Virginia Museum of Fine Arts

Transcription of the Fiscal Oversight Sub-Committee Meeting

Wednesday, June 17, 2020, 10:15am

Video Conference

**Meeting called to order at 10:16am.**

David Goode: I’ll go ahead and call the meeting to order. And we can dispense with the announcement that we published the meeting for public participation and comment, but we see no public comment. So we will not have to go through that stage of the meeting. Are there any members of the public who have called in?

Caprice Bragg: No there are not.

David Goode: No, but we see none, so we can dispense with that set of formality, right?

Caprice Bragg: Yeah, that is correct. I think whenever you are ready.

David Goode: So I will continue to the approval of minutes, which were distributed to everyone. Do I have a motion to approve?

Martha Glasser: So moved.

David Goode: So a second?

Betty Neal Crutcher: Second.

David Goode: All in favor?

Committee: Aye.

David Goode: Minutes are approved. The principle purpose of the meeting is two-fold. One to get a report from Hossein on the fiscal year which is about to be completed. And then look at and approve the budget for the following fiscal year. We have looked at the last meeting at preliminary numbers on both of these, but a lot of work has been done since then. And I want to upfront compliment Hossein and Alex and the staff for the skillful and very dedicated way that you will see that they have been able to get us into a position where we can close out this year not only with a balanced budget, but with a balanced budget that has done the things that we need it to do in taking care of the museum and the people in the best possible way. So I’ll just start the meeting by praising the staff for the work that's been that's been done so far on this. And with that introduction Hossein, I'll let you run us through the numbers and don't make a liar out of me.

Hossein Sadid: Thank you David, and good morning to you all, and thank you for your time for this exciting discussion about the budget. As David pointed out, this has been an interesting time with respect to the budget and managing the financial part of the museum. But what I'd like to do this morning is to cover, as David pointed out there are two main topics, to give you an overview of how we're anticipating the year, the current FY20. And then move to the main part of the discussion for the proposed budget, covering next fiscal year, FY21. In your pre-meeting mailing packet, you received a report forecast based on the April 30th financial picture actual versus budget, and we have obviously updated our forecast based on May 31st numbers that I should point it out. The report that you have is consistent with our outlook based on May 31st numbers and as you can see the budget for this year, current fiscal year is forecast to be in balance. That's with revenues and expenses running behind budget by two million or 4.7%. And as you can imagine, for obvious reasons, we hear that declines in some of the revenue lines. Most importantly the enterprises operations ran behind the budget by about two million. That would be because we have been closed to the public since middle of March, and obviously there has been no revenues generated from the enterprises, which include the shop, food service and special events.

The two million decline in revenues that's been somewhat offset by expenses reduction. Obviously, we didn't have any food costs. That brings the impact of the enterprises on 2020 to a point two million impacted revenue that we have also have had declined and paper and revenues with check consist of lower level membership, ticket sales, and classes that we offer for education had a big impact of the reduction on revenues, and it's been offset, obviously, by expense reductions. We haven’t had the level of expenditures we have that budgeted for, as I mentioned, the revenues were down by two million correspondingly expenses down by two million results to get the balance forecast. The current fiscal year FY20, it's also important to note that we have included a bit over seven hundred thousand for a growing recovery fund. We filed our claim on the past two from the federal government support from the state further requests from the Planning and Budget Department and our request for reimbursement for FY20, this current fiscal year is 1.1 million. We also requested an anticipated additional expenses for Coronavirus related expenses for FY20 for about eight hundred thousand. A total of about 1.9 million and we hope to receive a good part of that request for reimbursement for COVID related expenses, but it's not yet we haven't really heard the outcome, but as you know, the state received 3.3 billion CARES Act recovery funds to cover the expenses related to Coronavirus.

David Goode: Hossein, is it fair to say that we're quite confident that we will receive the amount that you have shown here that we will project in our income line, but it could be better?

Hossein Sadid: That's right. So, the seven hundred thousand that we have included in this forecast is a fraction, a small percentage of the total recovery that we have filed and, you know, we don't know the final outcome of how much of that money is going to flow back to the museum. But, with that it would be, at least to the extent that we have included in the forecast. Anything in addition to the seven hundred thousand, including the forecast, obviously, we will have it released to future budgets and would be set aside for the potential impact of the drop in revenues by FY21. So with that, I will pause here and ask you if you have any questions about that current fiscal year FY20 as it has been a quite challenging year for obvious reasons. But I'm really pleased that with the hard work, as David pointed out earlier, of the entire museum especially the leadership that we've been able to maintain that budget in balance. We obviously are required to do that as part of the state, but the same is also true for the Foundation’s budget. Also having balance at the…

David Goode: Hossein and I have Excuse me? Go ahead.

Alex Nyerges: No, go ahead, David.

David Goode: Sorry I was just gonna say Hossein and I have discussed this. We anticipate that towards the end of July, we will have the final numbers in place after we get the fiscal year closed out and see the numbers that we will have. We will finally have and we will then get those numbers to the committee. And in the event that there is a need, that we'd see a need or to call a special meeting we can do that, but we anticipate that the year will be closed out generally. And in the way you'd see here. Excuse me, Alex. Go ahead.

Alex Nyerges: No. That's okay. In fact, the one piece of good news, which Tom can speak to real briefly, is the fact that we had planned based on the 2008 experience with the Great Recession to have at least a 15% decline in our philanthropic support. And we've not seen that, in fact, if anything, we've seen an uptick, particularly mid-level and upper-level memberships, people upgrading. So, Tom, if you could just give us a quick summary. We program that into our projections for June 30th as well as in the FY21 budget and neither of those, thankfully, and I'm gonna knock on wood again, have materialized so far.

