

# SUFFOLK COUNTY LEGISLATURE



*Robert Lipp*

## **BUDGET REVIEW OFFICE**

*Director*

February 28, 2014

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, 2013 through December 31, 2013.

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

\* \* \*

### Attachment

cc: Angie Carpenter, Suffolk County Treasurer  
Joseph Sawicki, Suffolk County Comptroller  
Connie Corso, Budget Director  
Dennis M. Cohen, Chief Deputy County Executive  
Terrence Pearsall, Legislature Chief of Staff  
Lance Reinheimer, Executive Director, Vanderbilt Museum  
Stephen Faber, Managing Director, PFM Asset Management LLC  
John S. Spagnola, Managing Director, PFM Asset Management LLC  
Tyler Braun, PFM Advisor, PFM Asset Management LLC  
Mary Ann Baumann, Account Manager, U.S. Bank National Association

**VANDERBILT MUSEUM ENDOWMENT TRUST FUND  
ANNUAL REPORT  
JANUARY 1, 2013 THROUGH DECEMBER 31, 2013**



**February 28, 2014**

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

## Table of Contents

Executive Summary .....	4
Performance and Asset Allocation .....	6
Equities .....	10
Bonds .....	10
Cash & Cash Equivalents.....	10
Capital Gains/Losses .....	10
Remittances to the Museum .....	11
Investment Management .....	11
Investment Objectives .....	11
Investment Policies .....	11
Investment Management Contract .....	12
Advisory Fees.....	13
Appendix A .....	14
Historical Information.....	14

## 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, 2013 through December 31, 2013. The following highlights the major findings in this report.

- The 2013 year-ending market value of the Fund was \$11,102,192, which includes total distributions of \$110,000 to the Suffolk County Vanderbilt Museum and \$38,717 in fees.
- The Fund's 2013 total annual return, net of fees and distributions, was 12.78%.
- During 2013, the market value of the Fund increased by \$1,115,677 from \$9,986,515 to \$11,102,192, which is net payment of \$38,717 in investment management fees and a \$110,000 distribution to the Museum.
- The Fund's gross income from dividends and interest for 2013 was \$291,366.
- Based upon its investments as of the end of 2013, the Fund's estimated annual income from dividends and interest for 2014 is \$284,663.
- The Fund's year-ending asset allocation was not in compliance with Resolution No. 1266-2007, which reaffirmed the investment guidelines that allow a 50/50 split between fixed securities and equities to range between 5-10% of the 50/50 split, as determined by market conditions.
- One month later, January 31, 2014, the asset allocation was back in compliance. A greater range than 5-10% of the 50/50 split should be considered in conjunction with the risk-reward ratio.
- PFM does not invest in individual company stocks, only equity mutual funds to provide a diverse equity portfolio with minimal risk exposure. The year-ending market value of the portfolio's equity mutual funds was \$6,067,376, representing 54.7% of the Fund's total market value.
- The year-ending market value of the portfolio's bond mutual funds was \$4,734,145, representing 42.6% of the Fund's total market value.
- The December 31, 2013 market value for the cash equivalents portion of the Fund was \$300,671, representing 2.7% of the Fund's year-ending asset allocation.

- In 2013, the Fund incurred a total of \$38,717 in plan fee expenses which were paid to PFM Asset Management LLC (PFM) for investment advisory services and to U.S. Bank National Association (U. S. Bank) that acted as custodian of the Fund.
- Procedural Resolution No. 7-2013 was approved April 23, 2013, which 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.
- The Legislature has the option to extend the contract, one final time, for one additional year, through April 21, 2015 or opt to issue an RFP seeking investment advisory services. A Procedural Resolution to extend the current contract will be laid on the table at the March 4, 2014 general meeting, for consideration during the next committee cycle. This would allow the Legislature to vote on the contract extension at the March 18, 2014 general meeting, prior to the April 21<sup>st</sup> deadline.
- During 2013, \$110,000 was disbursed to the Museum from the Fund to assist the Museum in meeting its operating cash flow needs.
- The Museum received \$930,140 of the revenue collected from the Hotel Motel Tax (County Fund 192) for 2013. The proceeds from the Hotel Motel Tax reduce the Museum's reliance on the Endowment and afford it the opportunity to grow and provide for the Museum's future needs.

