

SUFFOLK COUNTY LEGISLATURE



Robert Lipp
Director

BUDGET REVIEW OFFICE

March 10, 2015

To: DuWayne Gregory, Presiding Officer
and All Suffolk County Legislators

From: Robert Lipp, Director
Budget Review Office *Robert Lipp*

Subject: Vanderbilt Museum Endowment Trust Fund Annual Report

Please find attached the Budget Review Office's annual report to the Legislature on the status of the Vanderbilt Museum Endowment Trust Fund for the period January 1, 2014 through December 31, 2014.

My staff and I are available should you have any questions regarding this report.

* * *

Attachment

cc:

Doug Sutherland, Chief Deputy County Treasurer
John M. Kennedy, Suffolk County Comptroller
Connie Corso, Budget Director
Dennis M. Cohen, Chief Deputy County Executive
Lora Gellerstein, Legislature Chief of Staff
Lance Reinheimer, Executive Director, Vanderbilt Museum
Stephen Faber, Managing Director, PFM Asset Management LLC
Mary Ann Baumann, Account Manager, U.S. Bank National Association

**VANDERBILT MUSEUM ENDOWMENT TRUST FUND
ANNUAL REPORT
JANUARY 1, 2014 THROUGH DECEMBER 31, 2014**



March 10, 2015

**Robert Lipp, Director
Budget Review Office
Suffolk County Legislature
Hauppauge, New York**

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Executive Summary

The Budget Review Office is required to report annually to the Legislature on the status of the Suffolk County Vanderbilt Museum Endowment Trust Fund (Fund). This report is for the period January 1, 2014 through December 31, 2014. The following highlights the major findings in this report.

- The 2014 year-end market value of the Fund, net of \$45,045 in planned fee expenses, was \$11,751,750. The plan expenses include \$41,645 paid to PFM Asset Management LLC (PFM) for investment advisory services and \$3,400 paid to U.S. Bank National Association (U. S. Bank), the custodian of the Fund.
- No distributions were made from the Fund to the Suffolk County Vanderbilt Museum during 2014.
- The Fund's 2014 total annual return, net of fees was 6.18%. This exceeds the industry blended benchmark of 6.05%.
- During 2014, the market value of the Fund increased by \$649,558 from \$11,102,192 to \$11,751,750, which includes total income and capital gains of \$694,603 less \$45,045 for payment of investment management fees.
- Resolution No. 286-2014 modified the investment guidelines of the Fund's portfolio to allow a 50/50 split between fixed securities (bonds) and equities (stocks) to range between 10-20% of the 50/50 split, as determined by market conditions.
- Procedural Resolution No. 6-2014 authorized the Presiding Officer to exercise the County's option to extend its agreement with PFM for an additional one year period through April 2015. A request has been made of the RFP Waiver Committee to extend the contract with PFM for an additional six months.
- During 2014, the Legislature issued a Request for Expressions of Interest (RFEI) for investment management services of the Vanderbilt Museum's Endowment Trust Fund in anticipation of the issuance of an RFP in 2015.
- The Museum received \$1,028,370 of the revenue collected from the Hotel Motel Tax (County Fund 192) in 2014. The proceeds from the Hotel Motel Tax reduce the Museum's reliance on the Fund and afford it the opportunity to grow and provide for the Museum's future needs. Resolution No. 805-2009 reauthorized and extended the Hotel Motel Tax to December 31, 2015. As of this writing, it is unknown if the Hotel Motel Tax will be reauthorized and/or extended beyond 2015. If the Hotel Motel Tax is either reauthorized and/or extended, it is unknown if the allocation formula for the distribution of Hotel Motel tax revenue will continue to include the Vanderbilt Museum, and if so, at what levels.

Performance and Asset Allocation

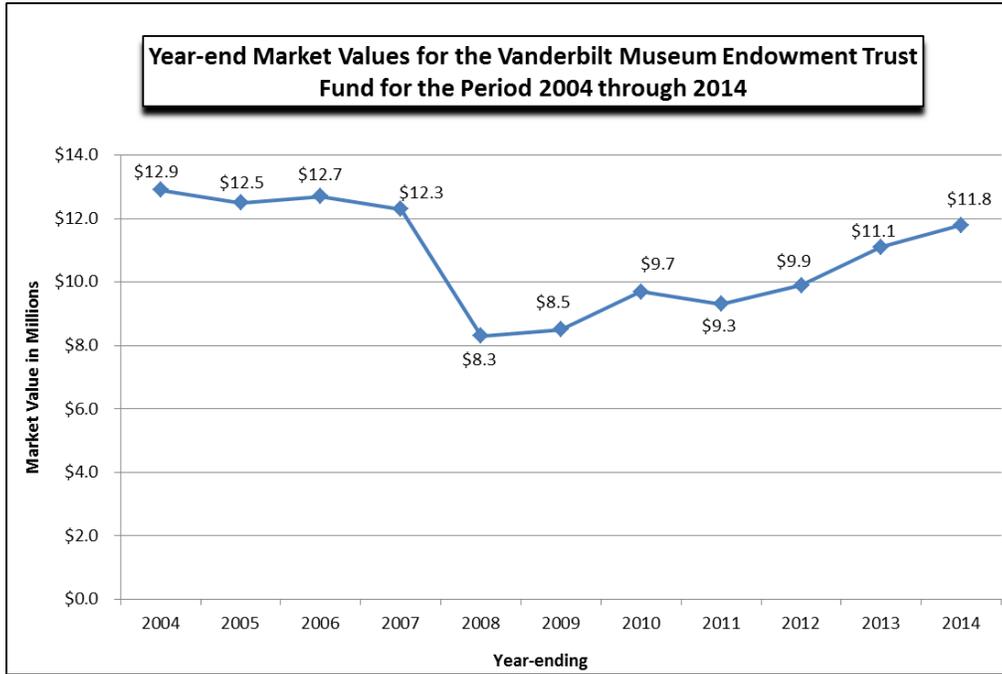
As summarized in the following table, the 2014 year-end market value of the Fund was \$11,751,750; a net increase in market value of \$649,558.

