized approaches" to woody biomass as an alternative energy source. Properly developed, this market will provide income to forest landowners while reducing our nation's dependence on foreign energy. With the Natural Resources Conservation Service, we launched a collaboration to link upstream producers of clean water—forest landowners—with downstream consumers to plumb the potential of water as an environmental market. To stretch our impact, the Endowment expanded beyond traditional grants to include Program Related Investments.

### Transformative...

With five prominent non-profits, we are helping transform conservation planning through the creation of the first comprehensive National Conservation Easement Database (NCED). Through our Forest Investment Zones, we are creating regional alliances to develop new value streams for working forests and rural economic development. In the laboratory, Endowment-

funded scientists are breaking new ground using modern biotechnology to develop blight-resistant American chestnut trees in one-tenth the time of traditional approaches – and in socially acceptable ways. With an inaugural contribution from Mercedes-Benz USA and the good work of The Conservation Fund, we launched the ShadeFund™, an online, microloan market that matches rural entrepreneurs with lenders.

### Sustainable Change

Making positive change is important, but success comes in sustaining it. We adjusted our staff model by adding two positions and retargeting another. Kim Morgan became Director of Finance, and Alan McGregor and Peter Stangel joined as vice-presidents, bolstering our strength in community development, operations, evaluation and monitoring. This team, while still lean, should serve us well into the future.

This year we said good-bye and thanks to Dick Molpus, our inaugural Board Chairman, and Stephane Rousseau, our Canadian liaison. Both served with distinction and commitment.

We reserve our highest accolades for our partners! This rapidly growing list includes funding partnerships with the USDA Forest Service, Natural Resources Conservation Service, Gaylord & Dorothy Donnelley Foundation, Knobloch Family Foundation, the Graham Foundation, and many others. We have perhaps the greatest cadre of programmatic partners for which any organization could wish - from the great team putting together NCED to those leading our Healthy Watersheds Initiative. We also welcomed for-profit partners with whom we are working to advance sustainable woody biomass markets.

The United Nations is spot-on with its recognition of the importance of forests. Nowhere is that more true than in the U.S. We thank all who have joined the Endowment to make every year *the year of forests*.



Mack L. Hogans, Chairman



Carlton N. Owen, President & CEO

# The People of the U.S. Endowment

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### Mil Duncan

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### Bruce Miles

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*Past Chairman*  
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### John Weaver

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### Florence Colby

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### Kim Morgan

*Director of Finance*  
Greenville, SC

### Carlton Owen

*President & CEO*  
Greenville, SC

### Peter Stangel

*Senior Vice President*  
Aiken, SC

## Interns

### Michelle Christensen

*January-May*  
Portland State University

### Michelle McGee

*October-December*  
Furman University

1. Completed term of service, November 2010

2. Submitted resignation November 2010 due to change in work assignment

## Mission

The Endowment works collaboratively with partners in the public and private sectors to advance systemic, transformative, and sustainable change for the health and vitality of the nation's working forests and forest-reliant communities.

## Vision

America's forests are sustainably managed to meet broad societal objectives such as marketable products, clean waters, wildlife habitats and other ecological services, while ensuring healthy and vibrant forest-reliant communities.

## History

The U.S. Endowment for Forestry and Communities, Inc. (the Endowment) is a not-for-profit public charity. It was established September 21, 2006, at the request of the governments of the United States and Canada in accordance with the terms of the 2006 Softwood Lumber Agreement between the two countries.

## Theory of Change

The Endowment operates under a simply depicted "theory of change" that focuses on work in three areas: retaining and restoring healthy working forests; promoting and capturing multiple value streams; and enhancing community capacity, collaboration, and leadership. While many of our programmatic investments don't lend themselves to simple characterization, all are closely aligned and integrate well under this theory.

Forest Value  
Streams

Healthy  
Working  
Forests

Healthy  
Forest-Reliant  
Communities

## Keeping Working Forests Working: 2010 Project Highlights



### Capital for Green Entrepreneurs

City Bench is one of the first businesses

to obtain a loan from **ShadeFund™**, a micro-finance model envisioned by the Endowment with a \$1 million grant to **The Conservation Fund**. ShadeFund™ got a kick-start with a commitment by Mercedes-Benz USA to underwrite a dozen loans to green entrepreneurs like City Bench's owners, Ted and Zeb Esselstyn. ShadeFund™ will provide hard-to-find capital to small businesses that are creating family-supporting jobs through green business models in rural areas. City Bench will use its \$25,000 loan to purchase a Wood-Mizer portable sawmill to increase their efficiency and quality of production.