## Performance and Asset Allocation

The 2013 year-ending market value of the Fund was \$11,102,192 which includes a total distribution of \$110,000 to the Suffolk County Vanderbilt Museum and \$38,717 in fees. The following table summarizes the Fund's \$1,115,677 net increase in market value.

<b>2013 Endowment Trust Fund Summary</b>		
<b>Beginning Market Value</b>		
Market Value December 31, 2012	\$	9,986,515
<b>Investment Activity</b>		
<i>plus</i> Total Investment Activity	\$	1,535,694
<b>Plan Expenses</b>		
<i>less</i> Total Plan Expenses (Fees)	\$	(38,717)
<b>Other Activity</b>		
<i>less</i> Total Other Activity (Transfers & Disbursements)	\$	(381,300)
<b>Ending Market Value</b>		
Market Value December 31, 2013	\$	11,102,192
<b>2013 Net Increase in Market Value</b>		<b>\$1,115,677</b>

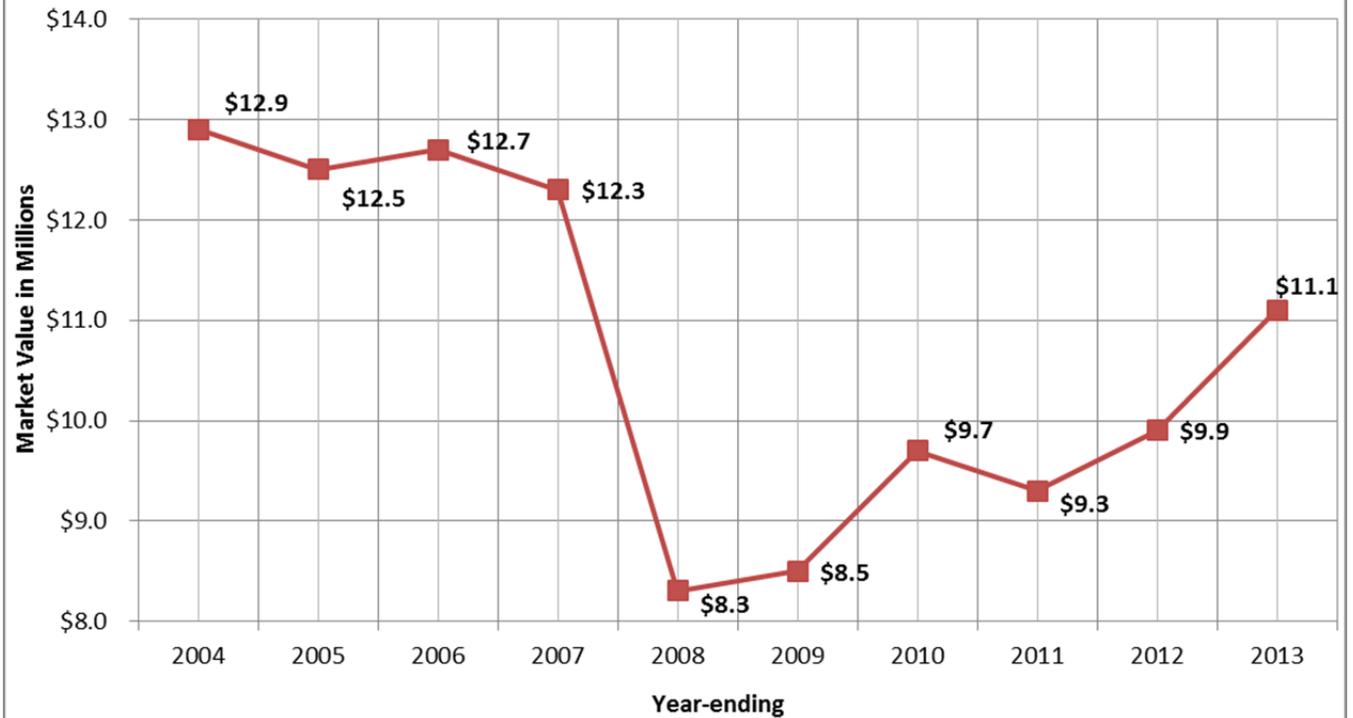
The following table details the 2013 month-ending total assets for the Fund.