Net Change in the Fund's 2014 Market Value	
Beginning Market Value as of December 31, 2013	\$11,102,192
Income	\$305,124
<i>Interest</i>	\$11
<i>Dividends</i>	\$305,114
Distributions for Fees	(\$45,045)
Capital Gains/Losses	\$389,479
Ending Market Value as of December 31, 2014	\$11,751,750
2014 Net Change in Market Value	\$649,558

The following table details the Fund's 2014 month-ending market values.

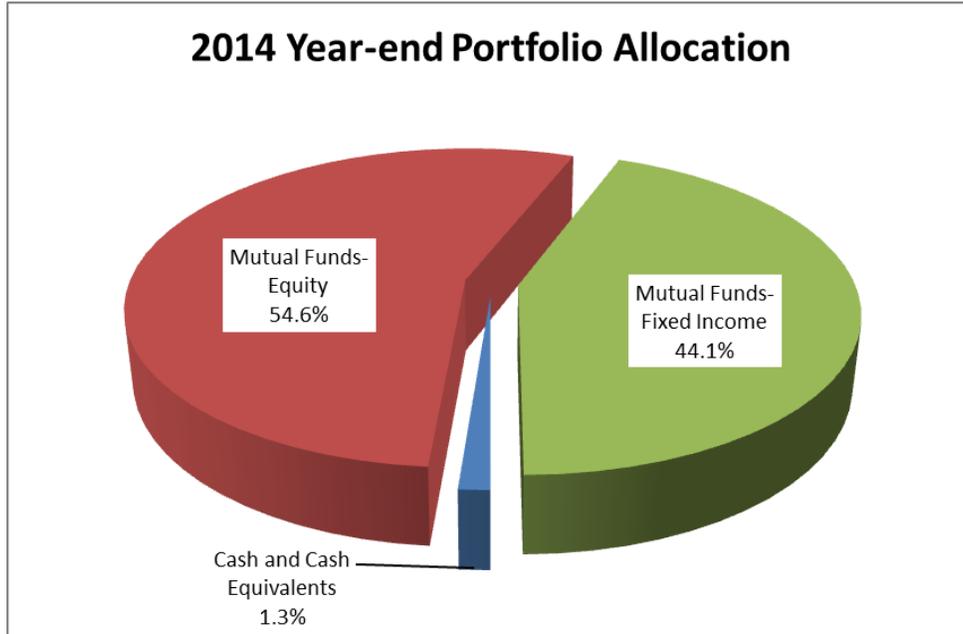
2014 Month-Ending Market Values for the Fund			
Month	Total Account Market Value	Month	Total Account Market Value
January	\$10,943,258	July	\$11,496,727
February	\$11,273,950	August	\$11,739,290
March	\$11,279,674	September	\$11,526,491
April	\$11,338,190	October	\$11,685,909
May	\$11,509,363	November	\$11,339,981
June	\$11,648,294	December	\$11,751,750

The following graph plots the Fund's year-end market values during the period 2004-2014.



The Fund has grown since the 2008 financial market crises with the exception of its 2011 year-end market value, which was \$425,425 less than its year-end market value in 2010. During the last eleven years, the most significant growth in the Fund has been \$1.2 million from 2009 to 2010 and \$1.2 million from 2012 to 2013. The growth of \$649,558 in 2014 was approximately half of the growth experienced the prior year.

The Fund's 2014 year-end asset allocation is represented in the pie chart that follows.



Resolution No. 286-2014 amended Resolution No. 1266-2007 by allowing a 50/50 split between fixed securities and equities to range between 10-20%, instead of 5-10%, as determined by market conditions. As detailed in the previous chart, the Fund's year-end asset allocation was 44.1% bond mutual funds, 54.6% equity mutual funds and 1.3% cash and cash equivalents. Therefore, the 2014 year-end asset allocation was in compliance with the revised 50/50 split range pursuant to Resolution No. 286-2014.

The following table, provided by PFM Asset Management LLC (PFM), the Fund's investment advisor, summarizes the Fund's asset allocation and performance as of December 31, 2014. The Fund's 2014 total annual return was 6.26%, which compares favorably to the industry blended benchmark of 6.05%.