ShadeFund™ is founded on the American spirit of innovation, and the desire to help others help themselves. To make a tax deductible gift that will help a budding green entrepreneur, visit [www.shadefund.org](http://www.shadefund.org).

### Working Forests Coalition: Private Forests; Public Benefits

*"...when we are recovering from the worst recession in generations, and waging two wars abroad, some may ask whether now is the time to reaffirm our commitment to our national heritage. But I want everybody to recall, it was in the midst of civil war that Abraham Lincoln set aside lands that are now Yosemite. It was in the midst of a great depression that FDR formed the Civilian Conservation Corps..."* President Obama, America's Great Outdoors Initiative (AGO), April 2010.

To promote the public benefits of private working forests in AGO, the Endowment participates in and funds the **Working Forests Coalition**. This diverse group, whose members range from the Forest Landowners Association to the Pacific Forest Trust, helps ensure that working forests are always on the agenda. "We are convinced that the Obama Administration gained a deeper understanding of and appreciation for the importance of private forests to the nation's future," noted Endowment Board member Chuck Leavell, reflecting on the Coalition's activities.

### Technology at the Speed of Need

Jointly funded with the **USDA Forest Service** and **Duke Energy**, the **Forest Health Initiative** challenges scientists, social interests, and regulators to test modern science "at the speed of need" to protect trees and forests. The first test case? A plantable, disease-resistant American chestnut grown in a fraction of the time required by traditional approaches.

Scientists at **Penn State University, Clemson University**, and the Forest Service are finding candidate genes for blight resistance by comparing the American chestnut with its Chinese cousin. Colleagues at the **University of Georgia** and **State University of New York** are shortening, by 90%, the time needed to produce plants and test for blight resistance.

Dialogue with federal regulators is identifying how biotechnology may be used to address forest health, and more than two-dozen partners, including American Forest Foundation and Appalachian Wildlife Foundation, are considering the social and environmental implications of its use. Restoring the American chestnut is one potential outcome; defending forests from new threats is the ultimate goal.

The U.S. Forest Service predicts increased housing development on 57 million acres of private forest within 20 years, threatening the values and services provided to the public by those woodlands. Several Endowment initiatives seek to protect these services.



## Healthy Watersheds Through Healthy Forests: Connecting Downstream Water Consumers with Upstream Forest Owners

Creating new economic value for landowners helps prevent working forests from being converted to other uses, and is central to the Endowment's mission. Developing "payment for watershed services" is one promising strategy for providing new value streams to forest owners. The Endowment's new partnership with the **Natural Resources Conservation Service's Conservation Innovation Grants** program is funding novel approaches to developing water markets in the greater Philadelphia, Raleigh, and Charlottesville watersheds.

### Following the Bright Spots

In their bestseller *Switch*, authors Chip and Dan Heath suggest that one key to successful change is to "Follow the bright spots. Investigate what's working and clone it." A grant to **Ecoagricultural Partners**, of Washington, DC, sets the stage for that approach by assessing payments for watershed services, across the U.S.

**Payments for watershed services are one of the bright spots that the Endowment is developing to ensure that working forests are an economically viable part of our landscape.**

Funded in partnership with the **USDA's Office of Environmental Markets**, the resulting database will identify and share successful strategies for enhancing forest conservation by providing forest owners with payments for the services—flood attenuation, sediment reduction, nutrient filtering and others—that their woodlands provide for downstream water consumers.

Payments for watershed services are one of the bright spots that the Endowment is developing to ensure that working forests are an economically viable part of our landscape.

### How Much is My Water Worth?

That's the \$64,000 question for forest landowners in the South Fork Rivanna Reservoir Watershed, the primary water source for Charlottesville, VA. Determining this value is key to encouraging downstream water consumers to pay to help protect the forests that clean their water.

Calculating this value will soon be possible, thanks in part to an Endowment grant to the **Virginia Department of Forestry's Forests to Faucet (F2F)** project. Using the InFOREST website, forest owners will be able to quantify ecosystem services, such as nutrient loading, provided by their forests. They will also be able to calculate how those values are affected by restoration activities, including planting trees on stream banks or marginal agricultural lands.

**Using the inFOREST website, forest owners will be able to quantify ecosystem services, such as nutrient loading, provided by their forests.**

Determining these values will enable water utilities to make informed decisions about investing in forest conservation as a means to provide clean water. Revenue streams, provided by producing clean water, will help keep forests as forests, and keeping forests means clean water for Charlottesville.