### 2013 Month-ending Trust Fund Market Values

Month	Total Account Market Value
January	\$10,215,534
February	\$10,196,487
March	\$10,345,006
April	\$10,527,178
May	\$10,456,247
June	\$10,186,522
July	\$10,476,016
August	\$10,300,996
September	\$10,627,151
October	\$10,895,399
November	\$11,002,314
December	\$11,102,192

The following graph plots the Fund's year-end market values during the period 2004-2013.

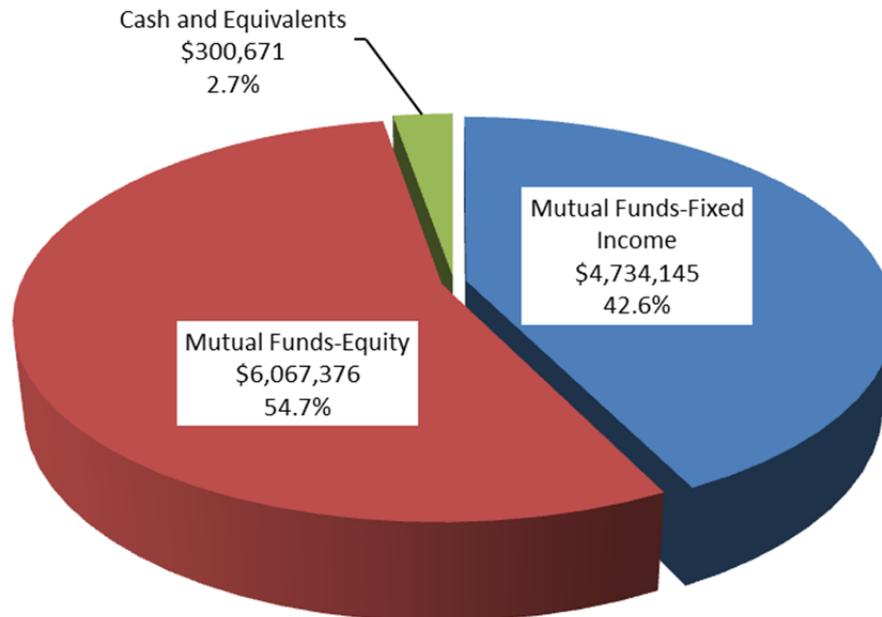
**Year-ending Market Values for the Vanderbilt Museum Endowment Trust Fund for the Period 2004 through 2013**



The Fund has grown since the 2008-2009 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. Last year's growth of \$1.2 million is significant, second only to the growth experienced between 2009 and 2010 over the last ten years. The Museum continues to rely on the Fund to subsidize a portion of its operations.

The Fund's 2013 year-ending asset allocation is indicated in the pie chart that follows.

## 2013 Year-end Asset Allocation



The Fund's year-end asset allocation of 42.6% bond mutual funds, 54.7% equity mutual funds and 2.7% cash and cash equivalents is not in compliance with Resolution No. 1266-2007, which reaffirmed the investment guidelines to allow a 50/50 split between fixed securities (bonds) and equities (stocks) to range between 5-10% of the 50/50 split, as determined by market conditions (note that cash is not considered in calculating the split).. The allocation compliance issue occurred in November and December of 2013 as a result of reductions to the values of bond funds held in the portfolio in conjunction with increases in the portfolio's cash position. Investment of the year-ending cash position into fixed income mutual funds would bring the investment allocations into compliance with the current guidelines. As of January 31, 2014 the Fund's asset allocation was in compliance with the investment guidelines. The economy and current market conditions might suggest the Legislature review the investment guidelines to ensure they are still the most appropriate. A greater range than 5-10% of the 50/50 split should be considered in conjunction with the risk-reward ratio.

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, 2013. The Fund's 2013 total annual return was 12.78%, which compares favorably to the industry blended benchmark of 9.98%.