Asset Allocation Performance
Vanderbilt Museum - Combined Assets
As of December 31, 2014

	Allocation		Performance(%)							
	Market Value (\$)	%	1 Quarter	2014	1 Year	2 Years	3 Years	5 Years	Since Inception	Inception Date
TOTAL FUND	11,751,750	100.00	2.02	6.26	6.26	9.47	10.72	N/A	9.59	09/01/2010
<i>Blended Benchmark</i>			<i>1.71</i>	<i>6.05</i>	<i>6.05</i>	<i>8.00</i>	<i>8.70</i>	<i>N/A</i>	<i>8.57</i>	<i>09/01/2010</i>
Domestic Equity										
Vanguard Total Stock Market Index-Sgl	3,413,069	29.04	5.24	12.56	12.56	22.59	20.49	15.70	18.11	05/01/2012
<i>Russell 3000 Index</i>			<i>5.24</i>	<i>12.56</i>	<i>12.56</i>	<i>22.61</i>	<i>20.51</i>	<i>15.63</i>	<i>18.17</i>	<i>05/01/2012</i>
Vanguard Dividend Growth	644,181	5.48	5.50	11.85	11.85	21.29	17.54	14.64	17.54	01/01/2012
<i>S&P 500</i>			<i>4.93</i>	<i>13.69</i>	<i>13.69</i>	<i>22.68</i>	<i>20.41</i>	<i>15.45</i>	<i>20.41</i>	<i>01/01/2012</i>
Vanguard 500 Index Fund	678,012	5.77	4.92	13.64	13.64	22.63	20.37	15.42	2.43	11/01/2014
<i>S&P 500</i>			<i>4.93</i>	<i>13.69</i>	<i>13.69</i>	<i>22.68</i>	<i>20.41</i>	<i>15.45</i>	<i>2.43</i>	<i>11/01/2014</i>
International Equity										
Vanguard Developed Markets Index	1,684,717	14.34	-4.10	-5.66	-5.66	7.31	10.93	5.29	4.99	06/01/2013
<i>MSCI EAFE (net)</i>			<i>-3.57</i>	<i>-4.90</i>	<i>-4.90</i>	<i>8.06</i>	<i>11.06</i>	<i>5.33</i>	<i>5.09</i>	<i>06/01/2013</i>
Fixed Income										
Metropolitan West Total Return	1,831,757	15.59	1.57	5.99	5.99	3.21	5.92	6.96	5.49	09/01/2010
<i>Barclays Aggregate</i>			<i>1.79</i>	<i>5.97</i>	<i>5.97</i>	<i>1.89</i>	<i>2.66</i>	<i>4.45</i>	<i>3.34</i>	<i>09/01/2010</i>
Baird Core Plus	734,811	6.25	1.58	6.59	6.59	2.56	4.32	6.11	3.23	05/01/2014
<i>Barclays Aggregate</i>			<i>1.79</i>	<i>5.97</i>	<i>5.97</i>	<i>1.89</i>	<i>2.66</i>	<i>4.45</i>	<i>3.18</i>	<i>05/01/2014</i>
DoubleLine Core Fixed Income I	365,331	3.11	1.28	6.86	6.86	2.75	4.52	N/A	1.91	06/01/2014
Vanguard Total Bond Market Index-Sgl	653,692	5.56	1.72	5.89	5.89	1.80	2.58	4.37	2.02	06/01/2014
<i>Barclays Aggregate</i>			<i>1.79</i>	<i>5.97</i>	<i>5.97</i>	<i>1.89</i>	<i>2.66</i>	<i>4.45</i>	<i>2.02</i>	<i>06/01/2014</i>
Vanguard Intermediate-Term Investment Grade	634,020	5.40	1.27	5.81	5.81	2.16	4.43	6.23	3.60	05/01/2012
<i>Barclays U.S. Credit: 5-10 Yr</i>			<i>1.48</i>	<i>7.38</i>	<i>7.38</i>	<i>2.55</i>	<i>5.38</i>	<i>6.96</i>	<i>4.33</i>	<i>05/01/2012</i>
Pacific Life Floating Rate	478,805	4.07	-1.45	0.04	0.04	2.92	5.40	N/A	1.53	06/01/2013
<i>Credit Suisse Leveraged Loan Index</i>			<i>-0.37</i>	<i>2.06</i>	<i>2.06</i>	<i>4.09</i>	<i>5.84</i>	<i>5.83</i>	<i>3.01</i>	<i>06/01/2013</i>
AllianceBernstein High Income	486,015	4.14	-1.11	3.22	3.22	4.90	9.26	9.23	7.50	05/01/2012
<i>BofA Merrill Lynch Global HY Constrained (USD)</i>			<i>-2.37</i>	<i>-0.09</i>	<i>-0.09</i>	<i>3.85</i>	<i>8.77</i>	<i>8.48</i>	<i>6.74</i>	<i>05/01/2012</i>
First American Government Obligation	147,082	1.25	0.00	0.01	0.01	0.01	0.01	0.01	0.01	09/01/2010

Returns are net of mutual fund fees.
Returns are expressed as percentages.

Equities (Stocks)

PFM does not invest in individual company stocks, only equity mutual funds to provide a diverse equity portfolio with minimal risk exposure in any one company. The December 2014 month-end market value of the Fund's equity mutual funds totaled \$6,420,236 representing 54.6% of the Fund's total market value. As detailed in the PFM table, the portfolio's equity mutual funds include \$4,735,262 in domestic equities and \$1,684,717 in international equities. Of the Fund's domestic and international equity investments, two underperformed, one exceeded and one was equivalent to industry benchmarks.

