

TREE FUND MEMORANDUM

Date: October 4, 2017

To: TREE Fund Board of Trustees

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

Re: Report for October 18, 2017 Trustee Teleconference

INTRODUCTION:

We have had a busy summer in Naperville and beyond since our May Board meeting. I completed my “listening tour” of the 21 U.S. ISA Chapters when I visited Rocky Mountain Chapter in September, and we have also come through ISA International, the Tour des Trees, TREE Fund After Hours, Trees and Utilities Conference, and a variety of other internal and external engagements. Endowment Building activities continue apace, though some operating shortfalls and unexpected changes in partnership levels that I will discuss below are creating some challenges for us as we wind down 2017 and plan for 2018 and beyond.

As I note in all of my written reports to you, I believe that frank communications from me best allow you to properly fulfill your fiduciary and governance responsibilities to our organization. By necessity, such candor also dictates that my reports be held closely and considered company sensitive information. Therefore, I respectfully request that you do not forward or share this report beyond the Board of Trustees, Barb Duke and I, with thanks in advance and as always for your discretion.

FINANCES:

On September 27 at the Trees and Utilities Conference in Kansas City, I had the pleasure of announcing the successful completion of the PG&E Challenge six months before deadline, which pushed the Utility Arborist Research Fund over the \$1.0 million activation goal we have been pursuing since 2010. I was also pleased to report that this pushed the overall TREE Fund endowment with The Chicago Community Trust (CCT) over the \$4.0 million mark for the first time, which is ahead of the glide path we established in laying out our Endowment Building Campaign over the past year. Our next milestone, per the Strategic Plan you developed this summer, will be to have the CCT Endowment at \$4.75 million (with another \$250,000 in future gifts pledged) by the end of 2018. This remains achievable with activities underway now.

While our overall balance sheet remains strong due to payments and pledges toward the Endowment, we cannot use those funds for current operations, and some shortfalls on that front have pushed us into a tighter operating zone for the remainder of 2017 and first several months of 2018 than I would ideally like. There are two primary drivers of these shortfalls: changes in partnership levels by some of our long-term supporters, and low net operating income from the 2017 Tour. All of these changes and impacts occurred after the 2017 budget was approved and after we had begun implementing a variety of programs early in the year, which limits our response capabilities to some extent. Key among these changes and impacts are:

Partnerships

- Bartlett has significantly cut its support for TREE Fund this year: their straight cash sponsorship decreased from \$45,000 to \$10,000 and Team Bartlett's contribution to the Tour decreased from \$65,000 to \$15,000, for a net decrease against budgeted levels of \$85,000 for the year. I have discussed these changes with several senior Bartlett managers, and expect that we will be supported at this lower level for the foreseeable future. To a large extent, this change was driven by a long-term lack of client appreciation and follow-up on the part of TREE Fund in managing this important donor relationship, along with shifts within Bartlett in corporate giving philosophies. I have made changes internally to address concerns raised with me, and will continue doing my best to restore this relationship in years ahead.
- When I visited Bandit leadership in Michigan in May, they committed to again holding a chipper auction on behalf of TREE Fund at TCI EXPO in November. We discussed ways to improve the presentation of the auction, and I've been planning on that infusion of revenue late in the year. Last month, we received word that Bandit had changed its mind and will not be holding the chipper auction this year. Monika and I are trying to get Bandit to replace this loss with a straight-up partnership payment, but we're not getting encouraging responses to date, so this could be about a \$20,000 loss against budget.
- While it does not impact the current year, early 2018 got a bit more difficult when STIHL notified us last Friday that they will not be renewing their title sponsor support for the Tour des Trees (their current contract ends this year). I have mixed feelings about this. On the one hand, having a check from them early each fiscal year is helpful, but on the other hand, the contract was very heavily weighted toward the benefit of STIHL, and it tied our hands in a lot of ways in terms of what we could or could not do, and who we could or could not talk to/solicit. They received credit for a \$100,000 contribution, but they provided \$50,000 of it as in-kind marketing support (which was of less benefit to us than it was to STIHL), and then in exchange for their \$50,000 cash contribution, they were allowed to embed five riders and two support personnel on the Tour, with none of those folks being required to meet the rider fundraising minimums. When you net out the loss of fundraising from those riders and the cost of feeding and housing those people for the week, the net cash benefit to us when all was said and done was only about \$25,000 per year. STIHL also required us to set up separate portals outside of our own TREE Fund marketing structures (e.g. stihltourdestrees.org), which led to confusing branding for us, and of course now causes difficulties in platform conversion since we have to retire that name and related marketing materials. While Monika and I are going to seek to replace STIHL's financial support, I am loathe to enter into another marketing deal that puts the name of the donor in front of the "Tour des Trees" mark that we have registered and own. If we do land a straight up \$100,000 donor, I would negotiate for the event to be called "Tour des Trees to Benefit TREE Fund, Presented by [Company Name]." I am also loathe to enter into long term sponsorship arrangements, as one of our Strategic Plan deliverables is to do a comprehensive review (including cost/benefit analysis) of the Tour in 2018-2019.