Tom Gutenberg: Right, Alex. Now, we're up about 3.3 million in overall giving. That's obviously because of the momentum and success of The Campaign. But the best things is that we're actually flat in terms of unrestricted giving and on all the calls I've been on with other museums. They're down between ten and twenty percent. That they're predicting this year as well, as next year. So, and actually the numbers for our unrestricted as of today for the month, look even better. So we're, knock on wood, gonna I think we'll ended in a much better place than we anticipated.

David Goode: Yeah, you heard my knock on wood, Tom.

Tom Gutenberg: Thank you David.

Hossein Sadid: So if there are no questions…

David Goode: Are there any other questions? Let’s pause a second and give our technology time. Any other questions?

Harry Thalhimer: David can I pop in with a question? Harry Thalhimer.

David Goode: Please do Harry.

Harry Thalhimer: Good to see you too, and I realize I'm kind of a non-board member sitting here, maybe with my community hat on. And I think we're blessed as a museum to be in a place where we have the support that we've got. And the legacy that we've got and the future that we've got but I worry when I see organizations that have numbers that work, but we kinda overlook the people and the human impact of what this has done in terms of our organization. And I wonder if you could, or the staff or Hossein, or Alex could indicate. I realize there's been a substantial furlough. What is the recovery plan for that? Two the folks that have been furloughed is there, are there economics? Are they whole based on what they were selecting or not? Are they behind? And C, if they're not, is there a plan to try to catch up? And D, was there a need to adjust compensation across the top levels of the organization to address that? And was that considered? Something for the public saying…

Alex Nyerges: Let me jump in, Harry. Those are all good questions. And we've spent a lot of time on all of those issues. Let me talk about the furloughed people first, two hundred people.

David Goode: Alex, if I may, I'm gonna interrupt you. It's very appropriate to ask those questions. I was gonna bring them up, but I assumed you were gonna discuss this at the Full Board as well.

Alex Nyerges: Okay, yeah…

David Goode: I mean, however, you want to do it, but I think once you go ahead and then we can…

Multiple speakers at once.

David Goode: It's an excellent, it is a sixty four dollar question and deserves a good understanding by all the board members.

Harry Thalhimer: Yeah, the community guy and the community.

David Goode: Yep. Yeah. Well said.

Alex Nyerges: Well the largest impacted group has been the employees who were furloughed, 221 people. But we did that, only when we realized with the CARES Act, they would be eligible for a six hundred dollars a week boost in their unemployment compensation. In fact, we had a couple of dozen people that approached HR to say they wanted to be unemployed because they had no hours. We'd carried them through April 24th, on our payroll for an extra month and a half, almost paying everybody. And I even got, thank you notes back from part-time employees, who we furloughed in late April, because they thanked us for keeping them on the payroll for furloughing them and not laying them off, which is a big difference and just using numbers 221 furloughs, but that's only part of our part-time employees. The rest of our part-time employees we've kept on the payroll. With their average wages that they had in the first quarter of the year, and all of our full-time people with their benefits. So we've done, I think, an extraordinary job of helping everybody in addition to looking at the equity across the board. And I can't remember what your B, and C were Harry. I should've written that down.

On D, about the executive level. This year's budget has three hundred thousand dollars in salary savings because the senior leadership team, the eight of us that include Caprice and Hossein and myself and the others all took a five percent haircut that was mandated by the governor, and although all of our other seven hundred plus employees received it,

and that included the ones that the government funded, which was just the full-time permanent employees. They did not fund the part-time people. They did not fund the Foundation people, but we paid all of them the five percent increase. We though, at the senior level, did not take it. And that's not just a three hundred thousand dollar savings for this year. That's for this coming year. And for every year, coming down the road. And the other thing that the folks did was obviously forgo the benefit that would be retirement. You know, we've looked at all the particulars, and I think that if any organization has been responsive to first of all this employee base, and making sure that we're doing the right things, I think we've done an extraordinary job. So to Hossein and to Kimberly in particular. Thank you for all that that you did to make that happen.

Harry Thalhimer: Alex, thank you for that. My question was just to make sure that you don't get bit by some employees who didn't, if they didn't, weren't successful with a CARES Act and they didn't get what they had coming. And they were short about the museum, and that comes out later that looks bad for us. I just, I congratulate you on that. I think it’s just worthy of asking the question, and I’ll be quiet.

Hossein Sadid: Let's move on to the discussion of the main topic of this morning's meeting. And that is the proposed budget for FY21, if there's no other questions about the forecast?

Betty Neal Crutcher: Yes, I can… Can you hear me? Let me know if you're going to address this. But I just wanted to know if out of the two hundred and twenty one people who have been furloughed. Will you be addressing maybe how in terms of infrastructure how things will move in as you predict, or foresee for the next season. And also, whether you're going to talk about any online updates on any online work to keep our numbers at.

Hossein Sadid: Betty, that's an excellent question. And initially we planned to call back the furloughed employees in preparation for initial estimate for opening of the museum, which was on June 11th, so that date opening now, it's been delayed to July 1. I anticipate that we will probably call back almost the entire group of two hundred some employees to come back. Most of these individuals, obviously, were for the food service, enterprises, and in the shop. And as soon as we begin getting back to normal and opening to the public definitely we will call these individuals back. Just keep in mind, these are part-time employees that are limited to working up to 1,450 hours. As Alex pointed out, when we took…when we announced the furlough, it was beneficial to the employees. They had exhausted their hours of working, so not only was it beneficial to the employees that were furloughed, it was also had a potential savings for the museum, but we're gonna be calling all of these individuals back to work as soon as we get back to normal and open to the public.

Kimberly Wilson: Hossein, may I also? Hi, this is Kimberly. Hi, Dr. Crutcher. That's a great question. And so to Hossein's point, we're actually starting to call back as of the 22nd, next week, because we're trying to have our employee town hall meetings on the twenty third. We're also looking at employee testing, voluntary testing, COVID testing. So Hossein has built a budget around all of those elements, and employees are really excited to get back, including our volunteers. So, we're…all the managers are submitting paperwork for that right now.

