

SUFFOLK COUNTY LEGISLATURE



Robert Lipp
Director

BUDGET REVIEW OFFICE

March 27, 2018

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, 2017 through December 31, 2017.

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

* * *

Attachment

cc:

John M. Kennedy, Suffolk County Comptroller
Eric Naughton, 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
Bikram Chadha, Senior Managing Consultant, PFM Asset Management LLC
Seth Fenton, Account Manager, U.S. Bank National Association

**VANDERBILT MUSEUM ENDOWMENT TRUST FUND
ANNUAL REPORT
JANUARY 1, 2017 THROUGH DECEMBER 31, 2017**



March 27, 2018

**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 encompasses the period January 1, 2017 through December 31, 2017. Major findings include:

- The 2017 year-end market value of the Fund was \$13,959,540¹, which is net of \$58,969 in fees paid. This year-end market value represents a \$1,620,988 increase from the 2016 year-end market value of \$12,338,552².
- The \$58,969 in fee expenses includes \$55,373 paid to PFM Asset Management LLC (PFM) for investment advisory services and \$3,596 paid to U.S. Bank National Association (U. S. Bank), the custodian of the Fund.
- The Fund's 2017 total annual return was 13.65%, outperforming the blended benchmark by 0.66%. The return is net of mutual fund fees and gross of PFM advisory fees and U.S. Bank custodial fees.
- The Legislature has the option to renew the contract agreement with PFM for one year when it expires in January 2019, or can consider instituting a new Request for Proposals process in the near future.
- Resolution No. 256-2017 authorized the transfer of \$275,000 from the Museum Endowment to the 2017 Capital Budget and Program to provide funding for Capital Project No. 7437, Improvements to the Vanderbilt Planetarium, as requested by the Board of Trustees. This funding is authorized but has not yet been distributed from the account.
- The 2017 Adopted Operating Budget provided \$1,049,531 in Hotel Motel Tax funding for the Vanderbilt Museum, based on a 9.5% allocation of projected Hotel Motel Tax proceeds. All but 81 cents was expended, according to the County's Integrated Financial Management System (IFMS) as of March 2018. The proceeds from the Hotel Motel Tax reduce the Museum's reliance on the Fund and affords the Fund the opportunity to grow.

Performance and Asset Allocation

As calculated by PFM, the Fund's total annual return for 2017 was 13.65%, outperforming the blended benchmark of 12.99% by 0.66%. PFM uses a Modified Dietz calculation methodology to calculate performance, which factors in the timing of cash flows. The returns are net of mutual fund fees but gross of (prior to deducting) PFM advisory and U.S. Bank custodial fees. U.S. Bank maintains the Fund in two accounts: dividends and

¹ Excludes \$279 in accrued income. Accrued income is income that has been earned but not received.

² Excludes \$91 in net accrued income.

interest are transferred monthly to a sub-account for income, while capital gains are re-invested. The following table summarizes the combined market values for the two accounts.

The 2017 year-end market value of the Fund was \$13,959,540 (comprised of \$13,079,905 in the main account and \$879,635 in the income sub-account). This represents a net increase of \$1,620,988³ from the \$12,338,552 market value at the start of 2017. Resolution No. 256-2017 authorized the transfer of \$275,000 from the Museum Endowment to the 2017 Capital Budget and Program to provide funding for Capital Project No. 7437, Improvements to the Vanderbilt Planetarium, as requested by the Board of Trustees. This funding is authorized but has not yet been distributed from the account.