Tour des Trees

This year's Tour (including related events at ISA International) under-performed against the budget. We have debriefed this extensively in the office, and offer the following summary notes:

- **Revenue Side:**

- Tour rider participation was down. We have analyzed data on riders back through 2005 to identify trends that positively and negatively affect participation. The biggest drivers – time between Tours (we only had nine months this year) and “excitement” about the route (we were in the same area six years ago) – worked strongly to our disadvantage this year. We also did not get much of the promised support, promotion or partnership from ISA, and their late decision to shift the ITCC from after to before the Conference was a further blow to the marketability and experience of the Tour itself. (I have met with new ISA Executive Director Caitlyn Pollihan and discussed this at length with her, so she knows of the issues and has committed to make sure they are more supportive next year in any cases where we overlap, in both promotions and implementation). Also, Team Bartlett had 13 riders in 2016, and three in 2017, as discussed above.
- Local chapter financial support was soft compared to recent years: MAC-ISA only had three full time riders, and their cash support was dramatically less than Southern and Florida Chapters had offered over the prior two tours. Compounding this impact, MAC-ISA restricted almost all of their cash contributions to their Bonnie Appleton Endowment Fund, removing it from operating revenues for this year and next year’s grants. We saw similar restrictions from Illinois and Wisconsin Chapters for their own Endowment pools. While I do not wish to discourage donors who are excited about making Endowment contributions, this does put a burden on current operations.

- **Expense Side:**

- We were frankly hammered with unexpected fees at the Gaylord, and the group room rate that ISA negotiated (and of which we were part) was not a generous one, making most of our hotel nights higher than we historically pay. This was compounded by the Gaylord using a broker who collected a commission on top of room rates, which we also never do when we negotiate our hotel stays ourselves. Big lesson learned here: we will never share a hotel block which we do not directly negotiate ourselves again.
- We also got hammered on food, in large part because of our (Canadian) caterers pulling out due to lack of legal work documentation and insurance in the U.S. at the last minute. We had to source food on short notice in a very expensive market, and we paid dearly for it. The conference location caterers (who had the right to lock out any competing caterers) were also extravagantly expensive, but we did not have options there.
- Our insurance costs increased over both last year’s level and this year’s budget amount based on the changes we discussed and made over the past year. One thing that emerged during the policy review was that we are heavily dependent on vehicles to support the team on the road, but our policies did not cover those vehicles, so we rectified that. We also increased accident and liability insurance amounts on the Tour itself.

