

SUFFOLK COUNTY LEGISLATURE



Robert Lipp
Director

BUDGET REVIEW OFFICE

March 29, 2017

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, 2016 through December 31, 2016.

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

* * *

Attachment

cc:

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, 2016 THROUGH DECEMBER 31, 2016**



March 29, 2017

**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, 2016 through December 31, 2016. Major findings include:

- The 2016 year-end market value of the Fund was \$12,338,552¹. This amount is net of \$53,445 in fees paid and a \$74,000 disbursement to the Vanderbilt Museum.
- During 2016, the market value of the Fund increased by \$583,388², from \$11,755,163 to \$12,338,552. The increase includes income of \$283,444 plus realized gains and the change in unrealized gains totaling \$427,389, less \$53,445 in planned fee expenses and a \$74,000 distribution to the Vanderbilt Museum.
- The Fund's 2016 total annual return was 6.1%, before accounting for planned fee expenses, slightly underperforming the blended benchmark of 6.43%.
- The Vanderbilt Museum received a \$74,000 disbursement from the Fund in 2016, as authorized by the Board of Trustees (BOT), to cover the costs associated with the installation of a laser entertainment system in the Reichert Planetarium.
- The \$53,445 in fee expenses includes \$49,895 paid to PFM Asset Management LLC (PFM) for investment advisory services and \$3,550 paid to U.S. Bank National Association (U. S. Bank), the custodian of the Fund.
- The Museum received \$873,954 of the revenue collected from the Hotel Motel Tax (County Fund 192) in 2016, based on an approximate 9% allocation of projected proceeds. The proceeds from the Hotel Motel Tax reduce the Museum's reliance on the Fund and affords the Fund the opportunity to grow. Resolution No. 1017-2015 adopted Local Law No. 39-2015, reauthorizing the Hotel and Motel Tax through December 31, 2017. As of this writing, it is unknown whether the Hotel Motel Tax will be reauthorized and/or extended beyond 2017 or whether the Vanderbilt Museum will continue to be included at the current allocation level.
- In September 2016, PFM used a number of assumptions to project future market values of the Fund in various scenarios, which are described under "Remittances to the Museum".
- PFM has recommended that the County adopt a formal investment policy statement for governance of the fund.

¹ Excludes \$91 in accrued income. Accrued income is income that has been earned, but has yet to be received.

² Excludes \$87 in net accrued income.

Performance and Asset Allocation

As calculated by PFM, the Fund's 2016 total annual return was 6.1%, a 0.33% underperformance compared to the blended benchmark of 6.43%. As summarized in the following table, the 2016 year-end market value of the Fund was \$12,338,552, a net increase in market value of \$583,388³ from the start of the year. U.S. Bank maintains the Fund in two accounts: dividends and interest are transferred monthly to a sub-account for income, while capital gains are re-invested. The final ending market value as of December 31, 2016 (\$12,338,552) includes \$552,889 in the income sub-account.