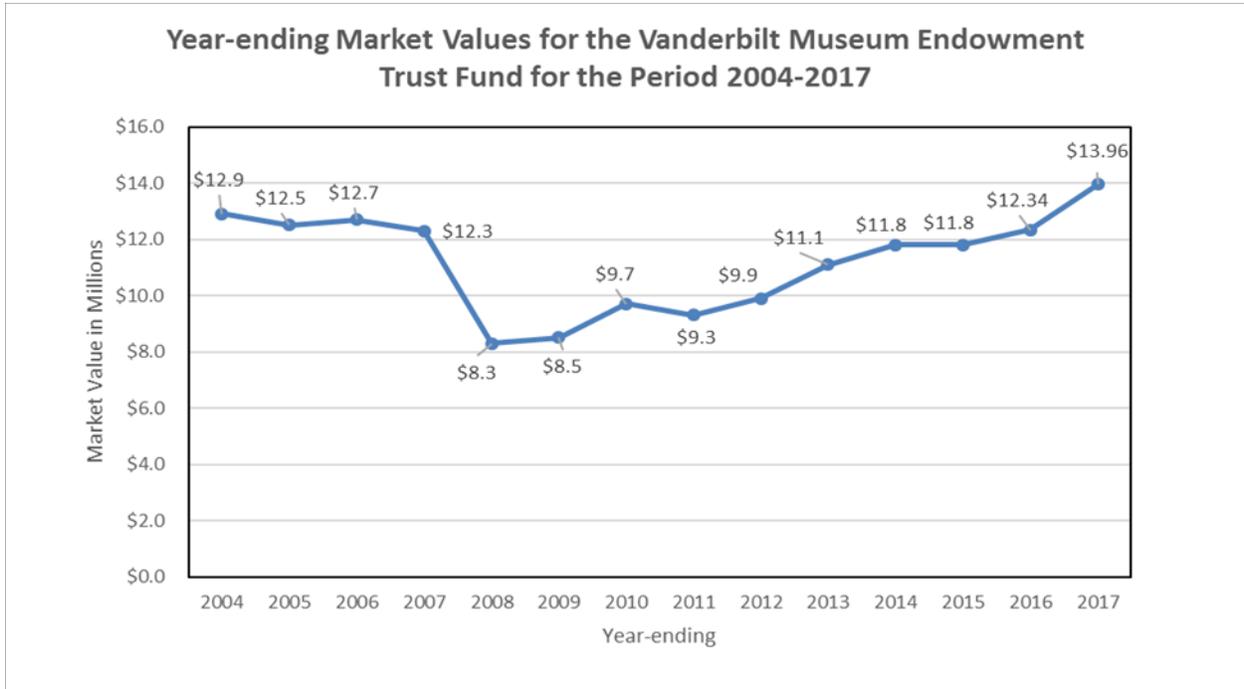
2017 Endowment Trust Fund Summary	
Beginning Market Value, as of December 31, 2016	\$12,338,552
Investment Activity	
Interest	\$1,721
Dividends	\$307,899
Realized Capital Gains	\$155,232
Change in Unrealized Capital Gains	\$1,215,102
Other Earnings	\$3
Plan Expenses	
less Total Plan Expenses (Fees)	(\$58,969)
Other Activity	
less Disbursed to Vanderbilt	\$0
Ending Market Value, as of December 31, 2017	\$13,959,540
2017 Net Increase in Market Value	\$1,620,988

The following table details the Fund's 2017 month-ending market values. Market value at year-end 2016 (start of 2017) was \$12,338,552. There was less market volatility in 2017, compared to 2016. Market value increased by an average of 1% each month through the end of 2017.

