

## FINANCE COMMITTEE

- Call to Order** The regular meeting of the **Finance Committee** was called to order on Friday, **July 22, 2011** at 2:51 PM. Voting members present: Malcolm Fearing, Chair; Sterling Webster, RIC Chair; Walter Daniels (via telephone; late arrival); Libba Evans; Warren Judge; and Ellen Newbold. Commission members present: Saint Basnight (early departure); Betsy Brown; Linda Carlisle, NCDCR Secretary (early departure); Robert Long; Elmer Midgett; and Fountain Odom. Also present: Eddy Browning, unseated RIC appointee; Glenna Shelton Browning, Plymouth, NC resident; Tod Clissold, Friends of *Elizabeth II*, Inc. Board Chair; Debbie Gibbs, Friends of *Elizabeth II*, Inc. Operations Director; Dwight Gregory, Friends of *Elizabeth II*, Inc. Board Treasurer; Neel Keller, Outer Banks Sentinel; Dale Petty, unseated RIC appointee (early departure); Bob Quinn, unseated RIC appointee; John Robbins, unseated RIC appointee; Perry White, unseated RIC appointee; and Earl Willis, unseated RIC appointee. Staff members present: Kim Sawyer, Executive Director; Andrea Hanganu, Administrative Assistant; and Amy Hinnant, Operations Manager. Absent: Joe Bryan and Norma Houston.
- Welcome** Chairman Malcolm Fearing welcomed all in attendance and recognized DCR Secretary Linda Carlisle. He introduced committee members, new RIC appointees, and other Commission members.
- Upon request by Chairman Fearing, Ethics Liaison Ellen Newbold explained the ethics process. Ms. Newbold reported that new RIC appointees had all completed their Statements of Economic Interest and next needed to complete ethics training to be officially seated.
- Adoption of Agenda** The agenda was adopted by consensus, with agreement by Chairman Fearing that any potential closed session discussion regarding particular personnel would be held at the end of the meeting.
- Approval of Minutes** On motion by Warren Judge and second by Sterling Webster, the committee minutes of February 4, 2011 and April 28, 2011 were approved by consensus.
- Old Business**  
Review of 2011/2012  
Proposed Budget  
*Kim Sawyer/Amy Hinnant*
- Chairman Fearing reported that last year the 2010/11 budget was presented to the full Commission and formally voted on, a first for the Commission. A Budget Workshop was held July 6, 2011, also a first for the Commission. The committee is now ready to review the recommendation of that workshop.
- \* Walter Daniels joined the meeting at 3:00 PM via telephone. \*
- RIFP Executive Director Kim Sawyer then reviewed *Workshop Budget Highlights* (previously distributed and filed as an attachment in the official Report Book), which included the following:
- Impact of site remaining open seven days in summer and closed two days/week in shoulder season.
  - Revisit the Roanoke Island Maritime Museum (owned by the Town of Manteo with RIC staff inside).
  - Impact of increase to admission fees beginning March 1, 2012: \$20,000.00 increase in revenue, a total of \$245,000.00 (75%) in ticket revenue.
  - Included Performing Arts Fund (2586) in overall worksheets and summary (gray areas).
  - Increased repairs by \$5,000.00.
  - Fund sources used to balance budget: Friends commitment of \$105,000.00; \$106,527.00 of cash balance.
  - Projected Budget 2012/13 with \$835,171.00 shortfall; possible revenue sources on *Summary of Income and Expenses*.
- Eddy Browning questioned whether the RIC had considered having something like a \$25.00 ticket good for one year for an entire family. Ellen Newbold responded that the Friends membership does that.
- RIFP Operations Manager Amy Hinnant then reviewed the *Summary of Income and Expenses* (previously distributed and filed as an attachment in the official Report Book), noting the following:
- Income: \$1,406,995.00 Appropriations; \$1,200.00 estimated Donations; \$4,000.00 estimated Rental Income (sub-committee is working on rental agreements and policies); \$700.00 Misc. Revenue; \$245,000.00 Admissions—took last FY revenue of \$225K adding a potential 8% increase.
  - Expenses: \$1,520,921.00 Personnel—primary increase from temporary salaries for extended days; Admissions from Workshop of \$200K was increased by \$45K for being open seven days; Personnel cost increase for temp salaries of \$44,029.00; Operating cost increase: re-examined and increased repairs;

increased electrical cost slightly to be open seven days; electric bill increases on average 3-5% a year—based on actual with \$1,600.00 increase; \$1,869,422.00 Total Expenses; \$211,527.00 Shortfall.

- Friends Contribution: \$105,000.00.
- Carry Over from Operating: \$106,527.00.

Chairman Fearing pointed out that RIC funds are non-reverting funds called carry over funds; the carry over fund balance is \$670K. The \$106K comes from that carry over fund balance.