**Asset Allocation Performance**  
**Vanderbilt Museum - Combined Assets**  
**As of December 31, 2013**

	Allocation		Performance(%)							
	Market Value (\$)	%	1 Quarter	2013	1 Year	2 Years	3 Years	5 Years	Since Inception	Inception Date
<b>TOTAL FUND</b>	<b>11,102,193</b>	<b>100.00</b>	<b>4.51</b>	<b>12.78</b>	<b>12.78</b>	<b>13.01</b>	<b>8.35</b>	<b>N/A</b>	<b>10.61</b>	<b>09/01/2010</b>
<i>Blended Benchmark</i>			<i>3.47</i>	<i>9.98</i>	<i>9.98</i>	<i>10.04</i>	<i>7.26</i>	<i>N/A</i>	<i>9.33</i>	<i>09/01/2010</i>
<b>Domestic Equity</b>										
Vanguard Total Stock Market Index-Sgl	2,564,349	23.10	10.10	33.52	33.52	24.66	16.25	18.86	21.58	05/01/2012
<i>Russell 3000 Index</i>			<i>10.10</i>	<i>33.55</i>	<i>33.55</i>	<i>24.69</i>	<i>16.24</i>	<i>18.71</i>	<i>21.67</i>	<i>05/01/2012</i>
Vanguard Dividend Growth	644,181	5.80	9.15	31.53	31.53	20.49	16.69	16.60	20.49	01/01/2012
<i>S&amp;P 500</i>			<i>10.51</i>	<i>32.39</i>	<i>32.39</i>	<i>23.93</i>	<i>16.18</i>	<i>17.94</i>	<i>23.93</i>	<i>01/01/2012</i>
Vanguard Mid Cap Index	404,108	3.64	8.62	35.15	35.15	25.22	15.40	22.07	15.61	06/01/2013
<i>Russell Midcap Index</i>			<i>8.39</i>	<i>34.76</i>	<i>34.76</i>	<i>25.72</i>	<i>15.88</i>	<i>22.36</i>	<i>15.32</i>	<i>06/01/2013</i>
Principal Small Cap S&P 600 Index	206,214	1.86	9.79	40.90	40.90	27.90	18.11	21.06	9.79	10/01/2013
<i>S&amp;P SmallCap 600</i>			<i>9.83</i>	<i>41.31</i>	<i>41.31</i>	<i>28.21</i>	<i>18.42</i>	<i>21.37</i>	<i>9.83</i>	<i>10/01/2013</i>
<b>International Equity</b>										
Vanguard Developed Markets Index	2,006,545	18.07	5.59	21.84	21.84	20.33	8.19	11.99	14.55	06/01/2013
<i>MSCI EAFE (net)</i>			<i>5.71</i>	<i>22.78</i>	<i>22.78</i>	<i>20.02</i>	<i>8.17</i>	<i>12.44</i>	<i>13.75</i>	<i>06/01/2013</i>
<b>Real Estate</b>										
Vanguard REIT Index-Sgl	241,979	2.18	-0.71	2.42	2.42	9.79	9.39	16.89	3.44	05/01/2012
<i>FTSE NAREIT Equity REIT Index</i>			<i>-0.71</i>	<i>2.47</i>	<i>2.47</i>	<i>9.99</i>	<i>9.42</i>	<i>16.49</i>	<i>3.64</i>	<i>05/01/2012</i>
<b>Fixed Income</b>										
PIMCO Total Return	1,735,532	15.63	-0.04	-1.92	-1.92	4.04	4.08	6.92	3.62	09/01/2010
Metropolitan West Total Return	1,744,180	15.71	0.58	0.50	0.50	5.88	5.76	9.15	5.34	09/01/2010
<i>Barclays Aggregate</i>			<i>-0.14</i>	<i>-2.02</i>	<i>-2.02</i>	<i>1.05</i>	<i>3.26</i>	<i>4.44</i>	<i>2.56</i>	<i>09/01/2010</i>
Vanguard Total Bond Market Index-Sgl	86,276	0.78	-0.19	-2.14	-2.14	0.95	3.15	4.39	0.30	05/01/2012
<i>Barclays Aggregate</i>			<i>-0.14</i>	<i>-2.02</i>	<i>-2.02</i>	<i>1.05</i>	<i>3.26</i>	<i>4.44</i>	<i>0.41</i>	<i>05/01/2012</i>
Vanguard Intermediate-Term Investment Grade	304,427	2.74	0.51	-1.37	-1.37	3.75	4.99	8.52	2.30	05/01/2012
<i>Barclays U.S. Credit: 5-10 Yr</i>			<i>0.80</i>	<i>-2.05</i>	<i>-2.05</i>	<i>4.40</i>	<i>5.65</i>	<i>9.17</i>	<i>2.55</i>	<i>05/01/2012</i>
Pacific Life Floating Rate	439,002	3.95	1.87	5.88	5.88	8.18	N/A	N/A	2.39	06/01/2013
<i>Credit Suisse Leveraged Loan Index</i>			<i>1.82</i>	<i>6.16</i>	<i>6.16</i>	<i>7.78</i>	<i>5.75</i>	<i>13.51</i>	<i>2.69</i>	<i>06/01/2013</i>
AllianceBernstein High Income	424,727	3.83	2.99	6.61	6.61	12.42	8.85	19.50	10.15	05/01/2012
<i>BofA Merrill Lynch Global HY Constrained (USD)</i>			<i>3.81</i>	<i>7.96</i>	<i>7.96</i>	<i>13.49</i>	<i>9.74</i>	<i>19.52</i>	<i>11.06</i>	<i>05/01/2012</i>
First American Government Obligation	300,672	2.71	0.00	0.01	0.01	0.01	0.01	0.07	0.01	09/01/2010