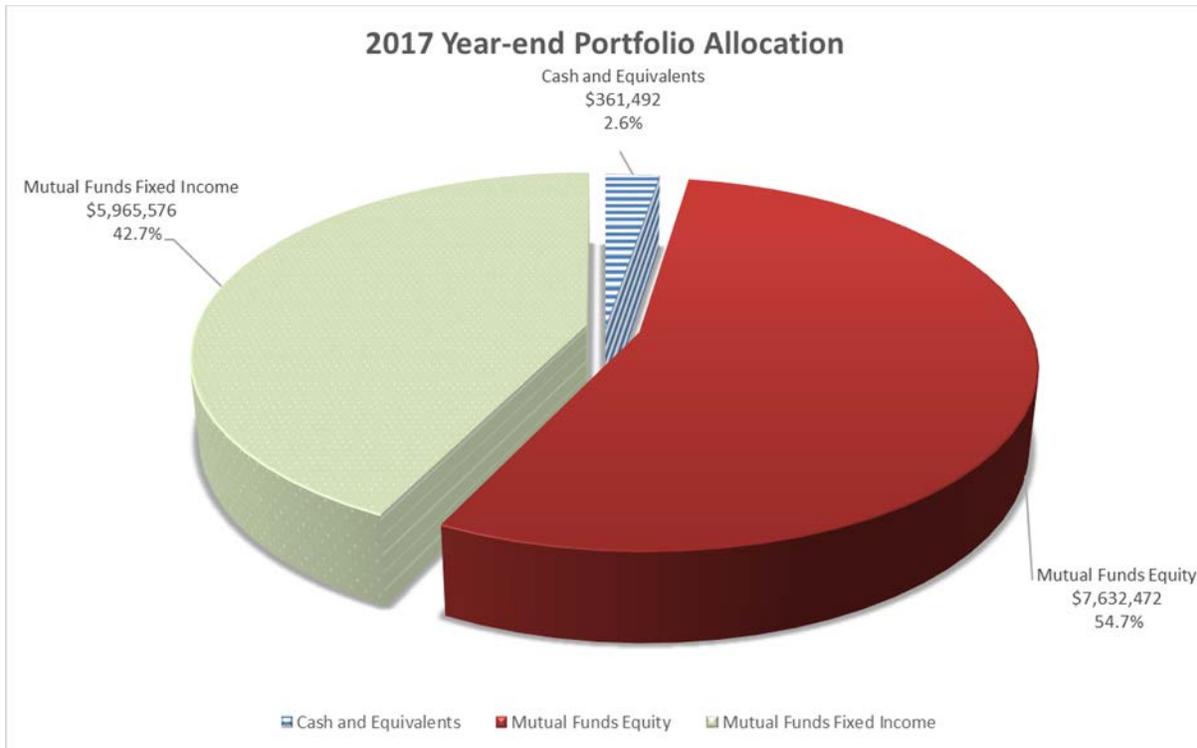
2017 Month-Ending Market Values for the Fund			
Month	Total Account Market Value	Month	Total Account Market Value
January	\$12,499,437	July	\$13,321,532
February	\$12,721,361	August	\$13,389,787
March	\$12,781,369	September	\$13,523,456
April	\$12,928,567	October	\$13,682,295
May	\$13,088,477	November	\$13,841,663
June	\$13,129,611	December	\$13,959,540

³ Market values do not include minor amounts of accrued income.

As demonstrated by the following graph, the fund has grown every year since the 2008 financial market crisis, except for year-end 2011, which decreased by \$425,425 compared to year-end 2010. The most significant growth over this period, in excess of \$1.6 million, occurred from year-end 2016 to year-end 2017.



As detailed in the pie chart that follows, the Fund's year-end asset allocation was 54.7% equity mutual funds, 42.7% fixed income mutual funds, and 2.6% cash and equivalents. Therefore, the allocation complied with the revised allocation directive of Resolution No. 286-2014. That resolution allowed a 50/50 split between fixed securities and equities, with a range of 10-20%, as determined by market conditions. Previously, per Resolution No. 1266-2007, the allowable range was 5-10%.



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, 2017. The Fund's 2017 total annual return was 13.65%, a 0.66% outperformance compared to the blended benchmark of 12.99%. Since inception, the total annual return was 8.38%, or 0.8% more than the blended benchmark of 7.58%.

Vanderbilt Museum Combined Asset Allocation & Performance
As of December 31, 2017