That’s all water under the bridge at this point, but all of these changes and challenges do impact cash flow for the next six months or so. We are proactively managing this process to ensure that we do not put ourselves under any financial duress until 2018 partnership, Tour and operating funds begin coming in; highlights of actions already taken or in process include:

- Accelerating our year-end appeal. We will launch a “15th Anniversary Appeal” in mid-October to run through the end of the year; the letter is co-signed by Hyland Johns and me.
- Accelerating our partnership appeal. This will also go out in October, so we can try to get as many of them as we can locked down at or by TCI Expo.
- Reducing our new grant awards for the remainder of the year: we will recommend approval of two new awards totaling \$25,000 on our October 18 teleconference, and the Research and Education Committee has guidance to award two Kimmel grants (total of \$20,000) and one Duling grant (\$25,000) in response to the fall application cycle. These will be presented for Trustee approval at the December meeting. We will also have a more modest award plan for 2018, which I will include in my budget proposal to Finance Committee later this month; if we bounce back strong, we can make up for it with supplemental Duling grants late in 2018.
- Actively managing cash balance in real time by spreading out the payments on some of the large Gaylord and related invoices that all hit at once in August.
- Working with Wintrust (our bank) to establish a “just in case” \$100,000 line-of-credit with a 90-day payback period; we had a line-of-credit with PNC (our former bank) in years past; I do not think we will need it, but it’s a good “belt and suspenders” safety outlet.
- Managing our transfers to CCT in a more measured fashion (e.g. quarterly), rather than just automatically sending anything that comes our way for Endowment to CCT at the end of the month each month.
- Working with PG&E and UAA to hold their final UARF payments (totaling \$50,000) to pay the first UARF grant next spring, rather than putting those funds into CCT this fall and then turning around and taking them back out in March; they have agreed to this approach, and we are documenting that for the audit record.
- Asking Davey to defer their transition from operating partner to endowment donor by one year; Sandee Reid and I spoke today and they have agreed to that. Additionally, Davey has agreed to pick up the marketing elements that STIHL used to provide, and will host an event in Kent on the 2018 Tour. We will announce the new Davey Endowment Fund at that event in Kent in 2018, and then they will shift to funding it in 2019. I will provide them with the results of our Education Benchmarking Study to help us define the purpose of their Fund to maximum benefit. I am grateful that they keep stepping up.
- Implementing a “back to basics” approach to the Tour in 2018. Ohio is unquestionably our strongest Chapter in terms of fundraising and volunteer support, so we can expect good things on the revenue side, but we want to really turn the screws on the expense side as well. We held our first call of the 2018 Tour Planning Committee this week with that as a key theme. We will be doing a “traditional” Tour that ends with ITCC, the week before ISA International Conference, with a goal of staying and eating as often as we can in low price/rural areas, rather than in expensive city centers. (Note that our Strategic Plan includes a commitment to perform a comprehensive review of the Tour next year, so I am not making public commitments about timing, location, or structure of the Tour beyond 2018).

At bottom line, I’d prefer to be focusing primarily on Endowment for the next six months, but things happen sometimes, and we’re working here to make sure that we’re addressing emergent challenges transparently and effectively. I will keep you posted, as always, as we move forward.

STRATEGIC PLAN:

I appreciate the enthusiastic and thoughtful engagement that we received from Executive Committee, the Strategic Planning Task Force, and all of our working Committees to develop a lean Strategic Plan for 2018-2020 that properly reflected governance/management roles, was strategic in lieu of tactical, and which gave clear deliverables and benchmarks along the way. Chairman Sayers sent the last version of the Strategic Plan to the full Board for comment before the Tour, and Committee Chairs have reviewed it with their committees over the past couple of months as well. We reached a point where we only received one small comment from one committee, so there seems to be a consensus that we have the document we want and need at this point. The Executive Committee has accepted the Strategic Planning Task Force's work, and Chairman Sayers has placed the plan on the consent agenda for the October 18 teleconference. I would suggest that the Board accept the document at this time, and that we include an agenda item at the December meeting in Rosemont when we are all together to discuss any implementation or roll out elements, since it does not take effect until January 1, 2018.

