Virginia Museum of Fine Arts
Transcription of the Fiscal Oversight Committee Meeting
Friday, March 26, 2021, 11:00am
Electronic Meeting

Meeting called to order at 11:01am.

Full attendance listed in the meeting minutes.

David Goode: Okay, I think we should call the meeting to order in order to have plenty of time. This is, as we know, a meeting in which we were required to record the meeting, and we will be doing so. As we are required to do, we published the request for public comments and participation, and I am advised we have received none. Am I correct on that, Caprice?

Caprice Bragg: Yes, you are correct.

David Goode: We can proceed without further ado. The first item on the agenda is the approval of the minutes, which were distributed. I would move for approval of the minutes as distributed. Is there a second, and please mention your name?

Steve Markel: Steve Markel seconds.

David Goode: Thank you, Steve. Are there any other comments or discussion on the minutes? If not, then let us vote on it. Do we approve the Minutes?

Committee Members: Aye.

David Goode: Are there any nays? Hearing none, I declare the Minutes approved. The agenda of this meeting is going to be looking at where we are in the current year and a very early cut on the budget, which we will need to prepare. There are no action items for the committee at this time, because, as you will see and you have already seen in the materials that are distributed, we have a long way to go in completing this fiscal year with a balanced budget. As you all know, we are required to do that and will do that, but there is a lot of challenges yet to be faced. What I would like to do is ask Hossein who has prepared a very comprehensive group of slides to run us through both the current year and the early thinking on the budget for next year. We can have all the discussion we need, so Hossein I will turn to you to tell us what we need to know about the current year.

Hossein Sadid: Thank you, David and good morning everyone. As David mentioned, I will start the coverage of the budget with an overview of where we are with the current year's forecast. We are in fiscal 2021. At the outset, I should mention again this is repetitious that we have continued to really be challenged by the impact of the Pandemic, which really started almost a year ago, impacting us last year in FY20. We are continuing to see the impact in FY21, and obviously that has also impacted the direction we are taking with the FY22 budget. If you have had a chance to look at the packet that I shared with you prior to this meeting and kindly turn to slide three of the presentation that really gives an overall picture of where we are in FY21 As you can see, David pointed out that we still have a long way to go to balance the budget of FY21. It is really important to know that, with a shortfall of revenues compared to the expenses of less than $300,000, we are positioned now better than we were the last time I reported to you in January. As I mentioned, you know the impact of the Pandemic has really affected two major sources of revenue for the museum. That includes the revenues and enterprise operations. Our total revenues we are forecasting to be below budget by 9.3% or $3.9 million. Correspondingly, on the expense side we are forecasting a reduction of the expenses for 8.7%. That is $3.6 million leaving us with the $300,000 that I mentioned. Let me just briefly cover some of the items and the revenue side and the expense side. Please feel free to pose any questions you have. You do not have to hold back as I am going through my presentation. The state general fund increase of 4.5% is really a one-time reimbursement of expenses. That is less than $500,000, which we have included in the forecast. All of that one-time fund flow from the state has really covered the expenses we incurred on the expense side in response to the Pandemic during the course of the year. We have included in that number an estimated cost for the remainder of the year as well. As I mentioned, the earned revenues really is the key impact item for the revenue reductions. We lost about half of the revenue that we had budgeted in this fiscal year 2021. Two items that are really primarily contributing to that are the revenues we had expected from *Sunken Cities* did not materialize and ticket sales and lower level or general level membership. Also, we had other things included in that earned revenues, tuition and fees for art classes. Because of the restriction attendance for those programs and select revenue loss on the parking that amounted to about $2.8 million. Enterprise was the second largest impact item because of the Pandemic. The net effect of the loss of revenue is $1.2 million. That is almost half of the revenue we had anticipated in enterprise operation. That is primarily in advance. We did not materialize those during the course of the year. Obviously the decline on the revenues has been offset by the decline on expenses, as you look down below by $2 million, leaving us with the gap of $1.2 million for the enterprises. To remedy that we actually used $1.2 million of the accumulated discretionary reserves of the museum health on the Foundation books. That is really the next item. As you can see, the Foundation support of the museum increased by 9.8%. $1.2 million of that is the transfer of the reserves to cover the gap for the enterprises, and the $400,000 was more use of the unrestricted endowment for the museum purpose, as opposed to supporting the Foundation. The unrestricted endowment really is used both to help the museum, as well as help the Foundation. The Foundation was able to release $400,000 back to the museum because of the recovery from the PPP program. We had a slight recovery that was a second tranche of the PPP after the passage of the recovery act in December. As I mentioned, $2 million is the result of the enterprise, because of the loss of revenues, we did not incur expenses. Other expense reductions, essentially, by scaling back the spending, for the museum operations and the spending related to the *Sunken Cities* exhibition we really adjusted how much we would spend. For instance, art and education, as you can see, reduction of 679 is primarily because of the *Sunken Cities*, and also the reduction of the main part of that was that with the discounted fees, we got $325,000 from that show. As I said, you know, the net impact as of now is about less than $300,000. That being said, I should point out that as of a couple of days ago after this packet was mailed to you, we have now more information about the enterprise's operation that looks a little bit gloomier than what I have reflected here. We may be dealing with a larger gap from now until the end of the year, but I am confident that we are going to be able to cover the gap and come in on balance. On the Foundation side, the budget is balanced and revenues are sufficient to pay for the expenses. The challenge has really been made on the museum side, and there are some steps we are taking from now until the end of the year to be sure that we end the year in balance.