	Allocation Market Value (\$)	Allocation %	Performance(%)							
			1 Quarter	2017	1 Year	2 Years	3 Years	5 Years	Since Inception	Inception Date
COMBINED ASSETS	13,959,819	100.00	3.32	13.65	13.65	9.81	6.65	7.77	8.38	09/01/2010
<i>Blended Benchmark</i>			3.12	12.99	12.99	9.66	6.16	6.89	7.58	09/01/2010
Domestic Equity										
Vanguard Total Stock Market Index-Adm	4,725,332	33.85	6.34	21.17	21.17	16.84	11.08	15.55	14.33	05/01/2012
<i>Russell 3000 Index</i>			6.34	21.13	21.13	16.86	11.12	15.58	14.38	05/01/2012
T. Rowe Price Dividend Growth	396,586	2.84	5.83	19.32	19.32	15.41	10.88	14.83	19.10	12/01/2016
<i>S&P 500</i>			6.64	21.83	21.83	16.79	11.41	15.79	22.18	12/01/2016
International Equity										
Vanguard Total International Stock Index Fund	802,162	5.75	4.88	27.55	27.55	15.55	8.53	7.12	19.61	10/01/2016
<i>MSCI AC World ex USA (Net)</i>			5.00	27.19	27.19	15.29	7.83	6.80	20.00	10/01/2016
Vanguard International Value	609,860	4.37	4.90	27.96	27.96	15.61	7.74	7.35	17.62	05/01/2016
<i>MSCI AC World ex USA (Net)</i>			5.00	27.19	27.19	15.29	7.83	6.80	17.04	05/01/2016
J. O. Hambro International Select	703,722	5.04	4.05	22.89	22.89	13.70	7.44	12.55	13.70	01/01/2016
<i>MSCI AC World ex USA (Net)</i>			5.00	27.19	27.19	15.29	7.83	6.80	15.29	01/01/2016
Oppenheimer International Small-Mid Company	394,809	2.83	6.25	38.30	38.30	17.46	16.68	18.30	15.64	04/01/2015
<i>MSCI AC World ex USA Smid Cap Index (Net)</i>			6.07	30.35	30.35	16.19	10.69	9.14	10.11	04/01/2015
Fixed Income										
Baird Core Plus	1,903,345	13.63	0.56	4.65	4.65	4.69	3.15	2.91	3.46	05/01/2014
<i>Blmbg. Barc. U.S. Aggregate</i>			0.39	3.54	3.54	3.09	2.24	2.10	2.70	05/01/2014
DoubleLine Core Fixed Income	861,989	6.17	0.47	4.66	4.66	4.39	3.12	2.97	0.09	09/01/2017
Prudential Total Return Bond Fund	578,894	4.15	1.12	6.71	6.71	5.76	3.84	3.54	0.77	09/01/2017
<i>Blmbg. Barc. U.S. Aggregate</i>			0.39	3.54	3.54	3.09	2.24	2.10	-0.09	09/01/2017
Vanguard Total Bond Market Index-Adm	216,977	1.55	0.40	3.56	3.56	3.08	2.18	2.02	2.26	05/01/2012
<i>Blmbg. Barc. U.S. Aggregate</i>			0.39	3.54	3.54	3.09	2.24	2.10	2.34	05/01/2012
Vanguard Intermediate-Term Investment Grade	1,882,254	13.48	0.16	4.15	4.15	3.99	3.16	2.76	3.37	05/01/2012
<i>Blmbg. Barc. U.S. Credit 5-10 Year Index</i>			0.44	5.57	5.57	5.40	3.81	3.30	4.05	05/01/2012
Vanguard High Yield Corporate	522,117	3.74	0.11	7.13	7.13	9.20	5.58	5.21	9.14	04/01/2016
<i>Blmbg. Barc. U.S. Corp: High Yield</i>			0.47	7.50	7.50	12.21	6.35	5.78	11.95	04/01/2016
Cash Equivalent										
First American Government Obligation	361,771	2.59	0.24	0.75	0.75	0.49	0.33	0.20	0.14	09/01/2010

Returns are net of mutual fund fees.

Returns are expressed as percentages.

Equities (Stocks)

PFM invests in equity mutual funds, rather than individual stocks, in order to provide a diverse equity portfolio and minimize risk exposure in any one company. Based on the preceding PFM table, and after accounting for one dollar in international equities lost due to rounding, the market value of the Fund's equity mutual funds totaled \$7,632,472 as of December 31, 2017, representing 54.7% of the Fund's total market value. This amount is comprised of \$5,121,918 (36.7%) in domestic equities and \$2,510,554 (18%) in international equities. The performance of the Fund's equity investments ranged between 19.32% and 38.3% in 2017. One of the Fund's two domestic equity investments and three of its four international equity investments outperformed the industry benchmarks in 2017.