Bonds (Fixed Income¹)

Fixed income investments allow for diversification of the Fund's assets in a type of asset that provides income but minimal capital appreciation. Investments in bond funds, as opposed to individual bonds, should enable the Fund to divest itself of some risk inherent in fixed income investments. The year-end market value of the portfolio's bond mutual funds was \$5,184,432 representing 44.1% of the Fund's total market value. Resolution No. 387-2011 restricts bond investments² to bonds Ba and above, while maintaining an overall average quality rating³ for the bond investments of AA or above and directs the Fund's investment manager to make every effort to the extent practical, prudent and appropriate, to select commingled (or pooled) funds and/or mutual funds that have investment objectives and policies that are consistent with the Fund's investment management objectives and policies. This legislation structures the Fund's bond portfolio to provide income that is consistent with a reasonable level of risk. The majority of the fixed income investments within the Fund outperformed when compared to their benchmarks.

Cash & Cash Equivalents

Cash equivalents are short-term investments and money market fund investments that are readily converted to cash and provide additional income. The Fund is invested in First American Government Obligation, which has an investment strategy that seeks to provide maximum current income and daily liquidity by purchasing high-quality U.S. government securities and repurchase agreements collateralized at more than 100%. The December 31, 2014 market value for the cash and cash equivalents portion of the Fund was \$147,081, representing 1.3% of the Fund's year-end asset allocation. The total return for the cash and cash equivalents component of the Fund's portfolio was 0.01%.

¹ Fixed income is bonds or long-term debt instruments that include corporate bonds, government or agency instruments (including bonds, notes and bills), municipal bonds or other types of debt instruments.

² An investment grade bond is generally considered suitable for purchase by prudent investors. Moody's Investors Service designate bonds in their top four categories (AAA/Aaa, A/Aa, A and BBB/Baa) as investment grade.

³ Credit ratings are forward-looking opinions about credit risk. Credit ratings can also speak to the credit quality of an individual debt issue, such as a corporate note, a municipal bond or a mortgage-backed security, and the relative likelihood that the issue may default.

Capital Gains/Losses

The Fund's 2014 year-end market value included \$389,479 in realized capital gains. Additionally, it included \$1,150,019 in unrealized⁴ capital gains, which is the difference between the market value of the Fund, \$11,751,750 and its book value⁵, \$10,601,731.

In 1993, the Legislature authorized the use of capital gains to pay for one half of the investment management fees via Resolution No. 682-1993. Since the inception of this policy through 2014, a total of \$473,560 in realized capital gains has been used to pay investment fees.

In 1994, the Legislature first authorized using realized capital gains to augment distributions to the Museum and to provide a guaranteed annual income with the adoption of Resolution No. 933-1994, which was extended through December 31, 2008. The Museum no longer receives a guaranteed annual income. From 1995 through 2014, a total of \$8,138,688 in realized capital gains has been remitted to the Museum.

Remittances to the Museum

During 2014, there were no disbursements from the Fund to the Museum because the Museum was able to meet its operating cash flow needs without being subsidized by the Fund. The Museum began receiving revenue from the Hotel Motel Tax in May 2010 and for 2014, the Museum received 10% or \$1,028,370⁶ of the revenue collected from the Hotel Motel Tax (County Fund 192). The proceeds from the Hotel Motel Tax reduce the Museum's reliance on the Fund, affording it the opportunity to grow and provide for the Museum's future needs. The Hotel Motel Tax was reauthorized and extended per Resolution No. 805-2009 to December 31, 2015. Once the Hotel Motel Tax revenue sunsets, it is unknown if it will be reauthorized/extended. If the Hotel Motel Tax is reauthorized/extended, it is unknown if the allocation formula for the distribution of Hotel Motel Tax revenue will continue to include the Vanderbilt Museum, or at what levels.

Investment Management

Investment Objectives

The Fund's investment objectives are to preserve the principal corpus of the Fund (\$8.2 million), maintain a high level of income that is steady and predictable and provide for future growth of income through long-term capital growth.

Investment Policies

The Fund's investment policies are as indicated by the following two resolutions:

- Resolution No. 286-2014

⁴ Unrealized capital gains and losses have not occurred but would be realized if the investor sold the security or asset currently held.

⁵ An asset's book value is the price at which the asset was purchased less depreciation or outstanding liabilities.

⁶ This figure is subject to being adjusted once the Fund is reconciled upon being audited.

- Modified the investment guidelines to allow a 50/50 split between fixed securities (bonds) and equities (stocks) to range between 10-20% of the 50/50 split, as determined by market conditions.
- Resolution No. 387-2011
 - Adopted an investment management policy that restricts bond investments to bonds Ba and above, while maintaining an overall average quality rating for the bond investments of AA or above and directs the Fund's investment manager to make every effort to the extent practical, prudent and appropriate, to select commingled funds and/or mutual funds that have investment objectives and policies that are consistent with the Fund's investment management objectives and policies.
 - Given the nature of commingled funds and mutual funds, it is recognized that there may be deviations between the Fund's investment management policy and the objectives of the Fund's pooled vehicles. Further, a pooled fund or mutual fund will not be included in the Fund's portfolio unless it complies with the Investment Company Act of 1940, as amended through P.L. 111-257, diversification requirement.
 - Authorized the Vanderbilt Museum Trust Fund's investment manager to utilize a total return concept, meaning investing for a comprehensive return, including interest and dividends earned on stocks and bonds, plus realized and unrealized gains and losses.