Amy Hinnant continued her review of the *Summary of Income and Expenses* as follows:

- Notes:
  - RIC has two funds: Fund 2584 Operating budget - cut 30% and Fund 2586 Performing Arts Fund - no cut.
  - Donation/Gifts: primarily proceeds from the donation box at free performances.
  - Misc. Revenue: potential income from Special Educational Programs; Admissions = LY actual plus 8% growth.
  - Cuts for 2011/12 total \$301,525.00 of the 2010/11 actual expenses; ticket revenue increased \$45,000.00.
- Balance of Other Sources of Funds: Available Funds – Fund 2584:
  - \$676,975.42 Balance as of 06/30/11; \$36,226.00 Encumbered Funds being paid; \$640,749.42 Available Funds.
  - Recommend deducting the \$106,527.00 minus the \$36,226.00 Encumbered Funds = \$534,222.00 balance.
- Available Funds – Fund 2586:
  - Cash Balance (Beginning Balance) from 2010/11 Performing Arts is \$28,557.00.
- RIC Endowment: Fund 2584: 25% of ticket revenue plus interest; currently \$2,466,111.00.
- Legislation allows withdrawal of 80% of the interest for use in the Operating Fund; current undrawn account interest is \$401,192.00; RIC has drawn off of that historically two times.
  - Verification the \$401K is retroactive (Carlisle); from the time the 80% went into effect (Hinnant).
  - \$2.4M cannot be used for capital needs effective until July 1, 2012; on that date RIC could apply all ticket revenue directly into operations; RIC not required to put 25% into the Endowment as of July 1, 2012 (Carlisle).
- \$81,670.00 Outer Banks Island Farm/Buzzy Lane balance as of 06/30/11; \$9,350.00 annual rental fee income.
  - Request to obtain information regarding the Heritage Trust grant (Fearing).

Detailed discussion followed regarding history of acquisition of the Buzzy Lane property by DCR and restrictions regarding the land and income. Chairman Fearing agreed to gather information regarding the property and present a full report to the committee to answer all questions.

Amy Hinnant continued her review of the *Summary of Income and Expenses* as follows:

- Fund 2586 - Performing Arts: zeroes out.
- Based on workshop recommendation, Funds 2585 and 2586 were combined into a separate column.
- Projected budget 2012/13:
  - \$805,250.00 Appropriation; increased some other revenue by a percentage; 6% increase in Admissions just using 75%; Personnel Expenses basically the same; Operating cost with normal increases; \$835,171.00 shortfall.
  - Performing Arts Fund 2586 assumed to still be \$398,241.00.

Secretary Carlisle verified for Kim Sawyer that DCR could certainly go back and try to get an adjustment on the 30% being taken out of RIC Operating. Secretary Carlisle said if that happens, the change would increase the appropriation for Fund 2584 and reduce the other fund. Net dollars remain the same, but it would give more flexibility from an operating standpoint.

Committee members discussed the budget in detail, with the following being included:

- Would not suggest in a year when RIC *only* has a 25% cut that it use its carry over; figure out how to cover the \$106K for this year; proposed budget does not include a line for additional fund raising or additional Performing Arts revenue; RIC must start *this year* doing things differently to raise money and bring in revenue; two ways of doing this: bring in more revenue or cut expenses; concern that an easy way out to cover that shortfall is to take it from the carry forward when looking to cover \$800K in eleven months; reserve fund should be a fallback; make decisions now to try to cover the shortfall, and maybe not all of the \$106K; set goals to reach for (Carlisle).
- Do not take funds out of the bottom line until seeing four years of budgeting; recommends looking at more than 25% cut today (Judge).
- Number should be \$211K instead of \$106K; instead of just for Operating, use Friends contribution to enhance long-term fundraising etc. to pre-fund performances to come to RIFP; recommends transferring Operating Fund to the Friends so they can earn more money on it (Evans).

Chairman Fearing requested other input regarding the budget, with the following noted in discussion:

- Clarification that income from charging for performances would go into Fund 2584 (Carlisle).
  - RIC must do everything possible to try to make the revenue; carry forward is a back up (Webster).
- Request that *Misc. Revenue* line would explain in detail exact income sources instead of grouping everything together; e.g., *Cub Scout Education* and *Performance Income* under the line (Newbold).
  - Verification that RIC should be able to do so (Carlisle).
  - Would allow staff to make projections to make money and plug in numbers (Newbold); agreement (Basnight).
- Friends was established from money transferred at the end of each year from the RIC to go into an Endowment; the Endowment would distribute 80% of the earnings back to RIC; transfer has not occurred the last few years; if that money was transferred to and overseen by the Friends Board and its investment group, it would be earmarked any way RIC wanted (Clissold).
  - RIC should take the most prudent and legal actions to make the budget work (Long); agreement (Webster); RIC should earn more money from the Friends that will go back into Operations if it can legally transfer money to Friends; question of why RIC does not do so (Long).
  - Two pieces to the issue: the \$640K and the \$2.4M (Carlisle).
- Secretary Carlisle agreed to get an answer to the question of whether out of Fund 2584 RIC can transfer \$640K or any portion thereof to the Friends; and out of Fund 2584, which is the undrawn interest on the Endowment, whether RIC can transfer all or any portion thereof to the Friends.
  - Verification the question was asked whether RIC can obtain and manage its Endowment; answer is *no* (Carlisle).
  - As long as it is held at the state, funds must be managed by the State Treasurer (Evans).