POLICIES AND PROCEDURES:

Barb Duke and I have been working with Governance Committee over the past year to simplify our corporate policies, and ensure they reflect our Restated Declaration of Trust that you approved last December. As many of you may have noted, the Trustee Toolbox on our website (where our policies reside) has often been overwhelmingly difficult to navigate and maintain, as it was developed by accretion, with lots of small internal policies and lots of documents produced by others on general nonprofit accounting, operations and management just stacked together. At the time we began this project, there were nearly 70 separate policy documents in the Toolbox. The Board packet for this meeting contains five new policies, and a matrix showing how they reconcile to the older policies. We have reviewed these five policies thoroughly with Governance Committee, and they have voted a motion to carry them forward for Board ratification on the October 18 teleconference. Should you vote to accept their recommendation and the Strategic Plan, our new policy handbook (which will be placed in the Trustee Toolbox) will have only seven consolidated documents, containing all germane elements of the cumbersome previous version:

1. Restated Declaration of Trust
2. Governance and Management
3. Officers and Executives
4. Trustee Committees
5. Financial, Internal Control and Gift Policies
6. Operating Policies (Employee Handbook)
7. Strategic Plan

RESEARCH AND EDUCATION:

Chairman Sayers, Research Chair George Hudler and Chairman Elect Steve Geist worked with Barb Duke, Laura Flamion and myself this summer to run a "clean slate" calendaring exercise to make sure that our 2018 grant process was smooth for both applicants and reviewers. We developed a simplified calendar that will have the whole year managed under two cycles:

Spring Cycle:

- RFP Issued/Applications Open: January 15
- Applications Close: March 15
- Committee Recommendations Complete to Trustees: By May 1
- Trustee Vote on Recommendations: At May Board Meeting
- Contracts Awarded: By June 15

Fall Cycle:

- RFP Issued/Applications Open: August 1
- Applications Close: October 1
- Committee Recommendations Complete to Trustees: By November 15
- Trustee Vote on Recommendations: At December Board Meeting
- Contracts Awarded: By December 31

The Kimmel and Duling grants process (which generates the most applications between them) will occur during the Fall Cycle, and all of the other grants and scholarships will occur in the Spring Cycle. Based on the budget notes above and looking at cash payments due in 2018 for grants awarded in 2017 and prior years, I am currently planning my 2018 budget proposal around the following anticipated award levels:

- Hyland Johns Grants: One at \$50,000 (while this is not an endowed program, it is our signature grant line and we need to continue awarding it each year)
- Research Fellowship: None (should wait until this is endowed before further awards)
- Safe Arborist Technique Fund: One at \$15,000
- Utility Arborist Research Fund: One at \$50,000 (new program; we will need to seat a subcommittee to review this; I am working with UAA to identify members)
- Kimmel Grants: Two at \$10,000 each (assuming Canadian TREE Fund continues to sponsor)
- Duling Grants: One at \$25,000
- Arboriculture Education: None (should wait until the Education Benchmarking Grant Report is complete, and until this is endowed before further awards; Davey is interested in such an endowment)
- Ohio Education Grant: One at \$5,000
- Robert Felix Scholarship: Two at \$5,000 each (I will be speaking to Andy Felix and Mark Garvin at TCIA EXPO this year about possible changes to align these with TCIA's Workforce Development Initiative)
- John Wright Scholarship: One at \$2,000
- Fran Ward Scholarship: One at \$3,000 (Penn-Del Chapter increased the amount)
- Horace Thayer Scholarship: One at \$3,000 (Penn-Del Chapter increased the amount)
- Bonnie Appleton Scholarship: One at \$5,000 (new program)
- Gamma Grant: TBD (depends on conversations with TCIA; this would be a donor directed award if given, not an open application process)

- Collier Grant: TBD (they have not requested funds for the Clackamas Community College program; this would be a donor directed award if given, not an open grant process)
- Barborinas Fund: TBD (this fund should reach its endowment goal soon; we may award it every other year to increase the dollar amount per grant, rather than doing it annually)

Dr. Hudler's report to you provides recommendations for your approval of two awards on our teleconference for the directed grants you authorized at the May meeting: a \$5,000 Education Benchmarking Study, and a \$20,000 Research Needs, Outcomes and Impacts Study. These will be very useful to us for both fundraising and marketing purposes, and to guide us as we consider updating our research funding priorities per our Strategic Plan. I appreciate your willingness to add these grants to the mix this year, and to staff and volunteers for carrying this process from inception to completion in less than five months.