Fixed Income⁴ (Bonds)

Fixed income investments allow for diversification of the Fund's assets, providing income but minimal capital appreciation. Investments in bond funds, as opposed to individual bonds, should decrease some of the risk inherent in fixed income investments. The year-end market value of the portfolio's bond mutual funds was \$5,965,576, representing 42.7% of the Fund's total market value. The performance of the Fund's bond investments ranged between 3.56% and 7.13% in 2017. Two of the six fixed income investments underperformed, and four exceeded industry benchmarks.

Resolution No. 387-2011 restricts bond investments⁵ to bonds Ba and above, while maintaining an overall average quality rating⁶ for bond investments of AA or above. It 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.

Cash & Cash Equivalents

Cash equivalents are short-term investments and money market fund investments that can be 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, 2017 market value for the cash and cash equivalents portion of the Fund was \$361,492⁷, representing 2.6% of the Fund's year-end asset allocation. The total return for the cash and cash equivalents component of the Fund's portfolio was 0.75%.

⁴ Fixed income refers to 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.

⁵ 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.

⁶ 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.

⁷ This amount does not include \$279 in accrued income, which is included in the table provided by PFM.

Capital Gains/Losses

The Fund's 2017 year-end market value included \$155,232 in realized capital gains. Additionally, it included \$2,172,130 in unrealized capital gains, which is the difference between the market value of the Fund, \$13,959,540 and its book value, \$11,787,409. The change in unrealized gains for the year was \$1,215,102.

In 1993, the Legislature authorized the use of capital gains to pay for one-half of the investment management fees (Resolution No. 682-1993). From the inception of this policy through 2017, a total of \$553,146 in realized capital gains has been used to pay investment fees.

In 1994, with the adoption of Resolution No. 933-1994, the Legislature first authorized using realized capital gains to augment distributions to the Museum and provide a guaranteed annual income. This authorization was extended through December 31, 2008. The Museum no longer receives a guaranteed annual income. Instead, funds are requested and approved on a case-by-case basis. From 1995 through 2017, a total of \$8,234,873 in realized capital gains has been remitted to the Museum from the Fund.

Remittances to the Museum

The year-end Treasurer's Report provided by the Vanderbilt Museum indicated that 2017 operating expenses of approximately \$2.6 million are projected to exceed 2017 revenues by \$117,822. However, there are sufficient reserved fund balances in the Vanderbilt Museum Fund (Fund 708) to cover the shortfall. Approximately \$1.5 million, or 58%, of the Museum's projected 2017 revenues were self-generated or donations and gifts, while \$1,049,529, or 42%, was from the Suffolk County Hotel Motel Tax (Fund 192). Although Resolution No. 256-2017 authorized the transfer of \$275,000 from the endowment to the 2017 Capital Budget for Capital Project No. 7437, Improvements to Vanderbilt Museum Planetarium, there were no disbursements from the endowment to the Museum in 2017. The funding will be utilized when the capital project is ready to proceed.

Resolution No. 656-2000 had authorized a fixed annual income of up to \$1.2 million from the Fund to the Museum (subject to the condition that distribution from realized capital gains be limited to a maximum of the realized capital gains, less the trust management fees authorized to be paid from capital gains), but this authorization was not extended in 2009, as the market value of the fund could not support it. The Museum received one time support (\$705,094) from the General Fund in 2009.

In May 2010, per Local Law 34-2009, the Museum began receiving a 10% allocation of revenue from the Hotel Motel Tax (County Fund 192). The Legislature has some discretion to reduce the allocation percentage. The latest reauthorization and extension of the Hotel Motel Tax, through December 31, 2020, was by Local Law No. 25-2017 (adopted by Resolution No. 822-2017). The 3% tax rate and the distribution of revenue from the tax remained unchanged. The 2017 Adopted Operating Budget provided

\$1,049,531⁸ in Hotel Motel Tax funding for the Vanderbilt Museum, based on a 9.5% allocation of projected proceeds. The proceeds from the Hotel Motel Tax reduce the Museum's reliance on the Fund, affording the Fund the opportunity to grow and provide for the Museum's future needs.

PFM Market Analysis

The following analysis considers conditions under which annual withdrawals of \$1.2 million from the Fund could once again be contemplated, sometime in the future. At that point, the Legislature could then consider replacing some or all of the Vanderbilt's hotel-motel tax allocation, which currently is adopted at \$1,158,127 for 2018.