David Goode: Let me stop Hossein, for just a second. We will take any questions that the committee may have about the current year. I do want to say that you heard Hossein mention and I am afraid it will come up again the subject of the use of our reserves which we brought over. In the numbers you have seen which still have a deficit for the fiscal year which we have to cover reflect the use of $1.2 million of that reserve. That is a subject that is very much on the agenda for Hossein and Alex and all of us, because we are happy that we have some reserves from previous years that are available. You will recall that they helped us close the previous year, but our objective is to minimize the use of those reserves and therefore do everything we can from a management standpoint, for the remainder of the year to close the deficit. That is very much on the minds of Alex and Hossein. We are hopeful, as we were talking before the meeting started that with things easing a bit with Covid and attendance coming back up and things beginning to go again that we may be able to close that. That will obviously be the management objective, but we want to use our reserves constructively and hold down the use of them as much as possible so that they will be available in the event, we need them in the future. Other questions for Hossein?

Jeffrey Humber: Quick question Hossein. I can see where we are on a financial basis, but what about cash?

Hossein Sadid: We are positioned well with respect to cash. Everything that is reflected here is cash based, and we are prepared to really watch that very carefully. A lot of our revenues are obviously the museum support and the support from the Commonwealth. Those are really sure appropriations available, either through the endowment distribution or funds we receive from the Evans and Williams funds. There is no threat in terms of having enough cash to support the activities. To David's point, as we are pulling in cash from our reserve balances, those reserves are one-time funds, we really have to be watching that very carefully, which we do. We have to continue building those back up so that we have enough rainy day funds to help us. To that point, I should say that the museum where we are position compared to the peer institutions we are really doing a lot of good. The way we have managed the finances compared to our peer institutions where they have really had challenges. I should point out that we have not really done any scaling back of salaries. We have committed to maintaining the employment at the museum, and that is also an important point to make, compared to the other museums and other organizations that have been challenged by the Pandemic.

Jeffrey Humber: I know it is hard to do when you do not know where the end point is, but can you talk a little bit about longer term impacts.