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



### ***Equities***

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 2013 month-ending market value of the Fund's equity mutual funds totaled \$6,067,376 representing 54.7% of the Fund's total market value. As detailed in the tables from PFM, the portfolio's equity mutual funds include \$3,818,851 in domestic equities, \$2,006,545 in international equities and \$241,979 in real estate. In general, the Fund's equity investments and real estate investments slightly underperformed the benchmarks.

### ***Bonds***

The year-ending market value of the portfolio's bond mutual funds was \$4,734,145 representing 42.6% of the Fund's total market value. Resolution No. 387-2011 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. This legislation structures the Fund's bond portfolio to provide income that is consistent with a reasonable level of risk. The fixed income investments within the Fund were approximately comparable to the benchmarks. Bond holdings within the Fund should be carefully monitored given current market conditions and the potential for downward pressure on bond values as interest rates climb. Investments in bond funds, as opposed to individual bonds, should enable the Fund to divest itself of some risk inherent in fixed income investments given current market conditions.

### ***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, 2013 market value for the cash equivalents portion of the Fund was \$300,671 representing 2.7% of the Fund's year-ending asset allocation. The total return for the cash and cash equivalents component of the Fund's portfolio was 0.01%.

### ***Capital Gains/Losses***

The Fund's 2013 year-ending market value included \$342,890 in realized capital gains and \$772,787 in unrealized capital gains. 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 and in 1994 the Legislature

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.

## **Remittances to the Museum**

During 2013, \$110,000 was disbursed to the Museum from the Fund to assist the Museum in meeting its operating cash flow needs. Revenues generated from operation of the Planetarium in 2013 have helped to reduce the Museum's reliance on the Fund to subsidize their operating budget.

The Museum began receiving revenue from the Hotel Motel Tax in May 2010 and for 2013, the Museum received 10% or \$930,140 of the revenue collected from the Hotel Motel Tax (County Fund 192). The proceeds from the Hotel Motel Tax also reduce the Museum's reliance on the Endowment affording it the opportunity to grow and provide for the Museum's future needs.

It should be noted that 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 the allocation formula for the distribution of Hotel Motel tax revenue will continue to include the Vanderbilt Museum, or at what levels, if the Tax is reauthorized and extended.

## **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 resolutions that follow.

- Resolution No. 1266-2007
  - Modified the investment guidelines to allow a 50/50 split between fixed securities (bonds) and equities (stocks) to range between 5-10% of the 50/50 split, as determined by market conditions.
  - This investment policy is to remain in effect until modified by duly enacted resolution of the Suffolk County Legislature.