Investment Management Contract

As per Procedural Resolution No. 5-2010, PFM Asset Management LLC was retained to serve as the Fund's investment advisor and U.S. Bank National Association as the custodian of the Fund, independent of the Fund's investment manager.

The Agreement with PFM is for a term of three years, with the option to renew the Agreement for two additional one-year periods. The Agreement with PFM was duly executed on April 21, 2010. Procedural Resolution No. 7-2013, authorized the Presiding Officer to exercise the County's option to extend its agreement with PFM for an additional one year period through April 21, 2014. Procedural Resolution No. 6-2014, authorized the Presiding Officer to exercise the County's option to extend its agreement with PFM for its final one year period through April 21, 2015.

During 2014, the Legislature issued a Request for Expressions of Interest (RFEI) for investment management services of the Vanderbilt Museum's Endowment Trust Fund in anticipation of the issuance of an RFP in 2015. As of this writing, the RFP for investment management services of the Vanderbilt Museum's Endowment has not been issued and due to concerns related to the time needed to make a selection, a request to extend the contract with PFM for a six month period has been made to the RFP Waiver Committee. The request will be placed on the agenda for the committee's next regularly

scheduled meeting. It is anticipated that the RFP Waiver Committee will grant the waiver to extend the contract with PFM for six months to allow for sufficient time for the RFP process to be completed.

The Custody Agreement with U.S. Bank was executed in July 2010 and remains in effect until terminated by either U.S. Bank or the Legislature, provided that a written notice thirty days in advance of the termination date is received.

Advisory Fees

Resolution No. 682-1993 authorizes the use of capital gains to pay 50% of the investment management fees. Therefore, 50% of the fees are paid from the principal account and 50% are paid from the income account. In 2014, a total of \$45,045 was paid in advisory fees to PFM (\$41,645) and in trust fees to U.S. Bank (\$3,400).

The Fund incurred an annual fee for all services provided by the Fund's investment advisor, PFM, based on net assets under the management of the Fund. The fee is determined on a monthly basis, as defined in the investment advisory fee schedule set forth below:

PFM Asset Management LLC Investment Advisory Fee Schedule	
First \$5 million in net assets	0.40%
Next \$5 million in net assets	0.35%
Next \$10 million in net assets	0.30%
Thereafter	0.20%

The Fund also incurred fees for services rendered by U.S. Bank, the custodian of the Fund, in accordance with the fee schedule that follows.

U.S. Bank Custody Fee Schedule for PFM Asset Management LLC Managed and Advised Accounts Program	
Domestic Administrative Fee	
First \$100MM Market Value	2.5 basis points* annually
Remaining Market Value	1.5 basis points annually
Portfolio Transaction Fees	
Book Entry Transactions - DTC or Fed	\$7.50
Physical Transactions	\$7.50
Wire Transactions	\$7.50
Benefit Payment Transaction Fees (if applicable)	
Checks - Recurring Distributions	\$2.50
Wires	\$10.00
ACH (with advice)	\$2.00
ACH (without advice)	\$1.50
Lump Sum Distributions	\$15.00
Other	
TrustNow or TrustNow Essentials (on-line)	\$0.00
TrustNow Customized (separately bid)	\$0.00
Performance Measurement (optional)	\$250.00
Out-of-Pocket Expenses	
The only out-of-pocket expenses charged to your account will be shipping fees or transfer fees.	
Note: * A basis point is a unit that is equal to 1/100th of a percentage point (the unit for the arithmetic difference of two percentages).	

Appendix A

Historical Information

William Kissam Vanderbilt II (1878-1944) referred to his 43-acre summer estate in Centerport, which overlooks the Northport Harbor and the Long Island Sound, as the “Eagle’s Nest”. Mr. Vanderbilt traveled extensively throughout the world collecting artifacts to develop his own personal museum at Eagle’s Nest. In Mr. Vanderbilt’s last will and testament, he recognized the potential for his vast estate to become a museum “for the use, education and enjoyment of the general public”. Mr. Vanderbilt died January 8, 1944 of a heart attack and his wife, whom he married in Paris in September of 1927, Rosamund Lancaster Vanderbilt, died three years later on August, 28, 1947 at “Eagle’s Nest”. She was the last Vanderbilt to live there.

In his last will and testament, Mr. Vanderbilt bequeathed his estate in Centerport, together with its real property, furnishings, exhibits, and works of art, artifacts, memorabilia and certain moneys either to the State of New York, County of Suffolk or Town of Huntington. By resolution duly adopted on the 30th day of August, 1948, the Board of Supervisors, acting for Suffolk County, accepted the offer. Suffolk County accepted the generous bequest in accordance with the terms of the agreement (deed) dated August 3, 1949. Mr. Vanderbilt’s desire, as indicated in his last will and testament, was for his estate to become a public park and museum and as such be devoted in perpetuity to the use, education and enjoyment of the public, subject only to such reasonable regulations and restrictions, and such requirements with a view to maintenance and upkeep, including a reasonable charge for admittance if deemed advisable, as shall conserve the property and enhance its usefulness as a park and museum.