In March 2018, PFM used a number of assumptions to project future market values of the Fund in various scenarios. They based their analysis on their 2018 intermediate-term (5 years) Capital Market Assumptions (CMAs) and the nearly \$14 million combined portfolio value as of December 31, 2017.

- Assuming an annual withdrawal from the Fund of \$1.2 million, no contributions into the Fund, a 50% equity/50% fixed income allocation, and median return expectations, PFM projects that the Fund value would be reduced to approximately \$6.8 million over a 10-year period. Results would vary depending on actual market conditions. This result would bring the fund below its \$8.2 million corpus.
- Using the same assumptions, but no annual withdrawal, the Fund would grow to approximately \$22.8 million over a 10-year period. Results would vary depending on actual market conditions.
- In order to support an annual withdrawal of \$1.2 million from the Fund into perpetuity, without reducing principal, the Fund would need between \$16.4 million and \$23.5 million. This is based on a 50% equity/50% fixed income allocation with an expected annualized return of 5.1% using intermediate-term (5-years) capital market assumptions and 7.3% using long-term (30-years) capital market assumptions. Results would vary depending on actual conditions. PFM notes that the long-term assumption can be considered most applicable, as an annual withdrawal into perpetuity is the desired outcome. Using the long term CMA, the fund would need to grow to \$16.4 million.

Investment Management

Investment Objectives and Policies

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.

⁸ This figure is subject to being adjusted once the Fund is reconciled upon being audited.

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

- Resolution No. 286-2014
 - 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. This provides the investment advisor the flexibility needed to preserve principal, produce a reasonable level of current income, and provide for future growth of income through capital growth, depending on current 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. It directed the Fund's investment manager to make every effort 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.

PFM has recommended that the County adopt a more formal Investment Policy Statement (IPS) for governance of the Fund. The IPS would guide management and administration of the portfolio across varying market and economic environments and would outline standards of accountability in areas such as investment objectives, selection of investment managers, and control procedures.

Investment Management Contract

PFM Asset Management LLC is the Fund's investment advisor and U.S. Bank National Association is the custodian of the Fund, independent of the Fund's investment manager. PFM has been the fund's investment advisor since April 21, 2010, after being selected through a Request for Proposals process. After various extensions to the initial agreement, Procedural Motion No. 26-2015 authorized the retention of PFM and a new fee schedule. A new three-year contract agreement with PFM was executed on January

29, 2016, with the Legislature having the option to renew the agreement for two additional one-year periods. Thus, the Legislature now has the option to renew the contract agreement with PFM for one year when it expires in January 2019, or consider issuing a new Request for Proposals in the near future.

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, providing that a written notice thirty days in advance of the termination date is received.

Advisory Fees

Resolution No. 682-1993 authorized 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 2017, a total of \$58,969 was paid in advisory fees to PFM (\$55,373) and trust fees to U.S. Bank (\$3,596).

The annual fee for all services provided by the Fund's investment advisor, PFM, is 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. The extensions to the 2010 agreement kept the same terms, but Procedural Motion No. 26-2015, adopted November 17, 2015, authorized the retention of PFM as investment advisor with a revised fee schedule. The new agreement was executed on January 29, 2016. The fees continue to be based on net assets under the management of the investment advisor, and are determined on a monthly basis. The table below provides the terms of the current investment advisory fee schedule:

Contract Executed January 29, 2016

PFM Asset Management LLC Investment Advisory Fee Schedule	
First \$10 million in net assets	0.45%
Next \$10 million in net assets	0.35%
Next \$30 million in net assets	0.25%
Next \$50 million in net assets	0.20%

The Fund also incurs 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 Summary

In his last will and testament, William Kissam Vanderbilt II (1878-1944), bequeathed his estate in Centerport, together with its real property, furnishings, exhibits, and works of art, artifacts, memorabilia and certain moneys to either the State of New York, County of Suffolk, or Town of Huntington. His desire was for his estate to become a public park and museum, devoted in perpetuity to the use, education and enjoyment of the public.