Hossein Sadid: Thank you as stated in my cover, I left up to the proposed budget for FY21. It has certainly been a challenging time for us to, to say the least. We had a really good meeting with the Budget and Comp Committee of the Foundation for in May and the Board of the Foundation approved the budget for the Foundation with several provisions. The drop in revenues as we have estimated for the next fiscal year, and the associated expenses. We really started the budget with a gap of a 4.7 million for FY21, this is really up until about that middle of April. And with the significant effort that was undertaken on the part of the museum management team and others, through the expense reduction, and some use of revenues for restricted endowments the gap by the time we went to the Budget and Comp. Committee. We still had a gap of about 1.8 million. At that meeting we made some recommendations for closing the gap. By the way 1.8 million was divided equally by the Foundation, and the museum's budget and the Foundation budget approved our recommendation for closing the gap, which really resulted in not only getting the approval from the Foundation’s Board on the budget of the Foundation but also remedied the gap that showed in the museum's budget at the time. So the budget before you is in balance, I'll go through the details for the activities for FY21. But I should mention that like any budget given in a normal time, a certain amount of activity or numbers in the budget are our best estimates on whether that revenue expands. And obviously, since the budget is a forecast in nature, we would have some adjustments and changes to make. And next year based on what they, how the assumptions turn out to be in reality and that we obviously bring any changes to the Board’s quarterly meeting of the Fiscal Oversight Committee and report that to you in terms of if we have a decline in the expenses. We certainly come back with the suggestions for how to remedy that. So, that we end the year with balance.

As an example in the budget people see that the general support from the state is kept slack coming from FY20 to FY21, and I think, as you may know that the final forecast for the current fiscal year for the state is probably going to be…a revenue forecast couldn't be completed in July. We might really be subjected to a general reduction. We don't anticipate that'd be the case based on most recent forecasts that we have…we are seeing by the state. Let me just quickly go through the assumptions that we've built into the budget. Before we dig into the numbers for FY21, you know, it's important to point out. I've mentioned that we always do the budget for the museum and the Foundation concurrently. We wanna make sure that we keep an eye on integrated management of the resources, for the greater museum, which includes the Foundation. We have continued tracking the exhibition expenses and budgets, separately. We started this discipline about five years ago. As you probably know, that the exhibition budget is really the most variable part of the budget. It goes up and down, depending on the type of shows from a fiscal year to fiscal year. And we have adjusted the revenues. Based on the impact of COVID-19 all of our assumptions, and we have really been conservative and especially on the revenue side, not too, you know, be too aggressive expecting revenue to resume. We assumed in this budget that the museum will open to the public, general public on July 1st. We did this budget many weeks ago and that's precisely our plan to start that gradual opening at the museum. July 1st we will open with *Sunken* *Cities* for the members to view the exhibition and to the public July 4th.

As I mentioned in our assumptions, we've kept the general fund appropriation unchanged for FY21 with one exception. One of the things that we have for the first time included in the budget, the general fund appropriation is the allocation of some of the maintenance funds which we are allowed to do to support the conservation expenses. So that amounts to somewhat less than $170,000 included in that. Earned revenues, which includes the activities for lower-level membership revenues and traveling exhibitions and other kinds of expenses. We are seeing a decline of 8%. Some of that is attributed to, as I've mentioned to traveling exhibitions such as the Mellon Collection and had Schlumberger to come back to the museum. We had anticipated that we will see more income. But that's really not COVID related. It should be related to the activities as planned. For the first time in five plus years at the museum we have not included any contribution coming from the enterprises to support the budget. Generally, you know, it generated about a half a million or would have been more or less. I have to support the baseline museum budget. In FY21, we have it not generating any revenue support. The upper-level membership is anticipated to go down by 16% in FY21 and that is based on lengthy activities. And I have especially worked with Tom and his team. Part of the decrease, it's not really COVID related. It's because of membership revenues, which over estimated, or over planned in FY20. Compared to the actual baseline, it would be less than a 16% decrease. That's a 550K reduction in the budget. That designated gifts and grants that will be down by 48% or 1.8 million, some of that is COVID related and others related to the collected gifts related to the *Sunken Cities* in FY20.

As you know in FY21, we don't anticipate getting any additional gifts towards that exhibition. Endowments is up 54%, about two million restricted endowment. It's not the current distribution. We're allocating accumulated income from prior years’ endowment. That's really one of the reliefs for FY21. And, yeah, we're anticipating a decrease in the Lettie Pate Evans trust contribution to the museum budget by 3%. That's 550K, really. Every year we anticipated a higher distribution but because of how the investment markets indicated the economy downgraded their estimate for distribution in FY20 and FY21. The change capital, we have continued in this budget to support all the priorities for the strategic plan, which we started that five years ago, six years ago and that all of these projects would be fully funded in FY21. And I should point out that the change capital funding for that project it will be totally used up in FY21 and actually a gap of 330K will covered by other sources of revenue. I mentioned the expenses, we haven’t really increased any spending, but we have included some of the budget adjustments that were submitted by the division heads. So that’s a really high level review of the assumptions for the budget. If you could turn to the next page? I will see that the budget for FY21 will be at 4.6 million. That is slightly higher than FY20 and the reason for that is some of that is attributed to the reclassification of expenses between the museum and Foundation. This is to align the museum with its activities that are happening or that take place within the Foundation. On this page you will see that we are, I had mentioned general funds. A great deal of that is really attributed to the 20% maintenance reserve and contribution for the operating budget and also some adjustments that came through in FY20.