The estate was opened as a public museum in 1950. The Museum includes a Spanish revival style mansion with a Memorial Wing constructed in 1936 to commemorate Mr. Vanderbilt’s only son who died in 1933 from an automobile accident in South Carolina. It also includes a planetarium, outbuildings, and landscaped grounds.

The Vanderbilt planetarium was erected in 1971 for less than one million dollars on the site of the former Vanderbilt family tennis courts and was paid for from the Endowment Trust Fund. The planetarium is a 60-foot diameter domed sky theatre, with capacity for 147-seats and five handicap stations for wheelchairs. The Planetarium and its observatory were closed in August 2011 for extensive renovations and a complete technological update to make it one of the finest and best-equipped planetariums in the United States. Improvements included the installation of a state-of-the-art, Konica Minolta Infinium star projector with full-dome, 3-D video, laser-show and surround-sound systems, new seats, carpeting, and a ticketing and information kiosk in the lobby. The Planetarium re-opened on March 15, 2013 and hosted more than 67,000 visitors through December 2013. In 2014, there were 62,000 visitors to the planetarium.

In November of 1986, Local Law No. 35-1986, designated and renamed the museum "Suffolk County Vanderbilt Museum". The Suffolk County Vanderbilt Museum Commission evolved from the former Suffolk County Park Commission, which was established by resolution of the Board of Supervisors on June 27, 1949, and enlarged by resolution of the Board of Supervisors on December 28, 1959. The Commission is responsible for the management and control of the Suffolk County Vanderbilt Museum, pursuant to Local Law No. 1-1966. The Board of Trustees¹ of the Suffolk County Vanderbilt Museum Commission has the sole power and control over the development, maintenance and operation of the Suffolk County Vanderbilt Museum and Planetarium and to conduct its programs and activities, subject only to the contractual conditions under which the County accepted the Vanderbilt bequest. The Board of Trustees is the appointing body with respect to all personnel engaged in the maintenance and operation of the programs and activities of the museum and planetarium, including the Director. The employees of the Museum are not employees of Suffolk County, but are employees of a privately endowed institution. The Suffolk County Legislature appoints fifteen members to the Commission for four-year terms of office to govern the Vanderbilt Museum.

The Legislature has the sole power and control over Museum property and the distribution of Trust Funds for its operation, care and perpetuation, subject only to the contractual conditions under which the County accepted the Vanderbilt bequest. Mr. Vanderbilt's bequest included \$2 million to establish an endowment fund for the maintenance and care of the estate. In 1973, the Fund had an additional bequest of \$6.2 million from the estate of Muriel Vanderbilt Adams, William K. Vanderbilt's daughter, raising the corpus of the Fund to \$8.2 million. Distributions from the Fund have paid a portion of the Museum's maintenance and operating expenses. One of the Fund's investment objectives is to preserve the principal corpus of the Fund (\$8.2 million). Thus far, the Fund has met this investment objective and has not been considered an "underwater endowment" or a fund whose current market value has declined below its historical dollar value².

Resolution No. 933-1994 was adopted for the purpose of permitting the Vanderbilt Museum Trust Fund's Investment Advisor to utilize a total return concept³, to provide a fixed annual income of \$1,000,000, as requested by the Suffolk County Vanderbilt Museum, and authorized the use of realized capital gains in the Trust Fund for cash flow purposes only, with any unused funds from said realized gains to be returned to the Trust Fund for reinvestment. The authorization was increased to \$1.2 million by the adoption of Resolution No. 656-2000, and subsequently extended by Resolution Nos.

¹ On July 15, 1949, the Board of Regents of The University of the State of New York granted a charter pursuant to Section 216 of the Education Law of the State of New York to the Vanderbilt Museum. Therefore, the Board of Trustees of the Vanderbilt Museum is an institution incorporated by the Board of Regents of The University of the State of New York.

² "Historic dollar value" means the aggregate fair value in dollars of an endowment fund at the time it became an endowment fund. It also includes each subsequent donation to the fund at the time it is made.

³ Total Return Concept meaning investing for a comprehensive return, including interest and dividends earned on stocks and bonds, plus realized and unrealized gains and losses.

196-2002, 1251-2002, 1177-2003, 1372-2004, 1306-2005, 1477-2006, and 1266-2007. The Legislature did not extend this authorization for 2009, as the market value of the Fund could not support a \$1.2 million distribution. During 2009, Procedural Motion No. 3-2009 authorized the remittance of \$45,500 to the Museum from the Endowment Fund. To support the Museum in meeting its 2009 operating budget expenses and to enable the Museum to continue to operate as an educational resource for the residents of Suffolk County as well as a tourist attraction for visitors, Resolution No. 870-2008 authorized the transfer of up to \$800,000 from the General Fund during 2009, not to exceed \$100,000 per month, based upon monthly cash flow needs analysis prepared by the Vanderbilt Museum no later than the 15th of the previous month. Historically, the Museum has not received funds from the County's General Fund operating budget, with the exception of 2009. On December 31, 2009, the one-year commitment to provide the Museum revenue from the General Fund sunset. The Museum received \$705,094 or \$94,906 less than authorized from the County's General Fund during 2009. It should be noted that the County's General Fund has always assumed all debt service for the Museum's capital projects.