### Water as Good Politics

More than 300,000 people drink from it. One million swim and fish in it. And protecting forests that surround it may be pivotal to keeping it clean. "It" is Falls Lake, Raleigh's water supply. Raleigh's Mayor Meeker is teaming with other municipalities and area land trusts to ensure that the Upper Neuse River Basin's nine water supplies will meet people's needs for decades.

Meeker rejected the notion that expensive water treatment facilities were the only answer to declining water quality. Instead, he and the City Council have allocated \$6 million since 2005 to protect forests that filter Raleigh's water. With a \$1.7 million grant from the Endowment, the **Conservation Trust of North Carolina** and six area land trusts are expanding this approach to create a "revenue-shed" to help finance future forest conservation.

Linking upstream water producers—forest landowners—with downstream water consumers is the strategy. Bold? Yes. Smart? Very. Saving tax-payers' money while protecting important forests is a great investment in any city's future.

## Partner Spotlight: Natural Resources Conservation Service

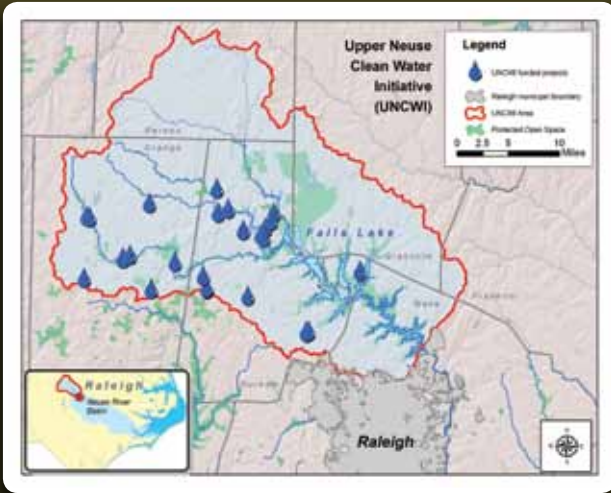


The Endowment's mission statement begins with the term "works collaboratively."

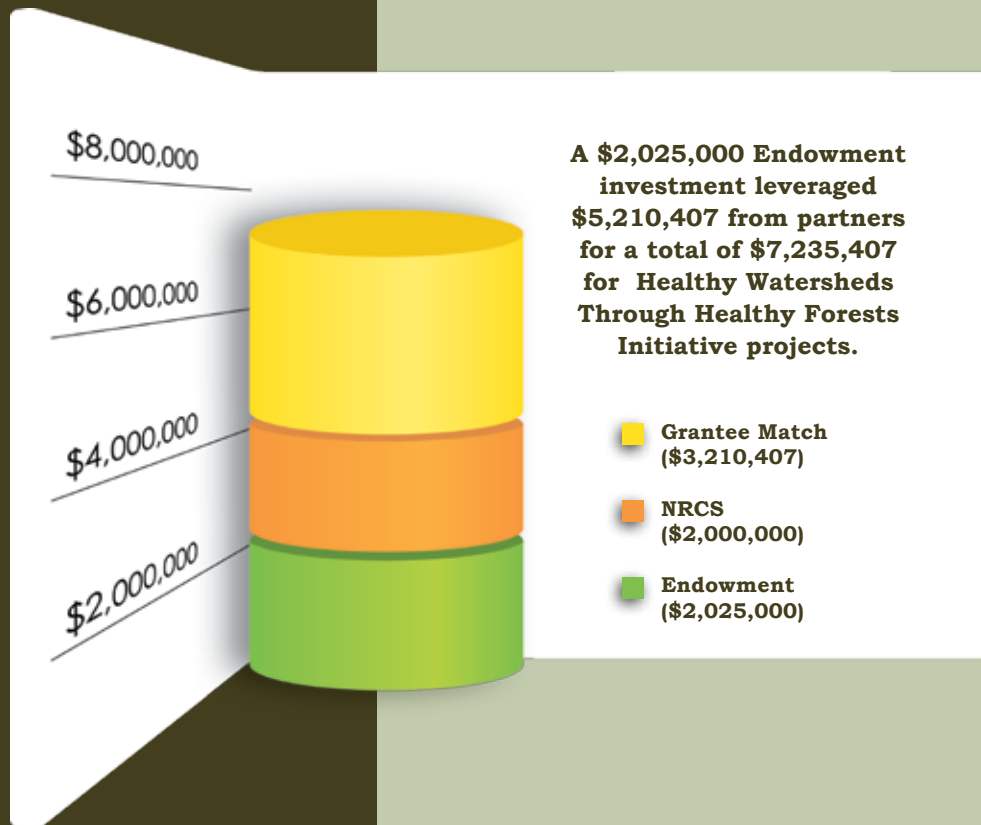
We know that to succeed at systemic, transformative, and sustainable change, we have to tap into the intellectual and financial resources of our partners.