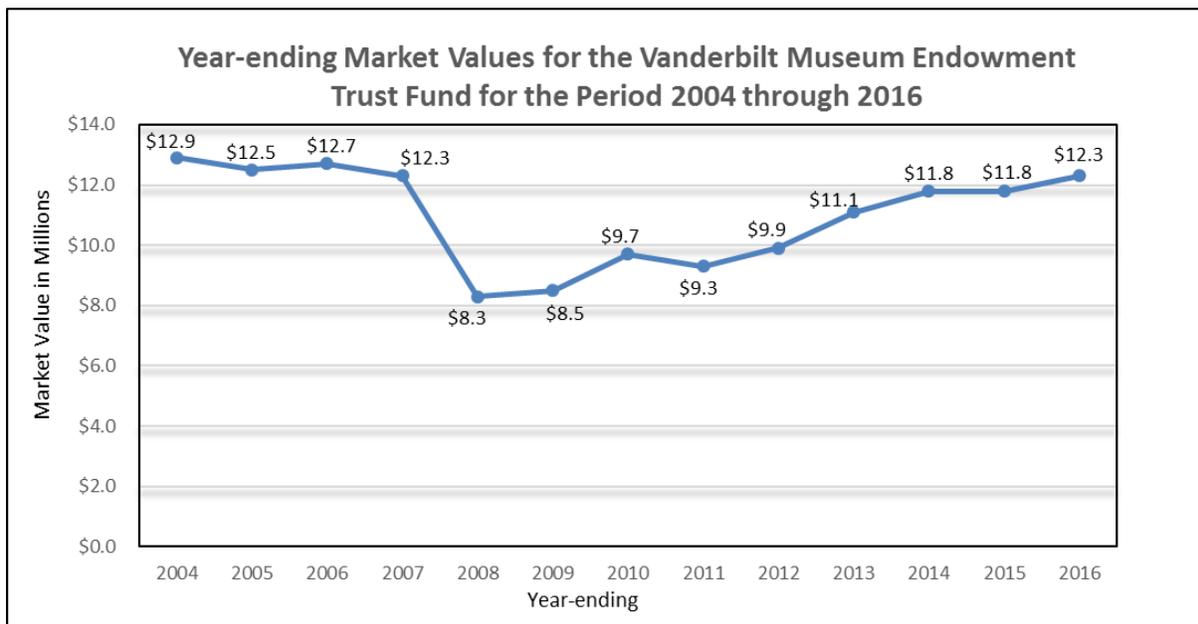
Net Change in the Fund's 2016 Market Value	
Beginning Market Value as of December 31, 2015	\$11,755,163
Income	\$283,444
<i>Interest</i>	\$361
<i>Dividends</i>	\$283,083
Other	\$1
Realized Gain/Loss	\$260,574
Change in Unrealized Gain/Loss	\$166,814
Disbursement to Vanderbilt	(\$74,000)
Distributions for Fees	(\$53,445)
Ending Market Value as of December 31, 2016	\$12,338,552
2016 Net Change in Market Value	\$583,388

The following table details the Fund's 2016 month-ending market values. The market was volatile in the first two months of 2016, with a loss in market value as compared to the 2015 year-end/2016 starting market value of nearly \$11.8 million. To be prudent, PFM adjusted client portfolios. The allocation to Federated Ultra-Short Bond Fund was removed and an allocation to high yield credit and real estate was added. The Fund recovered market value by the end of March and finished the quarter with a positive return. PFM made further adjustments in the second quarter to de-risk the portfolio pre and post "Brexit" (regarding the vote for a British exit from the European Union). In the third quarter, although the Fund's performance was strong, it slightly underperformed the benchmark, mainly due to the moves made to de-risk the portfolio regarding Brexit. The pre and post United States presidential election results influenced the fourth quarter. Although the Fund lost market value as compared to the third quarter, it outperformed the benchmark.