Resolution No. 805-2009, adopted Local Law 34-2009, A Local Law to reauthorize the Hotel Motel Tax. The Hotel Motel Tax was reauthorized and extended to December 31, 2015. The tax is on the per-diem rental rate (exclusive of sales tax) imposed for each hotel or motel room. The rate was increased from 0.75% to 3%. Additionally, the allocation formula was amended. The amended allocation formula commenced on December 1, 2009 and included a new 10% allocation for the Vanderbilt Museum, which the Legislature has had the option of decreasing by one percent each fiscal year beginning in 2011 with a corresponding one percent increase in the allocation to cultural programs. The Museum received \$726,499 from the Hotel Motel Tax in 2012, \$930,140 in 2013, and \$1,028,370 in 2014; however the 2014 figure is subject to adjustment once the Fund is reconciled upon being audited. For 2015, the Legislature reduced the Museum's allocation by \$46,711.10, which is equivalent to a reduction of almost 0.5% from the previous 10% allocation. The Adopted 2015 Operating Budget includes \$878,544 in Fund 192 for the Museum. The Hotel Motel Tax will sunset in 2015 and it is unknown if it will be reauthorized/extended. If the Hotel Motel Tax is reauthorized/extended, it is unknown if the allocation formula for the distribution of the Hotel Motel Tax revenue will continue to include the Vanderbilt Museum, or at what levels.

Subsequent to Bessemer Trust, Fleet Investment Services (Fleet) entered into a contractual agreement in 1996 with the Suffolk County Legislature to provide investment management services for the Vanderbilt Museum Endowment Trust Fund. The two-year agreement included two options to renew for a period of two years for each renewal. In 2004, Fleet Investment Services was selected through an RFP. In September of 2004, Fleet merged with Bank of America. The contract agreement with Bank of America expired at the end of 2008. Subsequently, a Request for Expressions of Interest (RFEI) for Investment Management Services for the Suffolk County Vanderbilt Museum Endowment Trust was issued. The RFEI proposals were reviewed and the County then issued a Request for Proposal (RFP) to the seven companies that

were chosen to participate in the next phase of the selection process. The RFP evaluation committee selected PFM Advisors and an award letter was sent on January 12, 2010. On March 23, 2010, Procedural Resolution No. 5-2010 was adopted to retain PFM Asset Management LLC to serve as the investment advisor for the Suffolk County Vanderbilt Museum's Maintenance Fund and U.S. Bank National Association as the custodian of the Maintenance Fund. Procedural Resolution No. 7-2013, approved April 23, 2013, authorized the Presiding Officer to exercise the County's option to extend its agreement with PFM for an additional one-year period through April 21, 2014. Procedural Resolution No. 6-2014, approved March 19, 2014, authorized the Presiding Officer to exercise the County's option to extend its agreement with PFM for its final one-year period through April 21, 2015. During 2014, the Legislature also issued an RFEI for investment management services of the Vanderbilt Museum's endowment trust fund in anticipation of the issuance of an RFP in 2015.

Resolution No. 1036-2008 created a Vanderbilt Museum Oversight Committee to work with, and act as a liaison to, the Vanderbilt Museum Board of Trustees and the Museum's administrators to analyze new ideas to increase revenues and reduce costs and to ensure that new policies are implemented in a timely fashion so the County of Suffolk may avoid an unenviable choice between closing the Museum or making another large cash transfer to the Museum in 2010. Resolution No. 110-2011 reauthorized and reconstituted the Vanderbilt Museum Oversight Committee to work with the Vanderbilt Museum Board of Trustees and its administrators, for the purpose of ensuring the Museum's long-term financial viability. The Oversight Committee is to study the Museum's fiscal management and procurement practices and make recommendations to improve these processes, assist the Museum in bringing to fruition longstanding proposals to generate new revenues, report on the physical condition of the Museum and recommend safety improvement priorities to the Legislature, send a representative to each meeting of the Vanderbilt Museum's Board of Trustees, and send a representative to the County Legislature's Parks and Recreation Committee on a regular basis to report on its activities and will further report to the full Legislature on a regular basis.

In March 2009 a Memorandum of Understanding (MOU) was signed between the County of Suffolk and the Trustees of the Vanderbilt Museum, which expired on December 31, 2009. Amongst other stipulations included in the MOU, the Museum agreed to and in June 2009 submitted a formal written business plan demonstrating how the Museum would replace the County's 2009 distribution in fiscal year 2010.

The following identifies pertinent Procedural Motions and Resolutions impacting the Museum's operating budget from 2009 to 2014. This list is not inclusive of appropriating resolutions for capital projects for the Museum, which are addressed in the Budget Review Office's annual review of the Recommended Capital Budget and Program.

- Procedural Motion No. 2-2009 was adopted to retain outside counsel in matters relating to the Suffolk County Vanderbilt Museum.