- 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.
  - The investment guidelines stipulated in Resolution No. 387-2011 shall remain in effect until modified by duly enacted resolution of the Suffolk County Legislature.

### ***Investment Management Contract***

As per Procedural Motion 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 was approved April 23, 2013, which 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. The Legislature may extend the contract, one final time, for one additional year, through April 21, 2015 or opt to issue an RFP seeking investment advisory services.

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 giving written notice thirty days in advance of the termination date.

### **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 2013, a total of \$38,717 was incurred in advisory fees to PFM Asset Management LLC (PFM) and U.S. Bank National Association (U. S. Bank).

For all services provided by the Fund's investment advisor, PFM Asset Management LLC, the Fund incurred an annual fee based on net assets under the management of the Fund 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**

<b>Domestic Administrative Fee</b>	
First \$100MM Market Value	2.5 basis points annually
Remaining Market Value	1.5 basis points annually
<b>Portfolio Transaction Fees</b>	
Book Entry Transactions - DTC or Fed	\$7.50
Physical Transactions	\$7.50
Wire Transactions	\$7.50
<b>Benefit Payment Transaction Fees (if applicable)</b>	
Checks - Recurring Distributions	\$2.50
Wires	\$10.00
ACH (with advice)	\$2.00
ACH (without advice)	\$1.50
Lump Sum Distributions	\$15.00
<b>Other</b>	
TrustNow or TrustNow Essentials (on-line)	\$0.00
TrustNow Customized (separately bid)	\$0.00
Performance Measurement (optional)	\$250.00
<b>Out-of-Pocket Expenses</b>	
The only out-of-pocket expenses charged to your account will be shipping fees or transfer fees.	

## 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 30<sup>th</sup> 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, a planetarium, outbuildings as well as 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 238-seat 60-foot diameter domed sky theatre. The Planetarium and its observatory were closed in August 2011 for extensive renovations and a complete technological update that 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 Trustees<sup>1</sup> 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 partially defray 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 value<sup>2</sup>.

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

---

<sup>1</sup> 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.

<sup>2</sup> "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.

concept<sup>3</sup>, 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. 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 and the tax on the per-diem rental rate (exclusive of sales tax) imposed for each hotel or motel room 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 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. During 2012, the Museum received \$726,499 from the Hotel Motel Tax. In 2013, the Museum received \$930,140 from the Hotel Motel Tax; however this figure is subject to adjustment once the Fund is reconciled upon being audited. For 2014, the Legislature did not reduce the Museum's allocation; it remains at 10% of the revenue collected from the Hotel Motel Tax. The Adopted 2014 Operating Budget included \$1,248,688 in Fund 192 for the Museum.

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

---

<sup>3</sup> 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.

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 chose PFM Advisors and an award letter was sent on January 12, 2010. On March 23, 2010, Procedural Motion 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.

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 of 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.

During 2009, the following additional notable Procedural Motions and Resolutions were adopted.

- 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.

During 2010, the following pertinent Procedural Motions and Resolutions were adopted.

- Procedural Motion 2-2010 was adopted to authorize the remittance of monies (\$20,000) from the maintenance fund to the Vanderbilt Museum.
- Procedural Motion 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.

During 2011, the following pertinent Procedural Motions and Resolutions were adopted.

- 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 authorized the following changes in the investment management policy for the Suffolk County Vanderbilt Museum Endowment Trust Fund.
  - Adopted an investment management policy<sup>4</sup> 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.
  - The investment guidelines stipulated in Resolution No. 387-2011 shall remain in effect until modified by duly enacted resolution of the Suffolk County Legislature.
- 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.

---

<sup>4</sup> 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. 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 is 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.

During 2012, the following pertinent resolution was adopted.

- 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.

During 2013, the following pertinent resolutions were adopted.

- Resolution No. 275-2013 appropriated \$100,000 in connection with waterproofing, roof, and drainage work to be undertaken at the Museum (CP 7439).
- Resolution No. 343-2013 was unanimously passed that 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 was approved several months later which 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 would 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.
- Resolution No. 1129-2013 amended the 2013 Capital Budget and appropriated \$75,000 in connection with re-wiring of historic buildings at the Museum (CP 7445).

\* \* \*