I mentioned the enterprises, it's been a significant part of the decline revenue side, which is about 680. Some of that is offset by the reduction expense side 180,000 with the loss of income. I would say coming from FY20 to FY21, 500,000 which is not gonna be contributing to the museum. That's really a wise assumption to make because I am not really sure how given the COVID-19 situation how the enterprise will recover from that. We're assuming to have to continue to ask some losses in the first part of it. On the expense side, we affected primarily by the *Sunken Cities* activities and art education, 5% higher expenses. It’s really been maintenance expense associated with expeditions. *Sunken Cities* primarily and collection, management and conservation reduction by 7%. FY20 it's really supported grant activities that ended in 2020 so we have that expense reductions associated with that. Facilities management. It will be lower by 4% at 6.8 million or so, and that's primarily because of a need to class installment payment on energy saving that we had borrowed money from the state and that's about $300,000 at that. 308,000 for marketing patients. It's really classifications. Some of the expenses over to our education as a day organizational structure. Some of the areas that predicts me for it. Market locations. So as I mentioned, total budget stands at 61.6 million, which is slightly higher than FY20 this is really a kind of a high level budget for the museum. And if you turn over to the next page. It is a kind of way more expanded presentation of the budget. I think Connor is on.

Connor Hudgins: Hopefully you can hear me.

Hossein Sadid: That's great. So Connor why don't you walk us through the detail budget? And then we'll come back to some other positives.

Connor Hudgins: The first thing… I'll try not to repeat much of what you said. So, the next two slides will have the VMFA revenue and expense line items, as you can see, it's broken down by FY20 and FY21 as in prior years we've broken down the expenses by the baseline expenses and the exhibition expenses. On the far right is a notes column and one column to the left is a variance. Revenues are broken down into five major areas, the first one being state support as far as the general funds. We expect to get the same amount in FY21 as we did in FY20 the slight increase is the state mandated salary increases that Alex mentioned earlier. Maintenance reserve. We're bringing about 166,000 in, and we get about 825,000 every year for maintenance activities, or bring a portion of that in for the conservation of art. Earned revenues. This looked a little different three or four months ago, but we've altered it due to the Coronavirus. Membership is down slightly about 294,000. Ticket sales is up about 950,000, and we haven't touched the attendance projections for FY21. So this is one of the line items we will be looking at very closely as we move throughout the year. If projections aren't hitting what we think, or they're going above, we will update this accordingly. Traveling exhibition we see about a 1.1 million dollar decrease. Hossein has mentioned this for about the last two years. We saw this coming in. It was on the horizon.

2022 we have another decrease. I know Michael Taylor and his team are looking at other exhibitions that can potentially travel so. Other earned revenues we have parking, studio schools, education classes, et cetera. We see a slight decrease just due to the class size that we can accommodate with the Coronavirus. Enterprise operations. A slight decrease in revenue. What's most important is the contribution, which is the revenue minus expenses. In FY21 we see no net contribution. Well, and FY20, we had about 500,000. The Foundation is one of the biggest sources of the revenue for the museum. The first line item is designated gifts. If you look to that middle column, you can see the exhibitions went from about 2.8 million, 878,000. We had a huge increase in FY20 for *Sunken Cities*. We've taken that down to a more reasonable amount for FY21. And I think Tom and his team are pretty confident in hitting this number. Restricted and unrestricted endowment we are using accumulative rollover. So these are one time funds, so we can use them in FY21, but they won't be available after that year. But he Lettie Pate Evans, slight reduction. This is just based on the payout that we get from the Evans Foundation. So we use their number for FY21. Slight increase in Williams trust just due to market performance. Below those are two line items for upper-level membership and Capital Campaign personnel. I mentioned we shifted some personnel from the Foundation to the museum and now the revenues that were…

Hossein Sadid: I think we lost that Connor. I'll step in on this strategic planning, as you can see that the support for strategic projects continue from FY20 to FY21. Some of the project funding, as, as I mentioned, we have a shortfall on the revenue side from the change capital. That's usually not the entire balance change capital. Also as we go to 2022 the gap you will see later will be about 1.7 million sustaining those projects. So, we have to really account for that in 2022. Connor, are you back on? Okay can everybody hear me? Oh, great on the expense side as you can see that. The activities are pretty consistent. They've been adjusted for areas that are not related. I mentioned it to collections management. It will be down because it's a valid grant. It's gonna be all used up. Enterprises we mentioned. There would be less expense off setting. Some of it dropped in revenues within that impacted 500,000. The increase in the director’s office is really not a true increase in it. It's a nominal increase and that's based on reclassification the expenses from the Foundation to the museum. That's one of the things that I should point out on the expense side of the slide. If you look in the column for the exhibitions, you know, over the past several years, the exhibition activities have consistently contributed to the baseline budget to the museum. And that has to do with the composition of what shows we do from year to year. For instance, in 2020 we'll know that the exhibitions that contributed at least budget wise that really didn't happen on actual basis at 1.8 million and in FY21 in our budget, we see a short fall with their revenue expenses. Part of the thing is the seasonality of the revenues coming and expenses.

I mentioned *Sunken Cities* revenues were collected in FY20 and most of the expenses will take place in FY21. That's contributed to that. But, you know, the important thing to notice with the right sizing in budget on the baseline. This is really the first time in my several years that we see at the baseline, it's showing a positive outcome. That's despite the lack of a contribution, the enterprises to support. Had we had the $500,000 contribution coming, and it was normal year to baseline budget would show up much better. If you could turn to the next page this is a really pictorial depiction of the museum’s revenues and expenses. And, as you can see that the nature part of the support for the museum comes from the Foundation, 44%. And if we really take the enterprises activities out and treat them separately, it's close to about 60% of the support comes from the Foundation. The general fund that is amounts to about 27%. Now, if we compared the 27% general fund support to the total budget of the museum, and the Foundation combined, that goes down to around 23-22%. And that's important to note. That if you look back fifteen years, the contribution from the general fund is really amounted to about 50% of the project. So this Katie, and I talk about this all the time that at some appropriate time, we need to highlight that the state should be contributing more to the success of the museum and keep up with the decline in their support. So I always tell Katie that we need to double this support, but we'll see what happens there. On the expense side, we'll see the distribution of the expenses. It's important to note that if we add art and education, collection management, and other activities that are directly in line with the mission of the museum. That 84% of the expenses contribute to support our mission of art and education. And only 16% is part of the 60% is not administration. Now administration is a little bit misleading here, because if it's part of the administration includes a visitor services. Visitor services budgets are true administration costs as it relates to the benchmark is about 15%, which is moving remarkable compared to the size of operation. On the next page…