Hossein Sadid: It all depends on how the FY22 looks. There are some challenges, obviously, on the horizon still. No one can forecast the future, but we have enough time to react to FY23 and beyond. To your point about the cash. The earlier question, "What are the key things that we have in mind?" We are dependent on the investment markets. How they are doing with respect to the endowment? That is a significant part of that support coming from the Foundation and the museum. Realizing that the markets go up and down, we do not want to impact the purchasing power of the endowment. We have a $25 million line of credit that we had negotiated with really extremely favorable rates and provisions. That is in place until June of 2023. We have negotiated and put that in place, so in terms of the cash flow we have got other things backing up the potential challenges in the future and beyond 2023. You know, we are going to have to step back and really think about how to build back the reserves that we are now using which is a really good help to us to coast through the Pandemic. We need to rebuild those in anticipation for anything unfortunate down the road taking place and affecting the budgets.

David Goode: Other questions?

Alex Nyerges: David, let me just touch on this, because Jeff's question is a really good one. We had originally constructed, the fiscal 21 budget anticipating that revenue stream. The four pillars (government support, the endowment, fundraising, and then revenue), three of the four are not just strong, but they are steady. Development, you will hear from Tom has been better than good. Other than general membership. The fourth being the revenue stream from ticket revenues as Hossein pointed out, and from the enterprise had not materialized here in our third quarter. The first quarter of fiscal 21. We went back to revisit the budget projections, as we put them together so far for fiscal 22 and are looking at how we need to scale that back. Given the fact that they plan to have as many vaccinations done and, ideally, that will free people up. Of course the governor just loosened the restrictions considerably on how many people can gather and how many people we can have for events. We expect that to continue in a positive direction, so we are hopeful, not for the remainder of this fiscal year on anything coming out of enterprises. Which means we basically lost that momentum for those six months. Where we are more hopeful, but we are still looking at it from a conservative point of view, is what do we do for the first two quarters of fiscal 22 with respect to that revenue stream? Now, Michael has done a great job on the exhibition side. We have eliminated a major exhibition that was going to cost us millions of dollars. Taking that out of the mix, he has curated the exhibition that is taking its place. At a fraction of the cost, that is still going to be a splendid exhibition of major importance, but we are still looking at ways to tweak. We are looking at ways that we can hold back on some hires, not all hires, so that, as we get into fiscal 22 we can manage better. I will say that what Hossein said about fiscal 21, the gap is growing larger. We have all the tools that we can make this year end in a balanced fashion, which we have now for 86 years running. We are required to do so by law, and we have no choice. We luckily have at least this last quarter to fix the things that have gone wrong or at least make amends for them and then look at the way fiscal 22 is shaping up. Fiscal 22 is not the brightest picture, and Hossein will touch on that in a minute. We are going to have to look at ways to balance the budget and keep the momentum up at the same time.

David Goode: Thank you. Are there other questions from the Committee?

Michael Bisceglia: Hossein, do you still carry the PPP money as a liability, or has it already been written off?

Hossein Sadid: We actually applied for the first tranche in the summer and that got forgiven. That was the first tranche, and then the second one we just received the funding for the loan. We are carrying it as a loan, but the likelihood of it being forgiven is really, really high. We are actually applying that to our forecast, so I have full confidence that we are going to be forgiven. We have, as you know, similar support as we did documentation for the first application to the Small Business Administration. I am certain of the fact that we are going to qualify again for the forgiveness, and that should really happen shortly. We are in the process of working through our bank, Atlantic Union Bank to get that forgiven as well.

Michael Bisceglia: Thank you.

David Goode: Other questions?

Betty Crutcher: Yes, you have had some pleasant surprises like selling off some of the art. Do you see that helping to grow the revenues in some way?

Hossein Sadid: That is really Alex's. That is beyond my schooling, and that is really his expertise.