Our groundbreaking **Healthy Watersheds Through Healthy Forests** Initiative is creating models whereby downstream water consumers pay for the water purification services provided by upstream forest owners. This revenue will help landowners keep their forests as forests. To create this program we reached out to the **USDA's Natural Resources Conservation Service**. A \$2 million grant from their Conservation Innovation Grants program, matched by \$2 million from the Endowment and more from our grantees, made this partnership possible.

Linking the best of public and private resources is a core value at the Endowment and a critical component to our success.



The City of Raleigh has allocated \$6 million to date for protecting upstream forests to maintain the quality and quantity of its water supply.



### Growing the Market Pie

Endowment work catalyzed a Blue Ribbon Commission on **Softwood Lumber Check-off**. When USDA's Agricultural Marketing Service puts the issue to a vote in 2011, domestic producers and importers will be able to establish a sustained fund for product promotion and research to ensure that softwood products play a prominent role in America's building sector. (See more on page 12)

### Forest Value Streams

#### Forests and the City of Brotherly Love

Keeping that loving feeling in Philadelphia depends in part on forest health in the Delaware River Basin, the City's water source. Creating a mechanism for water consumers to help pay for forest maintenance is a leading strategy for the **Pinchot Institute for Conservation**, a partner in the Endowment's **Healthy Watersheds Through Healthy Forests** Initiative. (See more on pages 6-7)

#### Powering Homes

How can seven sawmills keep the lights on in Montana homes? That's just what a feasibility study led by **Montana Community Development Corporation** with Endowment support intended to learn. Northwestern Energy, the state's largest energy supplier, and seven sawmills looked at the potential of woody biomass to enhance forest health, retain jobs, and provide green power. (See [www.usendowment.org/Publications](http://www.usendowment.org/Publications))

#### Old Trees Mean New Jobs

"Re-imagination of urban resources, storytelling, and the creation of soulful objects." That's how Ted and Zeb Esselstyn describe City Bench ([www.city-bench.com](http://www.city-bench.com)). Operating from barns in Higganum, CT, the team takes urban trees that would have become firewood or landfill material and turns them into functional works of art with support from the **ShadeFund™**. (see more on page 4)

## Putting the Endo of Change i



### Healthy Forest Communities



## Keeping Working Forests and Open Space

In just 20 years, increased housing development is predicted on 57 million acres of private forest – an area 25 times larger than Yellowstone National Park. Southern forests will bear the brunt of the impact. With Endowment and U.S. Forest Service support, the **Partnership for Southern Forestland Conservation** is working to maintain and expand large blocks of working forests ([www.pfsfc.org](http://www.pfsfc.org)).

## Healthy Working Forests

### 21st Century Science

What's the connection between the Human Genome Project and forest health? Rapid advances in gene mapping offer unprecedented opportunities to combat exotic pests and diseases that threaten America's forests. To test the potential, the Endowment created the **Forest Health Initiative**, and launched a pilot project on the American chestnut. (See more on page 4)

### Promoting Forest Health with Woody Biomass

To meet dual goals of forest sustainability and markets for low-value wood, the Endowment supports the **Environmental Defense Fund** to analyze models for land management and wood procurement in the South that rewards landowners and conserves forest values, and the **Forest Guild** to develop guidelines to ensure sustainable woody biomass harvests in the Northeast.

### Meeting the Needs of the People, Birds, and More...

Can community interests align with the needs of an endangered bird and national security? Thanks to the **National Community Forestry Service Center** – funded by the Endowment and the **Ford Foundation**, and led by **The Conservation Fund** - the community, the endangered Red-cockaded Woodpecker, and the military's Fort Bragg, NC, all benefited via purchase of 532 acres of forest to be community-owned and managed for multiple uses.

### Success: In the Zone

David Schmidt's Integrated Biomass Resources (IBR) of Wallowa County, OR, created seven jobs in a depressed community with help from the Endowment's **Dry Forest Investment Zone**. IBR's locally-sourced biomass products are pest-free firewood and fire logs from the Wallowa National Forest. His vision for business growth is dependent on a secure, long-term wood supply. (See more on pages 10-11)

-Reliant

# owment's Theory nto Practice



## Woody Biomass: A Strategy for Healthy Forests, Green Energy, and Family-Supporting Jobs

Rarely do problems transform into opportunities as quickly as has the emerging use of low-value wood and wood waste—woody biomass—for locally-developed green heat and energy production.