David Goode: We might pause here for a moment, Hossein, and see if there are any questions. That this is a very comprehensive summary of the budget, which has been carefully prepared and in a time of great uncertainty. And there a lot of things that will obviously, as you've heard, I was saying, go through this. It will need to consider as the year goes on but let me just pause for a moment and see if there are any questions from the committee. Hearing none…

Charlie Whitaker: I had a question. Sorry, I was on mute. It's Charlie. I'm just curious and I know it's in here and I'm just having a hard time following it. If you could speak to the *Sunken Cities*, what was originally anticipated and how it's been revised? I know your attendance projections are gonna be much lower for 2020, but you say there, you haven't touched it for 2021. How do you see that based on before and after a program?

Hossein Sadid: Sure. That's one area that we're continuing to work on Charlie, to look at the initial budget really showed a net contribution to the museum. And that was pretty much predicated on being able to raise 1.9 million of gifts. And that estimate really is, in our opinion, slightly optimistic with the good work that Tom has done. And in fact, Tom had pointed out initially coming out of the gate that 1.9 million was not a realistic estimate but we kinda arm twisted him into agreeing. But so, we're anticipating that total money raised for the *Sunken Cities* would be less than 1.5 million. That includes the sponsorships and with that I see a decline in the net contribution. If we stay on course with the estimate for the attendance at 225,000.

Charlie Whitaker: Was that the original attendance estimate, including 2020 because I know you're cutting…?

Alex Nyerges: Let me, let me address that, Charlie, because two or three things have happened and here's just a good question. Because there's a large element, unknown in this, and I'll come back to that in a moment, but a couple of things. One, our initial estimate for attendance before we put together the original budget was actually 325,000 people. 325,000 people spread over the two fiscal years, and we talked ourselves down from that number to 225,000 visitors, which we thought was a very cheap, little number. Now, the second thing that's happened is that none of the attendance will fall in fiscal twenty, because the exhibit now opens on July 1st. The next thing though, is that Michael's been successfully negotiating with the organizers, the Egyptian museum and Egyptian government, where we lost this basically, this five or six weeks in fiscal twenty. And it would normally have ended in January of 2021. It's an eight month run. So, it's a large, long venue that we're gonna be able to extend this all the way to just about the first of March, picking up the time that we've lost in fiscal twenty and putting it all in fiscal twenty-one. Those are all the good things. We feel very secure that we lowered the number. We feel good that all of it falls into twenty one. I will give you the, but. And the but is really simple, we just don't know. We anticipate that when we open on July 1st to the members, we're gonna be flooded with visitors. Now, we've cut down the number of people that can come into the exhibition initially from four hundred people in an hour to only a hundred people an hour. Now what's gonna have some impact…also having an impact is gonna be user behavior. Will people come and visit the museum now?

On the other side of the equation I will tell you this. We did a program with Peter Schertz on *Sunken Cities*, Wednesday, two, Wednesdays ago. We had a thousand people sign up online to listen to his lecture. Which was for us a record number of people for doing one of these online Cocktails with the Curator. So, you know, we have positive information. We have a fairly conservative approach, but then we have a massive unknown, because 225,000 people given the current circumstances, quite frankly, is a lot of folks to anticipate. So, the good news is, we have eight months to do it and it all falls in fiscal twenty one. We have Egyptian which is like magic when it comes to the general public, and we do have anecdotal information that people are clamoring to get back to the museum and particularly are looking forward to seeing the ancient Egyptian exhibition.

So, that being said what we're gonna do and this will tie into the general assembly coming back in August is look to reforecast because once we go through July and get into August those first six weeks, I think, are gonna tell us a lot about general visitation. And I hope that when we look at what the General Assembly does, and the positive news that we heard yesterday from Secretary Lane, that we will potentially have less of an adjustment. But, you know what we're doing Hossein, myself, and all of the members of the senior leadership team? Is creating a best situation scenario, come late August a worse, W-O-R-S-E scenario then we're even creating a backup plan to the backup plan, which is the worst case scenario with an S-T on the end. And, you know, those, that kind of a plan quite frankly would be fairly catastrophic. I mean, we have to have the combination bad news from the General Assembly, and that the exhibition is not doing anywhere near as well as we anticipate. So a long winded answer. But I think it's a really good question. And it's one thing we will probably monitor not daily, but literally hourly to see where the visitors are coming from. How many are paying visitors? How many people are joining? Because right now with the information that Tom's giving us that you know, contributions are staying strong and even better than anticipated, you know, we, have some reason for hope, but we're not taking anything for granted at this point.

Jeff Humber: Hey, Alex, this is, I guess, technically not a financial question. But maybe the right place to ask it. With employees returning and several hundred thousand visitors do we have any legal exposure? If someone later claims that they contracted the virus in the museum?

Alex Nyerges: You know, that's a great question that the quick answer is probably not and I say that you being a lawyer and Caprice being a lawyer and Katie being a lawyer, you all know a lot more about the legal side. From what we understand at the moment people would be hard pressed to prove that they actually picked up the Coronavirus from us. Now, having said that when we get into the full board meeting, I'm gonna go through the protocols that we're going to employ from day one for every visitor, every employee, every volunteer. And I will say that at the very least regardless. I mean, we can't stop people from filing a lawsuit against us. We do have sovereign immunity as a state agency. However, I think that when you hear what we're doing, it's gonna, any reasonable person's going to say. Hey, look, I mean, what else could they have done other than stay closed which quite frankly, if you look at grocery stores and gas stations, you have to ask this question. Why can we get gas? And buy food?