- Procedural Motion No. 3-2009 was adopted to authorize the remittance of monies from the maintenance Fund to the Vanderbilt Museum. The Vanderbilt Museum's Maintenance Fund Investment Advisor, in consultation with the Presiding Officer of the Suffolk County Legislature and the Legislature's Budget Review Office, was authorized to remit monthly disbursements to the Vanderbilt Museum from January 1, 2009 to December 31, 2009, as long as the corpus of the fund did not go below the value of the original bequest (\$8.2 million).
- Procedural Motion No. 16-2009 authorized the retention of counsel in relation to the Suffolk County Vanderbilt Museum.
- Resolution No. 122-2009 established a Task Force to Study the Feasibility of Suffolk County Community College assuming the operation of the Vanderbilt Museum.
- Resolution No. 371-2009 authorized a cell tower at the Vanderbilt Museum.
- Resolution No. 804-2009 extended the deadline for a Task Force to Study the Feasibility of Suffolk County Community College assuming the operation of the Vanderbilt Museum.
- Procedural Motion No. 2-2010 was adopted to authorize the remittance of monies (\$20,000) from the maintenance fund to the Vanderbilt Museum.
- Procedural Resolution No. 5-2010 was adopted to retain PFM Asset Management LLC and U.S. Bank.
- Resolution No. 1196-2010 extended the deadline for the Task Force to Study the Feasibility of Suffolk County Community College assuming the operation of the Vanderbilt Museum to no later than December 31, 2011.
- Resolution No. 110-2011 reauthorized and reconstituted the Vanderbilt Museum Oversight Committee to work with the Vanderbilt Museum Board of Trustees and its administrators, for the purpose of ensuring the Museum's long-term financial viability.
- Resolution No. 311-2011 authorized the transfer of ownership of the GOTO star projector to the Museum's Board of Trustees for its sale or disposal with the proceeds to be used for Vanderbilt Museum and Planetarium operations.

- Resolution No. 387-2011 adopted an investment management policy⁴ that restricts bond investments to bonds Ba and above, while maintaining an overall average quality rating for the bond investments of AA or above.
- Resolution No. 1010-2011 authorized the Museum to purchase gasoline from the County's fueling facilities for its traveling exhibit, "Discovering the Universe". On October 19, 2011, the Museum's Board of Trustees accepted the gift of the 37-foot Recreational Vehicle ("RV") from the American Museum of Natural History.
- Resolution No. 1016-2011 approved a two-year license agreement with Z. Richard Mecik and Marina Mecik to reside at Normandy Manor, commencing March 1, 2012 and continuing through February 28, 2014. The license agreement was for \$5,500 per month to be remitted to the Suffolk County Vanderbilt Museum no less than once a month due on the first of each month. The Suffolk County Vanderbilt Museum is to use the license revenue to support the general operations of the Museum.
 - Although the two-year license ended February 28, 2014, the tenants continued to rent the house on a month-to-month basis and subsequently moved out as of August 31, 2014. Currently, the Museum is working the Department of Public Works to upgrade certain mechanical systems in the Manor and the Board of Trustees is discussing the future use of the property.
- Resolution No. 137-2012 authorized the sale of the Museum's 1937 Chrysler Imperial to Howard Kroplick for the sum of \$275,000. In accordance with the American Association of Museums accreditation of the Museum, proceeds from the sale are restricted to care and maintenance of its collections.
- Resolution No. 343-2013 approved naming of the Planetarium building as "The Charles and Helen Reichert Planetarium" for a ten-year period through a title sponsor agreement for donations of not less than \$850,000.
- Resolution No. 530-2013, which was approved several months later, allowed the Reichert family the option for an additional ten years of naming rights for \$900,000 of donations. The option for these additional ten years will result in the Reicherts donating a sum of \$1,750,000 to the Museum over a twenty-year period.

⁴ The investment management policy that had been adopted in Resolution No. 215-1987, was amended by Resolution No. 387-2011 to reflect a change in the investment manager's methodology of investment from restricting bond investments to investment grade, Baa or above, per Moody's Investors Service to the allowance of bonds Ba and above, while maintaining an overall average quality rating for the bond investments of AA or above.

- Resolution No. 595-2013 authorized the Vanderbilt Museum, through its Director or Board of Trustees, to enter into a concession agreement to expand the catering, café, and restaurant services available to the Museum's visitors.
 - During 2014, the Board of Trustees opted not to enter into a concession agreement with the company (Historical Thatched Cottage) that had been selected through the RFP process for catering services. The Board is currently considering its options and has not issued a new RFP for catering services.
- Procedural Resolution No. 6-2014 authorized the Presiding Officer to exercise the County's option to extend its agreement with PFM Asset Management LLC for its final one year period through April 21, 2015.
 - As of this writing, the RFP for investment management services of the Vanderbilt Museum's Endowment has not been issued and due to concerns related to the time needed to make a selection, a request to extend the contract with PFM for a six month period has been made to the RFP Waiver Committee. The request will be placed on the agenda for the committee's next regularly scheduled meeting. It is anticipated that the RFP Waiver Committee will grant the waiver to extend the contract with PFM for six months to allow for sufficient time for the RFP process to be completed.
- Resolution No. 286-2014 amended the Vanderbilt Endowment Trust investment guidelines from a 50/50 split between fixed securities and equities to range between 5-10% of the 50/50 split to a 50/50 split between fixed securities and equities to range between 10-20% of the 50/50 split. This was done to give the investment advisor the flexibility needed to be consistent with the priorities of preserving principal, producing a reasonable level of current income, and providing for future growth of income through capital growth given current market conditions.

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