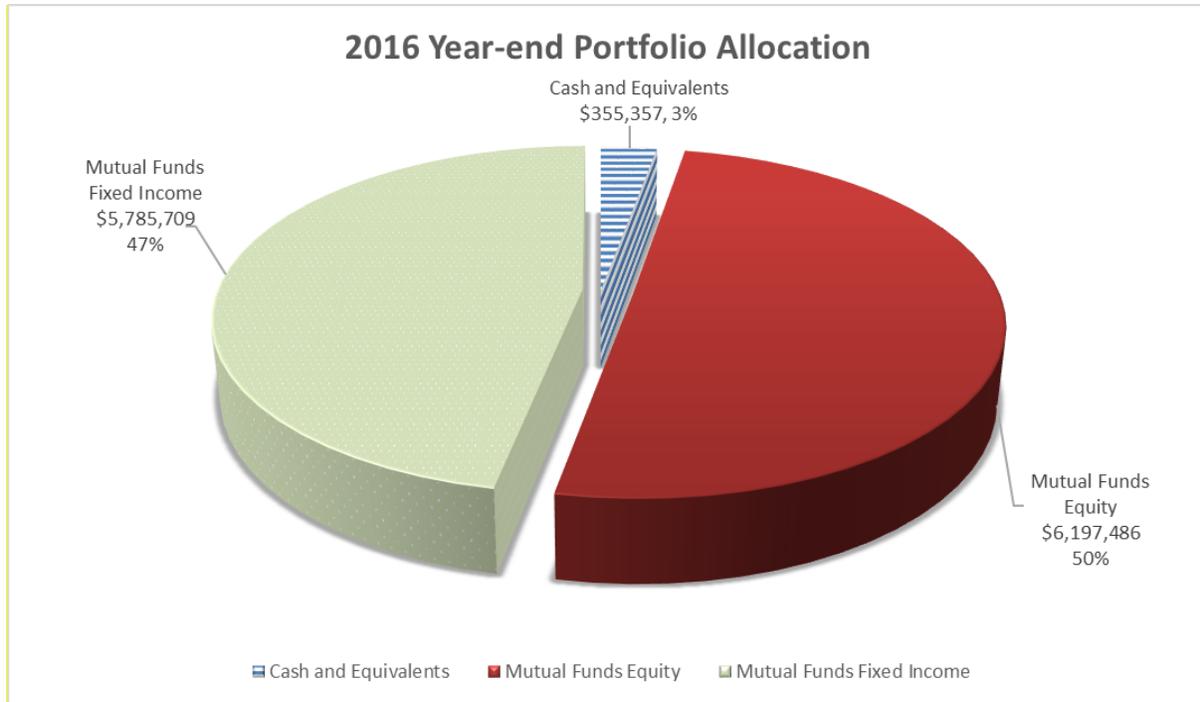
³ Market values do not include accrued income.

2016 Month-Ending Market Values for the Fund			
Month	Total Account Market Value	Month	Total Account Market Value
January	\$11,492,557	July	\$12,379,339
February	\$11,475,071	August	\$12,368,406
March	\$11,898,937	September	\$12,383,746
April	\$11,948,993	October	\$12,179,091
May	\$12,003,413	November	\$12,206,334
June	\$12,117,323	December	\$12,338,552

As demonstrated by the following graph, the Fund has grown since the 2008 financial market crisis, with the exception of its 2011 year-end market value, which was \$425,425 less than its year-end market value in 2010. Since 2004, the fund has experienced the most significant growth from 2009 to 2010 (\$1.2 million) and from 2012 to 2013 (\$1.2 million). The growth of \$583,388 in 2016 was significantly more than the \$3,414 growth experienced in 2015.



The pie chart that follows represents the Fund's 2016 year-end asset allocation. As detailed in the chart, the Fund's year-end asset allocation was 47% fixed income mutual funds, 50% equity mutual funds and 3% cash and cash equivalents and therefore complied with the revised allocation directive per Resolution No. 286-2014. 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.



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, 2016. The Fund's 2016 total annual return was 6.1%, a 0.33% underperformance compared to the blended benchmark of 6.43%. Since inception, the total annual return was 7.57%, compared to the blended benchmark of 6.75%