Alex Nyerges: Betty, let me say that this is a hot topic in the art museum businesses, as I think most everybody probably knows. What the AAMD has allowed for a two year window starting last April, we are finishing up the first year, is for museums to sell artwork and use the proceeds from deaccessioning to augment collections' care. I will say emphatically, and I have the agreement of my senior leadership team, including Hossein, that despite all of our best intentions of wanting to be able to tap into that money, it is a very bad idea. People give artwork to the museum for a reason. They want it to be in the collections. To turn around and use it for operating purposes is the equivalent of using seed corn. Once you start using your seed corn, you are going to end up in trouble somewhere. Now, we have plenty of works that we deaccession. You will hear about that at the full board meeting today, so you know that is not the question. But diverting the purpose of those funds when we deaccession artwork is against the grain of our mission, against the grain of our strategic plan, and a bad idea. It is extremely tempting to do and many of our colleagues, including the Met just announced that they plan on using up to $15 million a year of deaccessioning funds to shore up their operations. I can tell you that is going to serve them poorly over the long term, and other institutions are doing it, in some cases, selling off their one and only great treasure. It is the most short-sighted effort by the art museum world ever. I will just say this, we had a straw poll of the membership two weeks ago, and by a slim majority but a majority of the members voted to not extend this moratorium on deaccessioning proceeds. This is because the majority of us believe it is an incredibly bad idea, and I could go into the whole business of the Financial Accounting Services Board. The capitalization of collections and a whole lot of nightmare scenarios that would also potentially affect tax statuses of art museums as nonprofits. That may be a little more than you probably asked for Betty. Tempting as it is, it is a bad idea.

Betty Crutcher: Let me suggest that I was not suggesting that.

Alex Nyerges: I did not think you were.

Betty Crutcher: I was looking at the places that you were pleasantly surprised, even to offset some of the buying of some more art to make it even more exciting to come to the museum. Earlier, Hossein you had said that you have taken steps to ensure the year, and I am looking at Caprice in terms of strategies. I was wondering if we want to talk more about the steps that you have taken or you will be taking if we have a further Pandemic situation. What will happen and can increase the revenues?

Hossein Sadid: Sure, there are a number of steps that we have considered. I think Alex alluded to a few of those. We have a complete list of vacant positions that are really critical positions, and we are looking at to see if they could be put on hold, in a way that it would not really impact the mission of the museum. There are examples that we can give you, so that is one option. As I said, we have really held strongly to the notion that we do not want to impact our employment environment or create a situation that our employees would be feeling that we were in a financial trouble, which we are not really. We are just coping with the Pandemic situation, so that is one thing. The other thing is that we have estimated the scaling back of the expenses, expense reductions, especially on the discretionary side. We have been really conservative in counting on everything. We are taking a closer look at what else can be held back in terms of spending. Given all the things that we are doing, expense reductions, and also we are not really counting on any new revenues generated from the events. As you can imagine, we are hoping and praying that everyone would be vaccinated by May 1. That would be just fabulous, or at least we have a herd immunity to really see more traction on the events. That is really a great revenue generator for us, and we are not counting anything. There are some wedding and other things in the pipeline that the folks are working on, so there are a number of things that look good for us as we head down to the end of this year in June 30, both on the revenue side and opportunities on an expense reduction side. I am confident we are going to be able to manage this. The other thing I should point out, is at this time last year, when the Pandemic began, our forecasted gap was larger than what we are facing now. We have become pros in dealing with what needs to be done to balance the budget.

David Goode: On that note, we should turn to the very early cut on the budget, because it addresses that question. We think we have a manageable situation for this fiscal year, then we have to turn to the still uncertain. We have given a lot of thought to the budget for next year, and it addresses many of these issues. Hossein, can you run us quickly through those?

Hossein Sadid: If you do not mind David, for a second let me pause here. I think Denise has been trying to ask a question.

Denise Keane: No, I was just asking the question. I assume that just from a planning perspective, again I am not proposing this as an action item, but from a planning perspective we continue to look at the restrictions on our endowments in a worst case scenario. Whether or not we would have the flexibility to go back if we had to try to renegotiate and deal with eking out some, for you know operating expenses and things of that nature. I mean, I assume we go back and revisit those?

David Goode: Denise, I expect we could do that, but that would raise a lot of issues for the Board. I think we are not really near either the cash position or I think the operating expense position where we would need to be asking people to really reallocate their endowments. That is always an option, but a difficult one.

Denise Keane: I am not proposing it, but we should be focused on and at least know what it looks like. So that if we are ever in that situation, we understand what one of those options might look like or not look like.

David Goode: A good point, but a hard thing to do.