Jeff Humber: And of course, our jury system full of reasonable people. So, we shouldn't be…

Alex Nyerges: You're right. It's a great Jeff. I appreciate it. I will say that I'm not staying awake at night over the question. It is something that we are watching. We're also looking to see what both the state and the federal government are doing. We will not be passing out just so you know a waiver to every visitor who's coming into the museum to say now, we will hold you without liability. That that won't happen

Hossein Sadid: Adding to what Alex mentioned is that our liability coverage, or risk is covered by the entire Commonwealth. Well, so that's one of the benefits of being an agency of the Commonwealth. Well, so if there's any exposure really, the exposure would not have an immediate impact on museum's finances it would be regarding should the state. And, in fact, every time we get a claim, the claim goes to the risk management group at the Treasury of the Commonwealth and they handle that for us. We obviously pay premium based on an annual basis. But all the risk is really the State’s risk. Not the museum per se.

Betty Neal Crutcher: I have one question will the online visitors be counted or can we charge a fee towards the *Sunken Cities* number of 220,000 since there is a lot of fear for people coming and returning to places where there's a significant crowd? Can we be creative any way as a state institution to count the numbers that way and charge?

Alex Nyerges: Well, you know, on the second half of your question, I would say, we probably can't charge. We are creating though, a full tour through *Sunken Cities*. We actually think it's going to entice people to come see the objects nearly three hundred objects in the exhibition. It's massive. Our restrictions in terms of the health protocols are gonna be fairly robust. You come into the Cochran Atrium and there is an eight ton, sixteen foot tall sculpture. And when people get a sense of the exhibition, I think that what we'll see is a response in terms of real visitation. That will be very close to our original projections, but that may be just my wishful thinking. No one knows. I will say that our colleagues that have opened have had good experiences. The Houston, when they opened, they had people waiting lining up at the door. They had people coming in and crying, because they were packing the museum for the first time in three months. And I suspect here where we have a very loyal massive following and a per capita number, that quite frankly, maybe the best per capita attendance of any art museum in America. I'm just gonna remain hopeful for the moment. By the time we get to mid-August, we'll know more.

Betty Neal Crutcher: But can we count the online visitors?

Alex Nyerges: We will. We will be creative to your first half of your question. They won't contribute to the income side of the equation, which is where we actually have our greatest focus. And I think it is more than just ticket revenues. It's restaurant revenues, gift shop revenues, cafe revenues. Memberships is huge now. The good news is all this falls in fiscal twenty one. So, we do have the advantage of encapsulating it in one fiscal year, which will be easier for us to measure. Easier for us to keep an eye over as we move forward. But I like your question.

Betty Neal Crutcher: Thank you.

David Goode: Betty, we may see as we go through this opportunities in online and as a potential future revenue generator. Right? I think we're all gonna learn a lot. Everybody's gonna learn a lot out of this experience. Hossein, I think you went through the budget pretty extensively, and we mentioned most of the challenges. Are there other challenges you want to point to before we consider the recommendation of this budget to the board?

Hossein Sadid: Sure. Thank you, David. I quickly want to cover the combined budget for the museum and the Foundation, if you don't mind. Just to…

David Goode: Good point. Excuse me, I forgot that.

Hossein Sadid: That's fine. It's and I mentioned this before. I really want to give a great deal of compliments to Jim and Lilo for their leadership and also the Budget and Comp Committee. I think where we are right now is the great support that the Foundation has extended, given the conditions that we were in to be able to produce a balanced budget both for the Foundation and the museum. On this slide you will see that the Foundation’s total contribution to the museum in FY21 is 18.2 million, which is about a million plus higher than what we had to put in the budget in FY20 and it's really helping a great deal to meet the needs of the new museum combined budget. Although the museum's budget is slightly higher, because of the reclassification of some of the expense to the Foundation. The total budget in FY21 is below the FY20 by nine hundred thousand. So, the combined which is a tremendous accomplishment, and so a lot of that has to do that, that managing the expenses, despite any increased expenses on the submission side of it side of it activities for the museum.

Alex Nyerges: I wanna echo that comment and thank Denise and Jim and Lilo, and all the Foundation because they literally their budget actions and the approval of the fiscal twenty one budget have made it possible for us to not cut hours, to not cut programs, to do the things that would quite frankly be a sign of weakness. In fact, for the reopening on July 1st, all the galleries will be opened. Will be open our regular hours, 365 days a year, Wednesday, Thursday and Friday night's still nine and we're doing that for two reasons. One, we want to have our public know that we're there and back in business for them, but we also want to show that we continue to be strong. We continue to be responsible and for the Foundation to make that possible. It spurned certainly my undying gratitude. I think, and I speak for all the senior management team, and for everybody else for all of the reference. So thank you to them.

David Goode: I might add, Alex that I sat in on the meeting as Alex is saying, the Foundation to consider this budget, which they did very thoughtfully and in considerable detail. And I think we all have an appreciation for how much work is going into this. And how much the Foundation is contributing to our ability to present a balanced budget. Then Denise or Jim or Lilo if you all are on, any comments you'd like to make?

Denise Keane: Hi, it's Denise. I just wanna say the fact that we are working together and had the benefit of your perspective as we moved through it. I thought was very, very helpful.