Performance
Vanderbilt Museum - Combined Assets
As of December 31, 2016

	Allocation		Performance(%)							
	Market Value (\$)	%	1 Quarter	2016	1 Year	2 Years	3 Years	5 Years	Since Inception	Inception Date
TOTAL FUND - Combined Assets	12,338,643	100.00	-0.25	6.10	6.10	3.32	4.29	7.69	7.57	09/01/2010
<i>Blended Benchmark</i>			-0.31	6.43	6.43	2.91	3.94	6.34	6.75	09/01/2010
Domestic Equity										
Vanguard Total Stock Market Index-Adm	3,653,871	29.61	4.12	12.66	12.66	6.35	8.38	14.62	12.92	05/01/2012
<i>Russell 3000 Index</i>			4.21	12.74	12.74	6.43	8.43	14.67	12.99	05/01/2012
T. Rowe Price Dividend Growth	336,625	2.73	2.20	11.62	11.62	6.89	8.68	13.95	1.28	12/01/2016
<i>S&P 500</i>			3.82	11.96	11.96	6.54	8.87	14.66	1.98	12/01/2016
Vanguard Small Cap Index Fund	449,784	3.65	6.10	18.30	18.30	6.77	7.01	14.83	6.10	10/01/2016
<i>Russell 2000 Index</i>			8.83	21.31	21.31	7.68	6.74	14.46	8.83	10/01/2016
International Equity										
Vanguard Total International Stock Index Fund	412,777	3.35	-1.93	4.67	4.67	0.11	-1.34	5.50	-1.93	10/01/2016
<i>MSCI AC World ex USA (Net)</i>			-1.25	4.50	4.50	-0.71	-1.78	5.00	-1.25	10/01/2016
Vanguard International Value	342,858	2.78	-1.11	4.46	4.46	-1.14	-3.03	6.01	2.41	05/01/2016
<i>MSCI AC World ex USA (Net)</i>			-1.25	4.50	4.50	-0.71	-1.78	5.00	2.20	05/01/2016
J. O. Hambro International Select	404,458	3.28	-6.25	5.20	5.20	0.47	2.07	11.16	5.20	01/01/2016
<i>MSCI AC World ex USA (Net)</i>			-1.25	4.50	4.50	-0.71	-1.78	5.00	4.50	01/01/2016
Oppenheimer International Small-Mid Company	201,984	1.64	-5.29	-0.24	-0.24	7.18	4.86	15.59	4.40	04/01/2015
<i>MSCI AC World ex USA Smid Cap Index (Net)</i>			-3.41	3.57	3.57	2.00	0.29	6.99	-0.00	04/01/2015
Other Equity										
Vanguard REIT Index	395,131	3.20	-2.97	8.50	8.50	5.40	13.13	11.78	2.09	04/01/2016
<i>MSCI US REIT Index</i>			-2.96	8.60	8.60	5.52	13.23	11.87	2.15	04/01/2016

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

Performance
Vanderbilt Museum - Combined Assets
As of December 31, 2016

	Allocation		Performance(%)							
	Market Value (\$)	%	1 Quarter	2016	1 Year	2 Years	3 Years	5 Years	Since Inception	Inception Date
Fixed Income										
Metropolitan West Total Return	1,394,241	11.30	-2.64	2.46	2.46	1.37	2.88	4.07	4.17	09/01/2010
<i>Blmbg. Barc. U.S. Aggregate</i>			-2.98	2.65	2.65	1.59	3.03	2.23	2.78	09/01/2010
Baird Core Plus	1,859,243	15.07	-2.37	4.73	4.73	2.41	3.78	3.55	3.02	05/01/2014
<i>Blmbg. Barc. U.S. Aggregate</i>			-2.98	2.65	2.65	1.59	3.03	2.23	2.39	05/01/2014
Vanguard Total Bond Market Index-Adm	160,088	1.30	-3.17	2.60	2.60	1.49	2.94	2.14	1.99	05/01/2012
<i>Blmbg. Barc. U.S. Aggregate</i>			-2.98	2.65	2.65	1.59	3.03	2.23	2.09	05/01/2012
Vanguard Intermediate-Term Investment Grade	1,857,957	15.06	-2.99	3.83	3.83	2.67	3.71	3.73	3.20	05/01/2012
<i>Blmbg. Barc. U.S. Credit 5-10 Year Index</i>			-3.28	5.23	5.23	2.93	4.39	4.39	3.73	05/01/2012
Vanguard High Yield Corporate	514,180	4.17	0.78	11.30	11.30	4.81	4.77	6.62	8.78	04/01/2016
<i>Blmbg. Barc. U.S. Corp: High Yield</i>			1.75	17.13	17.13	5.78	4.66	7.36	13.33	04/01/2016
Cash Equivalent										
First American Government Obligation	355,448	2.88	0.07	0.23	0.23	0.12	0.08	0.05	0.04	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 2016 month-end market value of the Fund's equity mutual funds totaled \$6,197,486, representing 50.23% of the Fund's total market value. As detailed in the table provided by PFM, as of December 21, 2016, the portfolio's equity mutual funds include \$4,440,280 (36%) in domestic equities, \$1,362,077 (11%) in international equities, and \$395,131 (3.2%) in other equities. All three of the Fund's domestic equity investments, two of its four international equity investments, and the one "other" equity investment underperformed in 2016, compared to industry benchmarks.