Alex Nyerges: Denise, we have actually scoured every single purpose of every single restricted endowment to look at how they are, to David's point we obviously would never want to go to donors to try to change restrictions, but where we have challenges that we are overcoming is where the restrictions had been interpreted one way versus another. Quite frankly, if we need clarification it is going back to the donors if they are still with us to look at it. Some we cannot. You can only buy so many flowers in a given year. We now have flowers in all the bathrooms. We have flowers everywhere. The Hirschler Flower Fund just keeps growing, and there is not a lot we can do about it. We have gone back to the Hirschler family to really to learn and to alert us if that changes. We can look at all of the restricted funds to make sure that we are making the best use possible for the intended purposes, but also for our fiscal strength.

Denise Keane: Okay, thank you.

Cindy Norwood: There are also ways that if someone is no longer with us and there has been a gift that no longer meets a need or the situation does not exist, whatever the case may be, then there is a process through the Attorney General's Office and sometimes through the courts to have those revised. That is an opportunity, but again, you probably would not want to go down those steps, unless you really needed to do so.

David Goode: I hope we do not have to go there.

Hossein Sadid: Right, thank you. For the benefit of time, we should move on to the most important aspect of my report this morning, starting on page five. I just want to point out that we have two milestones that we are reaching. By the May 6 meeting of the Foundation's Board, we really have to have a balanced budget for FY22 when we get to that point and, obviously, then that is the last meeting of the Foundation's Board. They would ratify the Foundation's budget conditioned on the museum's budget being approved in the following month on June 16. Those are two critical timelines. The reason I point this out is that we have a very limited amount of time to really bring together a balanced budget for FY22. If you could, turn to page six. Let me highlight some of the changes, one of the reasons for this update is to give you a perspective of where the budget was in January versus where we are right now with respect to the FY22 budget. The general fund appropriation, you will see, is up by about a million. Most of that Katie covered in the previous meeting. We now expect to get the appropriation for the IT and art storage facility, $400,000, but that is primarily an additive. We have to spend the money on those projects, and also the $115,000 for the conversion of the part-time positions to full-time. We will also get appropriations for the 5% pay increase that is in an amended budget of $531,000 that only covers a portion of the impact to the 5% increase. I will highlight that later in my report. Earned revenues. We have now reduced the earned revenues. Previously we expected to have a decrease of 27%. It is now at 34%. Upper level membership has not changed. It is continuing to be successful in terms of achieving their goals there. Designated gifts and grants. We are anticipating that to go up. That has been upgraded from an increase of 14% to 35%. Nothing has changed on the restricted endowments and unrestricted endowment contribution to the FY22 budget. Evans Trust and Williams Trust, we have upgraded because of the market conditions. We are allocating another $250,000 of additional money compared to what we had anticipated back in January. It goes up by seven and 10% compared to our initial assumption of 3%. On the expense side, the impact of the conversion from a one-time bonus that was initially in the amended budget bill changed out from the one-time $1,500 bonus to the employees. That is only for the employees supported by the general fund, full-time, salaried, classified employees, which is really a slice of our employment workforce. The impact of that would be $765,000 overall. I characterize that to be an unfunded mandate in the budget. We have included that now in this version of the budget, and we have also included four of the strategic plan initiatives in the new strategic plan. As you have seen on the bottom, that amounts to a little bit over $500,000 of additional expenses we have included in this version of the budget. Just to give you an overall picture, if you could turn to page seven, you will see at the bottom, where it says "balance." Our first drafted original model of the budget that we shared with you in January showed slightly below $2 million shortfall in the revenues compared to expenses. That shortfall has increased, primarily because of the inclusion of the strategic plan priorities, as well as the impact of the mandate for the 5% pay increase and a few other things. You will see the difference between what happened with the first model and the current state of affairs in the last three columns with the notes to the right side. Let me just briefly go through this. I covered this as part of the comparison of the assumption changes from the first time to now. As I mentioned, we are anticipating that the state general fund support to go up by $873,000. The first item, $515,000, is an additive. It is for increasing the bandwidth for the Internet and Wi-Fi for the museum, and the other $200,000 is for the art storage facility. We also have the $115,000 for conversion of part-time to full-time positions. The $515,000 increase on the general fund increases then correspondingly the expenses we have to fulfill. It is not really to any degree budget relieving. It is essentially in and out. The increased 5% I mentioned that appropriation is just limited to the general fund supported, classified, salaried, full-time employees. If you look down on the expense side, that is in and out. Then, in addition to that, we will have $765,000 additional expenses of the unfunded mandate to cover the rest of the employees with the 5% increase. That has been included in the budget here, and I mentioned that we have downgraded the membership revenue that is based on the current estimates. That impacts the earned revenues by $356,000. Then, obviously, we have increased the fundraising impact based on our current perspective of what will happen in 2022 by a total of a million dollars. You can see that included in that. It is a $250,000 increase that we were expecting from the Evans and Williams fund coming to support the museum. Expenses really are basically additives included here, plus the mandated expenses. The impact of the revenue increases versus the expense increases is $407,000. That is really the difference between the $1.9 million and $2.4.million that we are showing. That is really what we are going to have to deal with from now until, as I mentioned the May meeting of the Foundation. We have a lot of things taking place as we speak to make sure that we come back with another balanced budget that we have had in place since the inception of the museum in 1936. I will pause here, if you have any questions about any of the line items and the revenues and expenses to react to. I would like to walk you through the more detailed description of some of these budget drivers on the revenue and expense side.