The Endowment is helping catalyze the woody biomass market because it generates revenue that helps land owners retain and restore healthy working forests, creates jobs, and reduces dependence on foreign energy. The **USDA Forest Service** and the Endowment each committed \$2 million to the **Woody Biomass Joint Venture Fund** to advance the commercialization of promising woody biomass technologies.

To date, the Endowment's woody biomass investments include:

- Research on models and best practices;
- Development of sustainable woody biomass harvesting guidelines;
- Development of efficient procurement, transportation, and pricing systems; and
- Testing the commercial potential of new technologies.

### The Beauty of Biochar

Generate electricity while simultaneously improving forest health, reducing landfill waste, and sequestering carbon? Now there's a sellable idea! California-based **Ortigalita Power** is demonstrating this possibility with a new twist on 100-year old technology that turns heated wood into burnable gas for power generation.

**Biochar stores the majority of the carbon normally released into the atmosphere.**

Their raw material is wood from area orchards, but the process works just as well with waste from wood products manufacturers (otherwise headed to landfills) and low-value wood from thinning overstocked forests (improving forest health and reducing potential for catastrophic fire).

Through a special wood-heating process, gas is generated for energy. The Ortigalita innovation is that the residual from this process—biochar—stores the majority of the carbon normally released into the atmosphere. Biochar can then be sold as a soil amendment or landfill cover, effectively storing the carbon for up to 1,000 years, while enhancing soil productivity.

### Staying Ahead of Regulation to Protect Woody Biomass Use at Home

**Greenwood Clean Energy Company** (WA) looked over the horizon and saw the Environmental Protection Agency (EPA)—and turned what others saw as a nightmare into potential! EPA's proposed air quality standards pertaining to residential wood smoke emissions could crimp home woody biomass use. The EPA estimates that 60,000 residential wood boilers are sold each year for home and light commercial heating. The woody biomass they use is often generated from forest thinnings, providing revenue for landowners and enhancing forest health.

**EPA estimates that 60,000 residential wood boilers are sold each year for home and light commercial heating.**

With a low-interest Endowment loan, Greenwood is staying ahead of the curve. Their new woody biomass gasification central heating appliance is one of the first expected to meet the EPA's proposed standards. It's being tested in 10 forested communities across the country. If validated, Greenwood's process will allow Americans to continue to enjoy the economic and environmental benefits of wood heat, while making the air just a bit cleaner.

### Find What Works and Replicate It

It's a simple strategy recommended by the Heath brothers in their bestselling book, *Switch*. The Endowment and its partners are taking the Heaths' advice and applying it to woody biomass and its many forest benefits. With Endowment funding, the **Biomass Energy Resource Center** identified the "best in class" in biomass technology applications around the world in the 2010 publication, *Biomass Energy at Work*. By focusing on "...technology that could be widely deployed elsewhere and that showcased the use of innovative, high-efficiency equipment (combustion and/or emissions control systems), cost-saving installation and operation, minimal maintenance with low staffing requirements, and technology types with particular promise to create a new national industry," the Endowment promotes woody biomass as a means to create new jobs and provide income to forest landowners.

### If It Looks Like Coal and It Acts Like Coal, It Must Be Torrefied Wood!

It's woody biomass—in a new and improved form. With low-interest loans from the Endowment's Woody Biomass Joint Venture, companies such as **HM3** in OR and **Agri-Tech Producers** in SC are testing the potential for torrefaction ("cooking" woody biomass in an oxygen-free environment) to turn wood into more desirable fuel.

**This is music to the ears of power generators and forest landowners.**

Torrefaction evaporates water, reducing the weight of woody biomass and making it more cost-effective to ship. It makes wood easier to grind and store, and gives it a "power boost" by increasing energy content. This is music to the ears of power generators and forest landowners.