Bonds (Fixed Income⁴)

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 \$5,785,709 representing 46.89% of the Fund's total market value. Resolution No. 387-2011 restricts bond investments⁵ to bonds Ba and above, while maintaining an overall average quality rating⁶ 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. Four of the five fixed income investments underperformed and one exceeded industry 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, 2016 market value for the cash and cash equivalents portion of the Fund was \$355,357⁷, representing 2.88% of the Fund's year-end asset allocation. The total return for the cash and cash equivalents component of the Fund's portfolio was 0.23%.

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 \$91 in accrued income, which is included in the table provided by PFM.

Capital Gains/Losses

The Fund's 2016 year-end market value included \$260,574 in realized capital gains. Additionally, it included \$957,028 in unrealized capital gains (or a \$166,814 change for the year), which is the difference between the market value of the Fund, \$12,338,552 and its book value, \$11,381,524.

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 2016, a total of \$523,662 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 2016, a total of \$8,234,873 has been remitted to the Museum from the Fund.

Remittances to the Museum

Per the Museum's year-end Treasurer's Report, 2016 operating expenses of approximately \$2.5 million are projected to exceed revenues by \$177,820. However, there are sufficient reserved fund balances in the Vanderbilt Museum Fund (Fund 708) to cover the shortfall. Nearly \$1.4 million of the Museum's projected 2016 revenues were self-generated or donations and gifts. Nearly \$0.9 million in revenue was from the Suffolk County Hotel Motel Tax. In addition, the Museum received a \$74,000 disbursement from the Fund in 2016 to cover the costs associated with the purchase and installation of a laser entertainment system in the Reichert Planetarium. It is our understanding that the Vanderbilt Museum Board of Trustees has authorized the use of \$275,000 from the Fund for construction of the Museum's café. A resolution to include this funding in the current Capital Program is expected to come before the Legislature for approval shortly.

Although 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), 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, the Museum began receiving revenue from the Hotel Motel Tax (County Fund 192). The Museum received \$873,954⁸ of Hotel Motel Tax revenue in 2016, which was based on an approximate 9.0% 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.

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

In September 2016, PFM used a number of assumptions to project future market values of the Fund in various scenarios. They based their analysis on their 2016 Capital Market Assumptions (CMAs) and assumed a starting market value of \$12.3 million (as of 9/23/16).

- If there were to be an annual \$1.2 million withdrawal from the Fund, and assuming performance at the 50th percentile for a 50/50 portfolio, based on intermediate-term capital market assumptions, PFM projected that the Fund would be reduced to approximately \$4.1 million over a 10-year period. Results would vary depending on actual market conditions.
- Using the same portfolio allocation and intermediate-term capital market assumptions, but with no annual withdrawal, the Fund could grow to approximately \$20.6 million over a 10-year period. Results would vary depending on actual market conditions.
- In order to support an annual \$1.2 million withdrawal into perpetuity, without reducing principal, the Fund would need approximately \$16.9-\$24 million. This is based on a 50/50 target allocation with an expected annualized return of 5% (using intermediate-term capital market assumptions) and 7% (using long-term capital market assumptions). Results would vary depending on actual returns.

The Hotel Motel Tax was reauthorized and extended per Resolution No. 805-2009 to December 31, 2015. The New York State Legislature enacted legislation (Chapter 348 of the 2015 Laws of the State of New York) in 2015 that authorized Suffolk County to extend the Hotel and Motel Tax in substantially the same form as the previous program. Suffolk County Resolution No. 1017-2015 adopted Local Law No. 39-2015, which reauthorized the Hotel and Motel Tax through December 31, 2017. As of this writing, it is unknown if the Hotel Motel Tax will be reauthorized and/or extended beyond 2017, and/or whether the allocation formula would continue to include the Vanderbilt Museum at the current allocation level.