Jim Klaus: And the only thing I would say is we like, the museum side used some funds that we had, let's just say, squirreled away from previous overages that we had in previous years that we were able to use, rainy day funds I call them. And we didn't have to use any money that we had set aside to pay off our debt, which was very important to us that we not touch those. And we also did not change the draw from the endowment, which was another idea that was floated around. So, the good news is, we didn't have to hit those levers. I guess the bad news is, I think, and Hossein correct me if I'm wrong that both on the Foundation side, and on the museum side, I think all of our rainy day funds are being used to balance the budget in FY21. And a lot of them, Alex is shaking his head, but anyway, if I'm wrong, please, let me know that. I would just say that we've used a lot of our rainy day funds. I would say, correct me if I'm wrong so that if we do have further changes to make we just have to be aware of that. That those funds may be depleted, but I'll let Alex and Hossein correct me if I overstated that.

Alex Nyerges: We do have you have sufficient numbers and Hossein if you could give us the totals both on the Foundation and on the Trustee side but we still have a couple of million dollars of money to fall back on and that's not changing the rate of draw on the endowment. But there are monies that we can tap and when we get to August, we'll obviously be able to understand what our challenges are quite frankly, if any. If the federal government steps in and helps the states with money, you know, that multi-billion dollar gap, which may even be smaller based on what we heard yesterday may not be, but we're prepared first of all with budget cuts but then Hossein, if you could just rattle off those three or four numbers in round numbers that we have still in reserve, because it's not a ton of money, but it's substantial enough to make us comfortable.

Hossein Sadid: No, I agree, you know, that the point that Jim made, and also your response both of them are correct we have really used up some of our accumulated reserves to support that. But that being said, I'm always really focused and making sure that we have at least 5% of the budget, the combined budget in the way of discretionary funds available to support the future. So, you know, rest assured that we have some additional flexibility in the future. Should there be a decline in the level of, you know, activities on the revenue side. You know, we had, you know, somewhere around two and a half to three million dollars of unencumbered departments that can, which is really an access to the 5%. I think generally a well-run business should at least be at 5%, and our type of business to, you know, on a continuing basis to be able to sustain. It's good judicious financial management.

Alex Nyerges: And Jim, one of the other things that Hossein has mentioned in passing, we do have a couple of applications in with the Commonwealth, and the federal government that are to reimburse us not only for direct COVID expenses, but then related expenses and there's the good possibility that some of the funds that we've allocated from reserves might come back to us. I mean, I'm talking about that could easily not only approach seven figures, but be beyond the million dollar mark. So, I mean, a lot of variables, I think, the more important answer to your question, and we have been, is that we just have to be cautious. We have to watch very carefully and then be prepared, as I say, for the worse and the worst case scenarios, should they come to fruition.

Harry Thalhimer: Alex, while you're on just a question. That you have mentioned the secretary a couple of times in terms of what you heard yesterday. It's a big question mark, whether or not the states's gonna be funding at the level that's committed to or not. Obviously. And when do you think you would know that, and I would imagine that's where the biggest contingency exposure is, even though the crowd estimates is one thing. But if the state comes in and takes a big haircut, you know, what do you think? When we do know that based on the state timeline and how realistic do you think the numbers are to hold?

Alex Nyerges: Katie is probably best qualified to answer that question. We, we've talked about a lot, but she's closest.

Katie Payne: Sure. Yeah. So the revenue reforecast is supposed to be done at the end of June, or beginning of July. The governor's gonna call a special session. He's aiming for early August, but it looks more likely that it's gonna be late August or possibly right after Labor Day. And they will have a remote special session where they will make those final budget decisions. We addressed this in an earlier meeting, but all new discretionary spending in this last biannual budget was unallotted when they passed the budget. In other words, it's still in the budget, but with language that says that we do not have authority to spend at this time. So, when they come back into special session, the legislature will be making recommendations one of which of those, based on the revenue report, which of those new expenditures can go forward and which need to continue to be held.

David Goode: I'd like to make a couple of comments, Alex. If I may, there are two or three, very good favorable things that have happened. One is we close out the year, or we're about to close out the year. We have not invaded any endowments. We have used some reserves, but prudently and as you're seeing, we have some reserves that are usable for the next fiscal year, which we've used in this budget that is before you. This is gonna be a work in progress. Katie, as you point out, this is gonna be very much a work in progress and I think this committee will lead to work very carefully with the Foundation and the appropriate committees at the Foundation to make sure that we maintain the same disciplines that we have so far working with the unknown. Good news is we have not invaded any endowments. We have our endowments, they’re operating endowments, as we know in the Capital Campaign are not what we would like them to be and we're working on that. But we will endeavor not to over utilize any reserves understanding that we do have some flexibility to operate. But the, as we see what the new year is going to bring, everybody's gonna have a heavy responsibility to work with the same kind of discipline and skill that we had so far. And that's sort of the spirit in which I would like to propose that we move forward with this with a budget that is before you recommended to the board as we go forward into the year. It's a good budget. It's, it is sensible. It's doable. But it, but there are a lot of question marks, still out there. Hossein, does that make sense to go ahead and move forward if there is a motion to approve the budget?

Hossein Sadid: Yes, sir I'm confident that this really represents our best thinking, having all the moving parts and we'll certainly come back and update it at the meeting of the Board. If there are any significant changes as we move into that starting FY21.

Tom Papa: Hossein, this is Tom Papa, I don't know if you can hear me.

Hossein Sadid: Yes.

Tom Papa: So, a couple of things that I would ask you about and one is the museum expansion plans and the budget obviously, that has slowed everything down. We in anticipation of this fundraising and moving forward. We, we've incurred some additional expenses. We've made some great hires. But is there something that you can tell us about how you have changed the assumptions for our soft cost? I think we had about thirty months before we went out to the public. And now, I think it's pretty clear that that's gonna be expanded. Where in the budget have you shown that? How does that impact the overall budget?