## Partner Spotlight: USDA Forest Service

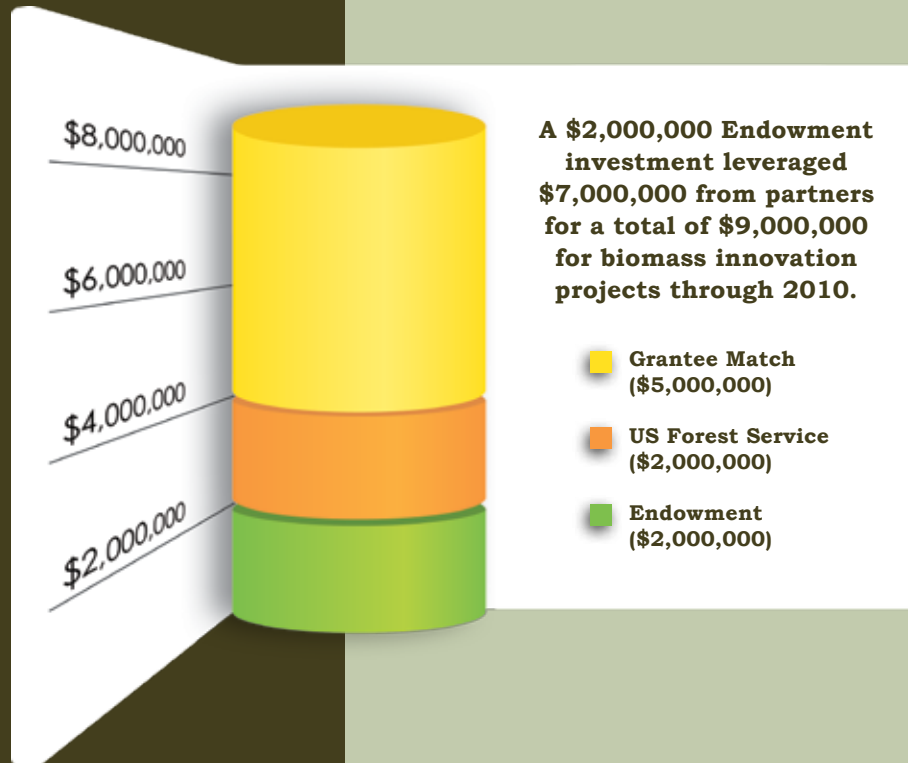


The Endowment and the Forest Service have more in common than an interest in healthy forests. We both value the many environmental services provided by forests, the critical role they play in our economy and culture, and their

importance to fish and wildlife. So, it's natural that we would work together at every opportunity.

In 2010, we launched our biggest partnership yet, focused on developing technologies for improving woody biomass as green energy. Improving woody biomass as a power source by testing the commercial potential of technologies, such as torrefaction, is a core strategy of the **Woody Biomass Joint Venture Fund**. It's also a key to the Endowment's goal of unlocking the potential for this energy source to stimulate rural economies and enhance forest health.

With just the first half of the funding pool allocated, the catalytic Woody Biomass Joint Venture Fund investments are already leveraging more than \$5 million in matching funds for projects, for a total \$9 million impact through 2010.



## Keeping Working Forests Working: 2010 Project Highlights

### Conservation through Collaboration

Oregon's Willowa and other National Forests face competing demands that have led to reduced timber harvests. Now, local officials, business owners, environmental organizations, and National Forest managers are collaborating with leadership provided by the **Dry Forest Investment Zone**, an Endowment Initiative. The result is reduced conflict, better management, solid environmental stewardship, and increased economic development, all yielding healthier forests and more jobs.

Similar collaborations are being forged in two other Endowment-supported zones. Scott Shouse, a forester working in the **Appalachian Forest Investment Zone**, and partners are building a network that uses financial incentives and peer support to encourage private landowners to sustainably manage their forests. In the **Northern Forest Investment Zone** twenty-five wood products businesses have joined a zone-sponsored peer learning network to explore means of growth and increased profitability.

### Check-off: Got Working Forests?

Howard Hedstrom's family has been in the lumber business (Hedstrom Lumber Company, Grand Marais, MN) for nearly a century. "We've seen ups and downs," says Hedstrom, "but nothing this bad. Our industry must pull together to promote the benefits of softwood lumber." It's that sentiment that led the Endowment to study what the USDA calls "research and promotion programs." Most agricultural producers know them as "check-offs." Most Americans know them by their public faces, e.g., Beef. It's What's for Dinner.

Jack Jordan, owner of Jordan Lumber in Mount Gilead, NC, says, "Because of the Endowment's vision, the softwood industry has the opportunity to establish a check-off funded program to grow markets and improve operating conditions. The fact that the Endowment is now helping two more sectors – paper/packaging and hardwood lumber – tells me this organization is committed to keeping forests as forests and advancing family-supporting jobs."

