TREE FUND MEMORANDUM

December 3, 2015

To: TREE Fund Finance Committee

Fm: J. Eric Smith, President and CEO

Re: Investment Roll Forward Recommendation

During our December 1, 2015 Finance Committee teleconference, I noted that my year-end recommendation on reinvestment into our Chicago Community Trust (CCT) accounts was contingent upon the Finance Committee's agreement to my proposed approach to minimizing unnecessary draws from CCT when our cash reserves exceed operational and contingent needs. With the Finance Committee's action to carry my proposed budget forward to the full Board for approval, I am now able to make this recommendation.

As background, the approved 2015 Budget included a $57,000 draw from CCT. We actually took $89,504. This amount was calculated by CCT and paid automatically in two installments. For 2016, I have requested that our advisor, Abbe Temkin, consult with me two weeks before the normal draws are scheduled to determine whether we require them. This will occur in March and September. At the March meeting, I will also evaluate our current cash reserves, and if we are in surplus to needs at that point again, I will not only not take the CCT draw, but will also recommend a mid-year reinvestment at the May Board meeting.

Ms. Temkin has confirmed that we are able to immediately reinvest our contracted draws, rather than removing them from the potentially high-earning CCT Growth Fund and placing them in low-earning bank savings accounts. Since our call, I have heard from both Pacific Gas & Electric and the Utility Arborists Association that PG&E will be establishing a second two-year challenge grant to build the Utility Arborist Research Fund, so with a known payment on the first grant due around March 1, and likely additional funds coming in via the challenge grant, I am confident that we will be able to achieve the planned budget without taking the two annual draws from CCT at their default levels (about 4.5% of 12-month average values).

In terms of this year's reinvestments, our forecast year-end cash position is ~$400,000 based on current balances, known accounts payable and likely receivables due before December 31, 2015. Our strategic plan tasks us with maintaining a 30% operating cash reserve. Against my proposed budget, this amounts to ~$235,000, calculated by taking 30% of total expenses, less the value of grants and scholarships, which would be honored and paid from investments in the event of a catastrophic operating situation. The budget also requests an additional ~$56,000 to be maintained in operating accounts to cover maximum shortfall between budgeted operating revenue and expenses, thereby eliminating the requirement to take CCT draws.

Tallying these two figures, we should go into 2016 with at least ~$291,000 in our operating accounts, leaving ~$109,000 to be considered for reinvestment. Note that the ~$291,000 includes ~$45,000 received to date for the Terrill Collier Fund. The Deed of Gift signed at the inception of this fund allowed it to be maintained in operating accounts until it reaches the full funding level of $100,000. These funds are not to be permanently endowed, but may be drawn down to meet their programmatic goals. That being said, I would still recommend putting them and future funding received in the CCT pools once we reach the funding level required to activate programs under this grant line.

My recommendation based on these figures is to follow past years' practice and reinvest the total amount of the draws made in the past 12 months from the investments: $89,504. We would allocate the reinvestment funding to replenish each pool at the level it was decreased by the draws. This leaves us with an extra ~$20,000 in operations beyond budgeted needs and desired operating reserve goals. If, as noted above, we find that we remain in a surplus operating reserve position in March, I would recommend reinvesting this and any additional surpluses into our CCT accounts in May, following our next board meeting. Going into a low cash flow season early in the fiscal year, however, I believe it is a reasonable contingency to leave in place for now.

I have updated the investment roll-forward spreadsheet and attached it to this memorandum. We have this as an action item for the Board, so ideally the motion to approve this should come from Ray as chairman of the Finance Committee, assuming that all of you are in agreement with the recommendation. Please let me know before the Board meeting if this is not the case.