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.

The Fund's investment policies are as indicated 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.
- 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.

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. The newest contract agreement with PFM, which was executed on January 29, 2016, is for a three-year term with an option for the County to renew the contract 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 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 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 2016, a total of \$53,445 was paid, in advisory fees to PFM (\$49,895) and in trust fees to U.S. Bank (\$3,550).

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 starting and revised investment advisory fee schedules for 2016 are set forth in the two tables below:

Contract January 1, 2016

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%

New 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

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, 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 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 Trustees⁹ 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 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

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.

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.

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, to an amount not less than 5% of all revenues collected, with a corresponding increase in the allocation to cultural programs.

The Museum received \$726,499 from the Hotel Motel Tax in 2012, \$930,140 in 2013, \$1,028,370 in 2014. It received \$878,544 in 2015, which was based on an approximate 9.5% allocation of projected Hotel Motel Tax. The Adopted 2016 Operating Budget included \$873,954 in Fund 192 for the Museum, based on an approximate 9% allocation of projected proceeds, which had all been spent as February 1, 2017, per the County's Integrated Financial Management System. The 2016 figure is subject to adjustment once the Fund is reconciled upon being audited. The 2017 Adopted Operating Budget included \$1,049,531 in Hotel Motel Tax for the Museum, based on a 9.5% allocation of projected Hotel Motel Tax revenue.

The Hotel Motel Tax was set to sunset on December 31, 2015. However, the New York State Legislature enacted legislation (Chapter 348 of the 2015 Laws of the State of New York), in 2015, that authorized Suffolk County to extend the Hotel and Motel Tax in substantially the same form as the previous program. Resolution No. 1017-2015 adopted Local Law No. 39-2015, reauthorizing the Hotel and Motel Tax through December 31, 2017.

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. The 2010 Agreement with PFM was 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, 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. To allow for sufficient time for the RFP process to be completed, a request was made to the RFP Waiver Committee to extend the contract with PFM until a vendor was selected. The RFP Waiver Committee granted the waiver request to extend the contract with PFM for a six month period. The Presiding Officer exercised his authority to enter into two short-term extensions of the original contract with PFM, via letter agreements (dated March 27, 2015 and July 29, 2015) until the completion of the RFP selection process. The RFP for investment management services of the Vanderbilt Museum's Endowment was issued on April 9, 2015. Nine firms responded to the RFP for investment advisory services. On September 9, 2015, the Department of Public Works informed PFM that the RFP Evaluation Committee selected their firm as the successful proposer and that the County intended to award the contract to PFM.

Procedural Motion No. 26-2015, which was laid on the table October 6, 2015 and adopted during the November 27, 2015 General Session, authorized the Presiding Officer to execute an agreement to retain PFM to serve as the investment advisor for the Museum's Maintenance Fund. In October and November, the Presiding Officer again exercised his authority to enter into two additional short-term extensions of the original contract with PFM, via letter agreements (dated October 1, 2015 and November 12, 2015), to allow sufficient time for the negotiation and formal execution of a new contract agreement for investment management services for the Vanderbilt Endowment. The last extension of the contract was due to expire February 15, 2016.

The new contract agreement with PFM, which was executed on January 29, 2016, is for a three year term with an option for the County to renew the contract 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.

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. 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 2016. 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 policy¹² 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,

¹² 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.

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 with the Department of Public Works to upgrade certain mechanical systems, including the roof, and rental of the property is not imminent.
- 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.
- 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.
 - In 2015, the Vanderbilt Museum's Board of Trustees (BOT) voted to utilize realized capital gains from the endowment fund to cover the costs associated with the construction of a café within the Museum's Planetarium.
- 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.
- 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.

- 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.

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