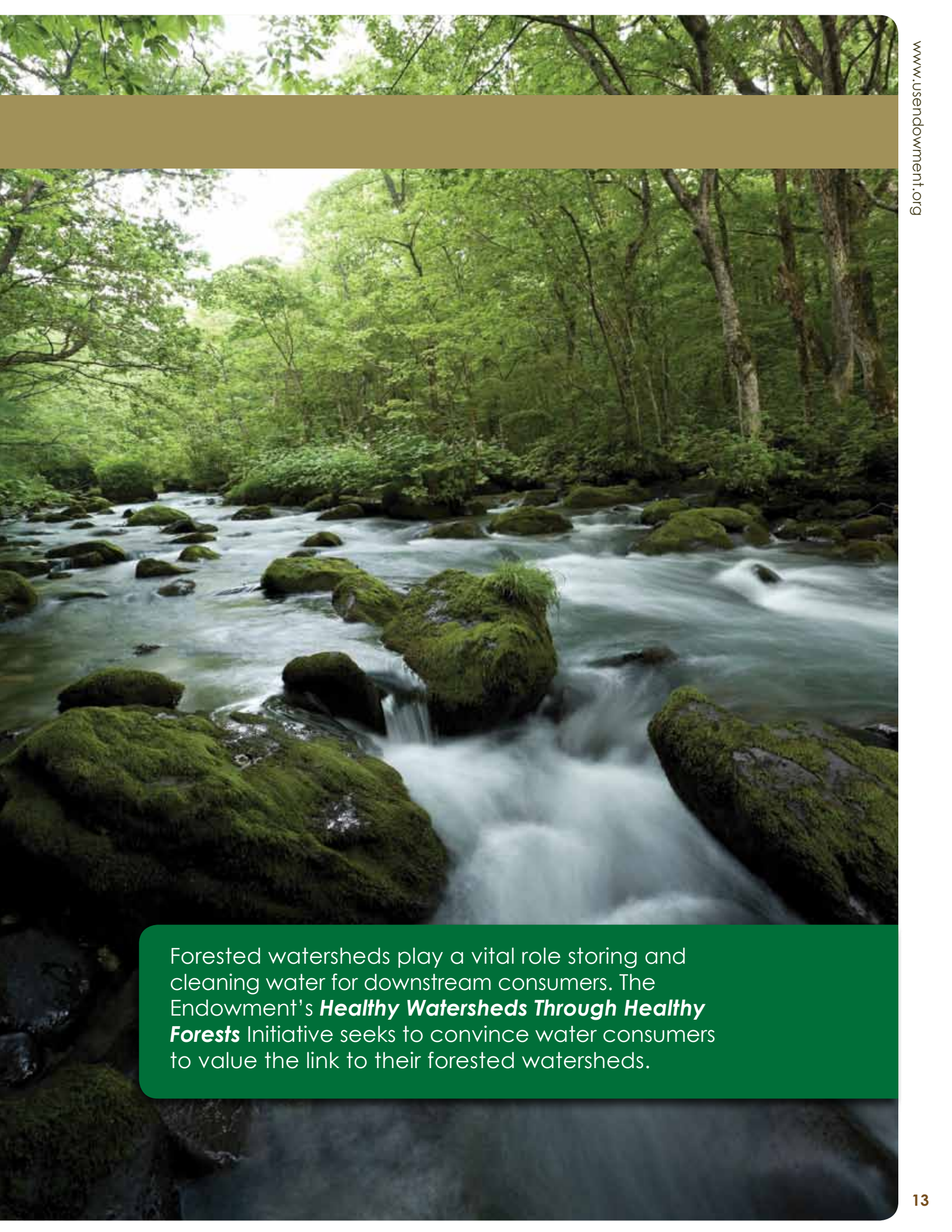
### We Once Were Blind, but Now Can See—Conservation Easements!

Imagine being asked to drive from your home to the nearest supermarket—blindfolded! You might make it, but ... Driving blind is, in essence, what many conservation organizations do as they develop land protection strategies, because they often don't know the location of conservation easements, the most commonly used tool to conserve private lands. That's changing, as the result of a \$1 million Endowment grant to the **Trust for Public Land**, who in turn works with the **Conservation Biology Institute**, **Defenders of Wildlife**, **Ducks Unlimited**, and **NatureServe** to create the **National Conservation Easement Database (NCED)**.

NCED will be a comprehensive system for managing information on conservation easements. Through 2010, 36,000 easements protecting nine million acres have been recorded. Now that the location and configuration of easements can be displayed, it will be easier to determine priorities and maximize conservation outcomes.