#### Motion

Secretary Linda Carlisle suggested the following:

*That at a minimum the Commission could approve the budget to at least that point of a net \$211K deficit, with the work to come forth with various options for how it is going to address that. RIC has the Friends \$105K on the table that could be used or not; and then look at the options of other projected revenue. At the next meeting it would be: this is how RIC will fill that \$211K hole. It puts the operating budget so RIC and staff can move forward with the budget to get it done; then work on the remaining \$200K difference.*

Libba Evans made a motion to that effect, because of it being the only thing RIC can do at this point; and all other committees have been discussing how to raise the \$200K in some form.

Discussion was held, with the following being noted:

- Question whether the Performance budget must also be agreed to for the rest of this year (White).
  - Whatever budget is approved can have adjustments to it moving forward (Fearing).
  - Objection; could not support a motion where a budget is passed that is out of balance (Judge).
  - Have other places to cover it if got in trouble; RIC is making a commitment to come up with the \$200K (Evans).
  - Budget has it coming from the Friends and/or carry over; budget is actually a zero balanced budget; agreeing in principle to try not taking any money from the Friends or carry over from the Operating (Webster).

\* DCR Secretary Linda Carlisle left the meeting at 3:58 PM. Saint Basnight left the meeting at 3:59 PM. \*

- Suggestion to stop meeting on Fridays and stop scheduling this committee late in the afternoon (Judge).
- Commission-based budgeting never done before at RIFP; RIC must determine what it wants to do at RIFP, have a mission based on that, and decide its budget for that mission—what part will be paid by the state, by the missions, and by the Endowment; must be mission driven; RIC has many potential income sources; cannot budget until the other is determined (Evans); agreement (Judge).
- Takes 2-4 years to build operations so RIC is earning money from performances, weddings, etc. (Long).

Chairman Fearing questioned what members wanted to do on the budget. He read out loud remarks from the General Government Committee on 03/20/97, which says the site goal is to serve 250K visitors within five years and to be self-sustaining. The following was noted in discussion:

- Committee gives RIC its budget (Evans); why there is a RIC Endowment and a Friends Endowment (Newbold).

Upon request by Ellen Newbold, Libba Evans re-stated her motion as follows:

*I move that we accept the motion with a deficit and that we spend the next every-day-of-our-lives trying to come up with that \$211,000.00 so you have a zero balanced budget.*

Sterling Webster requested that it not be called a *deficit* but a *balanced budget using those two sources of funds with RIC commitment to eliminate them*. Ellen Newbold seconded the motion. Libba Evans stated she would include in the motion: *that any time there is a lapse in personnel that all that money goes directly to balancing the budget*. Discussion was held with the following noted:

- Details of lapse salaries and unfilled positions (Evans and Sawyer).
- Request for clarification of justification regarding \$3,719.00 budget increase for temporary help which compares two 7-day-a-week budgets (Judge).
  - If examining expenses he would not cut marketing and temporary help (Judge).
  - Putting the best estimate to areas that would need coverage (Hinnant).
  - Talking of 63 days of potential revenue to save \$48K; better option: spend the \$48K and go sell tickets (Judge).
  - Importance of examining efficiencies beyond revenue increases (Sawyer).

Upon request by Chairman Fearing, Libba Evans re-stated her motion as follows:

*That we approve the operating budget and look for \$200K worth of savings over the next 12 months, 11 months; and that we keep updated on it for every month or every quarter to figure where we do it, and we do it from a combination of increased revenues and decreased expenses, not one or the other.*

Kim Sawyer requested verification that the two revenue sources identified of the carry over funds and the Friends contribution would be used to balance the budget; but RIC would work to not have to use those funds to balance the budget. Libba Evans agreed that was her motion in general, noting that the Finance Committee would be talked to again before those funds got used. Discussion continued as follows:

- Question to RIC Chairman Webster if committee action today will go to the full Commission as a recommendation and whether a full RIC meeting will be called before October 27, 2011 (Judge).
  - No later than mid-August or sooner; easier to address the \$211K through teleconference than to re-address the budget as a whole; commitment that the meeting will be held within a very short time of today (Webster).