David Goode: The Committee, obviously, will have quite a challenge. First, Alex and Hossein and staff will have a challenge of working through this between now and our May meeting. When we need to do it, and I am just preparing the Committee for the possibility, as we had to last year. You may remember, perhaps, having a special session called to run through the changes that we will need to make in the budget in order to present the balanced budget that we are required to and will. I do not know that that would be necessary, but I think we should assume that it may be. Questions while Hossein takes a breath? If you want to run us through Hossein, we have got 15 minutes to act quickly.

Hossein Sadid: Thank you, David. Let me briefly cover some of the slides that are really important. If you go to slide 14, this is a restricted endowment. To an earlier point about making maximum use of the restricted activities we have, I will share with you later in the report. This is part of our roll forward balances. To support the budget we brought in close to $3 million from that in FY20. Going to this current year's budget, we have about $3 million of funds used of the roll forward on the restricted endowment, and we plan to continue using about $1.8 million of the endowment funds to support the budget. That is included, by the way, on the revenue side. What I shared with you earlier today. Some corrections $1.3 million on the restricted, and the other $500,000 is on the unrestricted. The next slide, you will see again, we continue dipping into our roll over balances on the restricted and unrestricted endowments to support the current year's budget as well as the budget for FY22. This does not mean that we are piercing the 4.5% pay out. These are essentially unused endowment income that we had accumulated prior to FY21.

David Goode: I do want to just interject the cautionary note that we are very much aware that we are running out of the cushion to do that, and that is something we really do not want to do.

Hossein Sadid: That is a really good point. If you jump to page 18, to David's point we started this current fiscal year July 1 with $9.1 million of roll forward balances in the endowment categories. We used $5.2 million of that in this current fiscal year’s budget support. Then we included $1.8 million in FY20. The one that you just saw, and I shared with you has in it $1.8 million of the roll forward endowment balances, leaving about $2.1 million going into FY23. One of the things I should point out that is that is a steep decline in the dependency on the accumulated reserves, going from $5.2 million to $1.8 million, while we are facing the Pandemic. We may have to rethink about how we want to deploy the carry forward balances in FY22. This one of the options that we should keep in mind.

Jim Klaus: Hossein, can I ask you a question about these balances on the endowments? Are those endowments, those reserve funds, held on the Foundation side and then passed through to the museum?

Hossein Sadid: That is correct exactly.

Jim Klaus: Those are things that we review in our Foundation budgeting and determine how to use them?