Hossein Sadid: So it's really a good question. We have not included any additional expenses for FY21 for the expansion plan. Obviously all the effort through Michael Taylor's committee is really somewhat delayed because of the unknown with a support. And as Katie pointed out, you know, sometime in August or September, we'll know the status of the funding, the key element of the strategic, the key element of the expansion plan is the commitment by the state to begin our planning process and funding for the project is more than sufficient to begin the planning. And as we were completed the planning for that project to continue our fundraising as part of our Capital Campaign to meet the overall cost. The capital budget is not included in the operating support. We never budgeted for capital.

The part that I've listed and one of the things to keep in mind as we get closer to opening the building. If we have a good business plan, we're making sure that we covered the operating costs associated with the expansion plan. And that's one of the major things that the team has been focused on. We continue to think about as we approach the completion of the planning for the project and opening up a new building. One of the things I should have pointed out that when we submitted a request for funding and Katie remembers this as part of our decision package for the expansion plan included in our request operating support, based on the square footage edition. So we're already on the drawing board with the state. It had gone before we have begun doing anything to make sure that we are prepared to cover the operating costs of that additional space to the museum. So that's an excellent question, Tom but we have a very clear invitation to making sure that that does not really stress the operating budget of the museum or the Foundation.

David Goode: Thank you other questions? Do I have a motion to approve the budget as, in it's the form submitted.

Charlie Whitaker: So moved.

David Goode: Second?

Betty Neal Crutcher: Second.

David Goode: With no further discussion are we in favor? Everyone say aye?

Committee Members: Aye.

David Goode: Any opposed? Hearing none we will adopt the budget. Hossein, are other matters that we should consider as a committee?

Hossein Sadid: The last item on the agenda is, as we've done in the past, proposed agenda items would be in the meetings in FY21 and this is very similar to the items covered in prior years. And the reason we bring this to the last meeting of the year is to ask the committee members, if you wish to add anything to the agenda in terms of coverage for these meetings. So, we will certainly welcome that obviously subject to approval by the Chair of the Fiscal Oversight Committee. But that's really the reason for including this. And the second reason is we want to make sure that they the committee charge is covered in our presentation or information that we provide to you.

David Goode: I’d be happy to have any suggestions. So I would anticipate that as we open July 1, and as we hear further from the governor, and the General Assembly as Katie's outlined for us, we're gonna need to look at numbers and probably need to have an extra meeting. So, now members of the committee, and Hossein, and Alex, and I talked about that, and we would anticipate as soon as, as soon as we get more certainty on anything or see unforeseen problems, we will communicate with the committee, and if necessary call all the meeting. Any other comments or suggestions? Alex, are we prepared to get you to the full board meeting?

Alex Nyerges: Well, actually, you're gonna end early and we've got fifteen minutes built in, between the end of each scheduled meeting at a quarter to twelve. So, we can all take a rest break, bathroom, break, whatever that was we need. So well run meeting David. Thank you. Thank you, Hossein.

Harry Thalhimer: Alex, David, can I do even kind of just throw one thing in on a positive note that I'm looking at the budget while this is going on. Alex mentioned the pent up demand for people to experience art and we know that's the case. And the fact you get a thousand people on a WebEx call, it's happening with auction houses with galleries with museums. It's very real. I was just looking at the enterprise budget, I would say to you that there's a real opportunity to add revenue and income to this institution online. Our retail shop is a retail shop. There is a web presence, but I would think people with their converting their buying habits so much to online buying if we can add some resources to figure out a way to be a viable online seller of our product. That is an opportunity to show enhancement and I don’t think that’s not just right now. I think that’s gonna be ongoing. Something that we could look at that number and really considerably drive profits. Obviously there is fulfillment and how you do that and how you communicate it.

Alex Nyerges: It’s a great, great comment Harry and let me tell you Kimberly who runs operations now and Michael Guajardo who runs the retail they had a Friday a couple of Fridays ago where they did $30,000 in puzzle sales online. So those are those people sitting at home trying to figure out what they are gonna do. I wish I had that problem. Now the online piece of this business has gone through the roof. Now the other thing and this goes with your comment and how to generate revenue. We’ve also seen which is fascinating where our online presence is skyrocketed. A huge percentage of the people that are coming online to buy things or to attend programs or classes. Like 50% of those people are not people who have attended or visited the VMFA in the last two years. I mean we are bringing in people that in many cases have never been able to come so we are really building base that we never imagined possible.

So there is a huge positive outcome from the Coronavirus or being closed for three months is that the online presence itself has become something more that people use than just checking the hours which has of course always been the number one reason that we have an online presence. But now the retail piece and the program piece is huge. If you haven’t experienced a Cocktails with Curators there is one tonight, Sarah Eckhardt at five o'clock is doing, you have to bring your own cocktails the five o'clock with doing a tour through the *Kamoinge Exhibition*. Sarah curated that it's gonna be here longer. You can see it in person, but I would invite everybody if you've not participated in those programs. They're fabulous. They're just they're personable. They're friendly and what they do tangentially to build allegiance with the institution. But then where Tom has seen, and I think this is the best indication we've only lost in the three and a half months, something like one hundred general members, thirty thousand general memberships. And I'm talking about the general based line members. Losing that few and an entire quarter when you're close tells you something. I mean, they want to be generous, be that they are finding new ways to get engaged. And number one is that online piece and the fact that the shop has done well, and I'll tell you. I wish I could show you the picture of the fulfillment the following Monday afterwards. They had two of those huge rolling flatbed carts in the back hallway, outside the shop stand side to side top to bottom, four feet tall each of them with boxes of puzzles, going out the door. And I have to say they get kudos for the fulfillment because it's free shipping, but it's also been quick.

Betty Neal Crutcher: Quick, quick, quick. I bought one and everybody should buy a puzzle and the other is, we should sell masks with the VMFA logo and maybe a slogan.

David Goode: On those exciting and hopeful notes, I'm going to call the meeting adjourned. Thank you all.

**Meeting adjourned at 11:41am.**

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| Transcribed by: | Stephanie Cooperstein  Administrative and Project Coordinator to the Director’s Office |  |