*Amendment to the Motion*

Warren Judge requested to make an amendment to the motion as follows:

*Ms. Evans' motion conditioned on staff presenting at the October 2011 Commission meeting, or committees the day before the Commission meeting, and then at the Commission meeting two plans: 1) plan to institute an annual community pass be sold throughout Dare County for families or individuals, and 2) that we shut the back gates, and everybody goes to the show down the Grand Hall past the Museum Store so they can buy t-shirts. Amendment is that staff comes back to the appropriate committees and then consideration for the full Commission in October on those two issues.*

*Amendment to the Motion Dies*

Following discussion, the amendment to the motion died for lack of a second.

Upon request, the RIFP Administrative Assistant read the motion as follows:

*Libba Evans made a motion that the committee approve the operating budget and look for the savings of the \$211K shortfall; and to keep being updated on it; Ms. Evans said by doing either one or the other: by increasing revenues or cutting expenses; Ms. Evans also said before the \$211K gets used she would like to take it before the Finance Committee again.*

Chairman Fearing requested clarification on the motion. Libba Evans stated the following:

*I was making a motion to approve the top half of the budget with a deficit, the net \$211K deficit; and then to look for a way to replace what it takes to balance the budget, which is \$211,527.00; and to having a plan to figure over the next months on how to balance it with that \$211K with a combination of cutting expenditures and raising revenues; and if you cannot, then we would go back and take less or take more, whatever you need to.*

Chairman Fearing questioned whether RIC as a state entity can pass a budget with a deficit. Libba Evans responded in the affirmative. Chairman Fearing said he could not vote on a budget that does not balance.

*Vote*

The motion carried with four (4) *ayes* (Daniels, Evans, Newbold, and Webster) and two (2) *nays* (Fearing and Judge). RIC Chairman Webster acknowledged concerns, but he said RIC must get through the moment and procure the \$211K.

Chairman Fearing announced that he will meet with RIC Chairman Webster and welcomes replacement as committee chair. He stated that he has personally identified a list of revenue sources that can make up the \$211K. Chairman Fearing reminded members of the following funds in the state budget:

- \$16K+ dollars in the Corridor Committee account.
- \$1.2M or so in an R&R Budget for the Enhancement Project.
- Allocated Friends restricted funds (i.e., capital improvements on air conditioning; funds for *Elizabeth II*).

\* Dale Petty left the meeting at 4:36 PM. \*

Chairman Fearing reported total funds existing between RIC and the Friends as of July 1, 2011 are approximately \$12,628,000.00. This includes: Fund 2584 RIC budget \$2,056,000.00; \$534,000.00 cash balance; \$28,000.00 Performing Arts carry forward; \$2,400,000.00 RIC Endowment; \$81,000.00 Buzzy Lane Account; Friends Endowment—\$7,222,483.00 in Virginia Asset Investment Account as of 06/30/11, according to Dwight Gregory, and \$239,271.00 in Southern Bank Management Account. Chairman Fearing said however members want to spend those dollars is up to them. His desire is to bring numbers forward for members. Discussion was held as follows:

- Whether total number should be \$10M instead of \$12M (Evans).
- To say members can spend the money any way they want is misleading (Clissold); agreement (Evans).
  - Friends have \$7M+ that was transferred to them (Fearing).
  - Friends have an Endowment (Fearing); several million of that is earnings and was not transferred (Clissold).
  - Endowment is also encumbered (Clissold); agreement (Evans).
  - Numerous funds mentioned by the Committee Chair are encumbered and/or are specific to something different than operating; operating is the concern, especially in future years (Webster).
  - Verification the \$7,222,000.00 is encumbered for purposes of the bylaws in the Friends charter (Gregory).
  - Friends are a 501(c)(3); status must be maintained to not use equity and principal (Long).
- Suggestion to include Dwight Gregory in RIC meetings (Clissold).
- Chairman Fearing was thanked for his time spent on this budget; a perfect budget and unanimous agreement is unattainable; involved the Friends more closely with the RIC than ever (Clissold).
- Desire has been to understand and report where funds are so members can make informed decisions (Fearing).

**New Business** No *New Business* was presented.

**Reports** No reports were provided.

**Commission Recommendations** One Commission recommendation was previously noted.

**Announcements** The next meeting of the Finance Committee will be Thursday, October 27, 2011 at 3:45 PM.

**Adjournment** There being no further business, and on motion by Malcolm Fearing and second by Sterling Webster, the meeting was adjourned at 4:46 PM.

Minutes submitted by: Andrea Hanganu, Administrative Assistant

Upon a vote by the Finance Committee, approved by: \_\_\_\_\_  
Malcolm Fearing, Chair, Finance Committee