Hossein Sadid: That is correct. It is a really integrated budget process. Everything that goes from the Foundation over to the museum is subject to the approval by the Foundation, because it impacts the area that the Foundation Board is responsible for, which includes managing endowment income and payout rate and so forth.

Jim Klaus: The only thing I would say through Denise and my work and thinking about this is it is something that we are looking at very closely. I know you have a $2 million or more budget shortfall to make up for in FY22. I may be speaking for myself or for more than myself, I do not know that we can be comfortable using all the reserves, using $9 million in reserves in two years and leaving zero. I am raising that now as you all go through this difficult process of closing that FY22 budget. That you know from the Foundation side, I think part of our mandate is to make sure that we have adequate reserves for not just the next year, but for the foreseeable future. I am hoping that you know we have obviously used significant amounts of them over the last two years and just want to bring that up as an issue to consider.

David Goode: I will say that. I mean we have talked about that, you, Denise, and I. We are, I think, very much of the same mind in this. I mean this is something that I do not like having to say to the Foundation, "We need to use these up." They do represent previously unused balances. That is in essence sort of a rainy day fund, but we all know what happens when you use up all of your rainy day fund. Because it might rain another day. The good news is that we have the ability to work through this without doing some of the things that other museums have had to do like make draconian cuts in staff and significantly lean on that sort of thing. That is the good news. The bad news is we cannot do that forever, so it is pretty clear that we will need some help from these funds in the next fiscal year. We are going to have to, the Foundation and the museum together, then have to figure out how we do this as responsibly and carefully as we can. That is why I think that the Committee may very well have a joint meeting or something like that, between now and May.

Hossein Sadid: Thank you, David. Are there any other questions before I take you back to this slide 15 which is the unrestricted endowment again? I would point out that in the FY21 budget, we have brought in quite a bit of unrestricted endowment, which is almost $2 million, so that is where the growth of 80% compared to a FY20 is. It is not really that we are distributing more payout from the endowment. We are basically using the accumulated earnings on the unrestricted endowment. If we could go back to this slide 19, which is really the other side of the coin for the rainy day funds. We began the year FY21 on July 1 of 2020 with about $3.9 million of the discretionary reserves, these are basically surpluses accumulated over the years in various activities, such as when we had additional revenues generated from the exhibition that we set aside when the museum had a slight, modest surplus at the end of the year. That went into that museum reserve and the Foundation reserve. I should point out, on the last one, the upper level membership reserve, I believe the Foundation Board made the decision to use that reserve to fund the Campaign. When the Campaign began, we had close to about $3 million in that reserve, which was a couple of years ago. That reserve has been totally exhausted in the budget for FY22. I want to point that out, and the importance of that is as we go into FY23, and I think Jeff asked that question earlier, what is our forecast for the future? That is a potential risk that we need to really continue working on generating more revenues to backfill this dependency on the source of reserve upper level membership going into FY23. By the way, the estimated balance left in the upper level membership, we need to change that to approximately $500,000 plus as opposed to $800,000. I will cover that when I do the integrated or combined budget of the museum and Foundation later in the report. If we jump forward to slides 20, 21, and 22, these are really important slides. We are working on updating these as of December, this is as of June 30. Tom and I track the progress we are making towards the Campaign and translating that into cash generated, because obviously the budget is cash based. It is important for us to continue paying attention to it. What is shown for the Campaign to be successful? It is absolutely successful thus far if we look at the attainment. We need to make sure that we translate that into the cash where it helps the budget. The Campaign includes numbers like forward gifts, planned gifts, different gifts, and things like that that really do not translate into immediate resources to support the budget. Just for the benefit of time we can jump to page 25. One of the challenges that the museum faces is the majority of our expenses, over 63% of the expenses, are personnel and wage staff related expenses, so you know our commitment for maintaining that intact in terms of our personnel and wage staff really limits our ability to how much we can cut costs. As you can see, I have this slide earlier that I did not go through. It is a lot of the non-personnel expenses. It really is the obligatory expenses like cooling, heating, and the fees that we pay the Commonwealth to provide the services we buy back from them. Also included in non-personnel expenses is the enterprises. That is about $7 million of total costs. By the time we stripped down the obligatory expenses and the enterprise out of the $18 million left in the budget for non-personal expenses our pool declines to about $5 million. The potential for cut back does not really yield a lot of lot of benefits, so a lot of the challenges we have really reside on the personnel side of the museum where we really need to have the workforce to support the operation of the museum. I am speaking of the obligatory expenses, as you can see, the $5 million. The next page, 26, this does not include the enterprise of about $7 million in our non-salary expenses included in that pool of $18 million. On page 27, we are back to where I started. This is where we are with the museum's budget. We have a significant effort in front of us, but we are prepared to tackle it. We have got some tools in our toolbox that is a combination of reliance on the revenue increase and expense reduction that we are working really hard with the senior management team as a group to literally on a daily basis to address. If this is of any consolation to the group looking back, since my arrival here in 2014, every year, this time of the year, as we are composing the budget for the following year we have had a gap, so I am not really threatened by the size of the gap. We have a much larger effort before us to cope with and deal with.