I have been working with Trustee Jim Urban to develop Endowment funds to support research work of specific interest to the Landscape Architect community; this will dovetail nicely with the desired research focus of the Barborinas Fund, and roots, soil, and planting questions arise regularly as an under-funded research need when we inquire about open questions in the community. Jim and I developed language to support the establishment of a new pool within our Endowment Fund with CCT, and I have received approval from the Finance and Executive Committees to fundraise for this initiative. I will seek Trustee endorsement and approval of this Fund on our October 18 teleconference.

COMMUNICATIONS:

Per decisions reached at our May meeting, we have established a new standalone Communications Committee under Trustee Dave Krause's leadership. The Committee has jumped in with both feet with a variety of exciting initiatives documented in Dave's report. They have requested that in the 2018 budget, we consolidate all communications-related activities into a single expense line, and I agree that this is a sound approach now that this committee exists independently of other elements of our operations. We know we will need to update websites, logos and marks extensively in 2018 following the STIHL decision, and Monika and I will be seeking capacity-building grants in the months ahead to support this work.

I am pleased that the tree care community is turning to me more and more often to speak and write about our work, beyond terse "TREE Fund Update" type reports. I have long-form feature articles scheduled to appear in *Arborist News* and *UAA Newslines* before year's end, and I was given the chance to offer more "philosophical" presentations on what we do and how we do it at both Rocky Mountain Chapter, Texas Chapter and Trees and Utilities Conferences over the past month. Jim and Annie Barborinas also hosted a "friendraising" event in conjunction with the PNW Chapter Conference this month, so that provided another chance to present long-term, strategic messages to potential supporters, replacing our more tactical, retail messaging of years past. I am willing and available to write or speak on these topics, so if you see opportunities for me to do so, please let me know.

PERSONNEL:

Laura Flamion has done exceptional work for us over the past year-and-a-half as our book-keeper and systems manager, working in an independent contractor capacity. She has accepted a full-time position with another nonprofit that she had been supporting in a volunteer capacity, and will not be renewing her contract with us when it expires in December. She is already working with me to identify a new person for these crucial roles, and I have interviews with four candidates scheduled next week. She will be hard to replace, and I am grateful to have had her here as we went through difficult audit and financial transitions related to the proper accounting treatment of our CCT endowment fund, and as we have worked to improve our internal operations systems. We expect to consolidate many of our online and in-house platforms in the months ahead, and her work has been crucial to getting us to this point.

I want to commend Karen Lindell for truly stepping up in her first go-around as the primary staff member managing the Tour des Trees and TREE Fund After Hours. The joint nature of the event with the ISA International Conference threw some truly formidable challenges at her, which she handled with aplomb. Her attention to detail, calm demeanor, and deep understanding of and commitment to our mission gave Tour outreach events and daily activities a more positive character for riders, support crew and community volunteers alike. I look forward to seeing what she will be able to do in 2018 with a less complex stack-up of events and a more supportive local chapter. Barb Duke continues to provide the outstanding levels of support to all of our office, grant-making and governance functions to which we have all become accustomed, and Monika Otting is a welcome addition to our team, bringing a wealth of both strategic and practical development experience and perspective, greatly assisting me as we embark upon ambitious and aggressive campaign work. I am delighted with the team here in Naperville, at bottom line. It is a pleasure to work with them, and they represent your interests as Trustees exceptionally well.

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, and pleased with the leadership and wise counsel you have provided to me.

All best,



J. Eric Smith,
President and Chief Executive Officer