By resolution duly adopted on the 30th day of August 1948, the Board of Supervisors, acting for Suffolk County, accepted the offer. The terms of the deed were signed August 3, 1949, and the estate was opened as a public museum in 1950. The Vanderbilt Planetarium was erected in 1971, for less than one million dollars, and was paid for from the Endowment Trust Fund. 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 Commission's Board of Trustees⁹ has sole control over the development, maintenance and operation of the Suffolk County Vanderbilt Museum and Planetarium and related programs and activities, subject only to the contractual conditions under which the County accepted the Vanderbilt bequest. 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, 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

⁹ 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.

corpus of the Fund (\$8.2 million). Thus far, the Fund has met this investment objective and its current market value has not declined below its historical dollar value¹⁰.

Resolution No. 933-1994 was adopted for the purpose of permitting the Vanderbilt Museum Trust Fund's Investment Advisor to utilize a total return concept¹¹, 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. 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.

Historically, the Museum has not received funds from the County's General Fund operating budget, with the exception of 2009, when a transfer of up to \$800,000 was authorized by Resolution No. 870-2008, dependent on the Museum's cash flow needs. The Museum received \$705,094 or \$94,906 less than had been 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, which reauthorized the Hotel Motel Tax, increased the rate from 0.75% to 3%, and included a new allocation for Accredited Museums, intended for the Vanderbilt Museum. The legislation provided a 10% allocation to the Museum, with the option of decreasing the Museum's allocation by one percent each fiscal year, beginning in 2011, to an amount not less than 5% of all revenues collected. The Hotel Motel tax legislation was subsequently extended and reauthorized by Local Law Nos. 39-2015 and 25-2017, and was updated by Local Law No. 5-2016. The 3% tax rate and the distribution of revenue from the tax remained unchanged through December 31, 2020. The table below indicates Hotel Motel Tax funding for the Vanderbilt Museum as included in the 2010-2018 Adopted Operating Budgets. The Legislature first exercised its option to modify the Museum's allocation in the 2015 Operating Budget.

¹⁰ "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.

¹¹ 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.

Hotel Motel Tax to Vanderbilt		
Year	Adopted Amount	% of Projected Tax
2010	\$692,498	10%
2011	\$705,097	10%
2012	\$726,499	10%
2013	\$930,140	10%
2014	\$1,028,370	10%
2015	\$878,544	9.5%
2016	\$873,954	9%
2017	\$1,049,531	9.5%
2018	\$1,158,127	9%

The current investment advisor, PFM, was first selected in 2010 through a Request for Expressions of Interest (RFEI) and Request for Proposal (RFP) process. Procedural Resolution No. 5-2010 retained PFM Asset Management LLC as the investment advisor and U.S. Bank National Association as the custodian of the Suffolk County Vanderbilt Museum’s Maintenance Fund. The original 2010 agreement with PFM would have expired, after extensions, on April 21, 2015; however, additional short-term extensions were approved by the RFP waiver committee to allow for the completion of a new RFP process. Ultimately, PFM was again selected, from nine respondents, and Procedural Motion No. 26-2015 authorized the retention of PFM as the investment advisor and a new fee schedule. The new contract agreement with PFM was executed on January 29, 2016. The 2016 contract was for a three-year term with an option to renew for two additional one-year periods. Under the terms of the agreement, any party can terminate the contract at any time; however, if the contract is terminated prior to the completion of the full term, the cancellation is not effective until after 30 days of either party receiving a written cancellation notice. The 2016 contract will be due for its first renewal in January 2019, or the Legislature can consider initiating another RFEI/RFP process.

Resolution No. 1036-2008 created a Vanderbilt Museum Oversight Committee, which was reconstituted by Resolution No. 110-2011. The Committee’s purpose was to work with, and act as a liaison to, the Vanderbilt Museum Board of Trustees and the Museum’s administrators to ensure the Museum’s long-term financial viability. On a regular basis, the Committee was to send a representative to each meeting of the Vanderbilt Museum Board of Trustees and the Suffolk County Legislature Parks and Recreation Committee, and was to further report to the full Legislature on a regular basis. The Committee is no longer active.

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