### Graphic representation of easement data collected in VA, NC, and GA (incomplete)

- Federal Government
- State Government
- Local Government
- Non-Government Organization
- Private



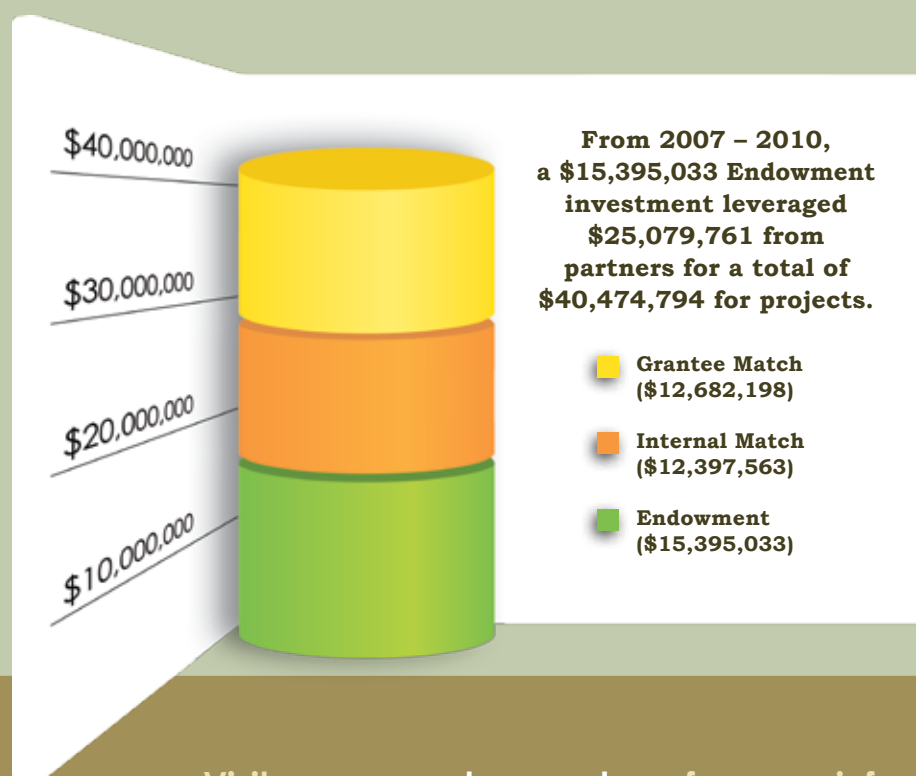
Forested watersheds play a vital role storing and cleaning water for downstream consumers. The Endowment's **Healthy Watersheds Through Healthy Forests** Initiative seeks to convince water consumers to value the link to their forested watersheds.

A photograph of a person standing in a forest, looking up at tall trees. The ground is covered in fallen leaves. A green text box is overlaid on the upper part of the image.

Sustainable harvest of woody biomass provides income to forest owners, improves forest health, creates jobs, and produces green, locally-sourced energy. The Endowment's **Woody Biomass Joint Venture Fund** with the **U.S. Forest Service** seeks to unlock the potential for this energy source.

## Statements of Financial Activity (For the 12 Months ended December 31)

Program Income and Expenses	2010*	2009	2008	2007
Program Income (public and private support)	\$2,233,391	\$1,939,188	\$76,000	\$200,041,825
Program Expenses (grants, workshops, and related expenses)	6,157,715	3,508,665	916,990	59,304
<b>Administrative Expenses</b>				
Staff Salaries and Benefits	\$236,483	\$249,263	\$241,650	\$439,288
Office and General Expenses	73,279	60,094	63,927	73,163
Board and Staff Travel	40,391	44,548	53,969	70,858
Professional Fees	88,839	160,989	75,137	26,072
<b>Changes in Net Assets - Operations</b>	<b>(4,363,316)</b>	<b>(2,084,371)</b>	<b>(1,275,673)</b>	<b>199,373,140</b>
<b>Investment Income and Expenses</b>				
Interest and Dividend Income	\$3,024,670	\$3,059,162	\$3,533,931	\$4,036,699
Realized and Unrealized Gains (Losses)	13,778,470	26,826,204	(64,488,930)	10,728,845
Investment Fees	191,804	171,750	237,846	121,285
Total Increase (Decrease) in Net Assets	12,248,020	27,629,245	(62,468,518)	214,017,399
<b>Net Assets at Beginning of Period</b>	<b>179,106,913</b>	<b>151,477,668</b>	<b>213,946,186</b>	<b>(71,213)</b>
<b>Net Assets at End of Period</b>	<b>191,354,933</b>	<b>179,106,913</b>	<b>151,477,668</b>	<b>213,946,186</b>



\*2010 information is preliminary pending completion of year-end closing and audit procedures.

Visit [www.usendowment.org](http://www.usendowment.org) for more info.



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