David Goode: Hossein, I think I am going to cut you off here, and then say to the Committee, I think we wanted you to get a feel for the challenge that we have between now and May and that management has in bringing up a balanced budget to us. I think Hossein has done a good job of showing us where the challenges are. They really are there. I want to take just one second to remind the Committee that they did get a report on *Sunken Cities*. We have as a matter of policy decided that we will look at the individual exhibition. It is not surprising that *Sunken Cities* has a red number at the bottom. It is a red number that is much better than the red number could have been, but it is part of our problem for this fiscal year. I just wanted to remind you that that is in the packet. Are there things that we need to cover? We have got only a couple of minutes of our allotted time here, Hossein.

Hossein Sadid: David, quickly on slide 29, it really combines the museum and the Foundation's budget. The true challenge we are facing is $2.8 million, because we also have a deficit on the Foundation's budget of $325,000. If we add those two, we are talking about $2.8 million. Really the gap on the Foundation side, it is created, primarily because of a Capital Campaign budget on the revenue side. If you look at the revenue, we only have now left from that reserve fund $531,000 versus the expenses of the Campaign that amount to, if you look at the last line of the expenses of $958,000. That is what happens when we are using the one-time monies to support the ongoing expenses. It is finally catching up, and that is reflected in this budget of 2022.

David Goode: It is clear that the Campaign Committee along with both the museum and the Foundation are going to need look very hard with Alex and Tom and you at the Capital Campaign, because we have funded a lot of getting the Capital Campaign to the good position where it is now. That has been quite a drain on expenses, and we need to address how to handle that on an ongoing basis. There are obviously a lot of deferred giving in the Capital Campaign. I remind the Committee that we continue to have this issue of what I think of as unfunded strategic priorities that were in the last strategic plan and continue in this strategic plan, which we really have not identified funding sources for. That is a challenge for the Capital Campaign as well, so we have got some work to do on that side guys. Alex, Hossein, or the Committee, anything further?

Andrew Lewis: What is the date of the May meeting? I do not have it on my calendar.

David Goode: Hossein, have you got that handy?

Hossein Sadid: It is the Foundation's Board meeting, and I think the more relevant date for this Committee is the June meeting of the Board, which is on June 16. I am sorry to have confused you. We were talking about the next meeting of this Committee is on June 16.

David Goode: Although, it is pretty clear to me that we will need to schedule a meeting and will consult with all of you on the timing for that. Any other questions or matters to come before the House? Thank you, Hossein for compressing a three hour meeting into an hour. I appreciate you.

Hossein Sadid: Thank you David and for everybody's attention. I really appreciate it.

David Goode: Thank you. Thank you, Committee. If there is nothing further, I will declare us adjourned.

Meeting adjourned at 11:57am.

Transcribed by: Stephanie Cooperstein
Executive Administrator to the Chief Strategy Officer and Deputy Director of Strategic Planning, Government and Board Relations