

SAN BRUNO

Community Foundation

Memorandum

DATE: May 27, 2022

TO: Board of Directors, San Bruno Community Foundation

FROM: Leslie Hatamiya, Executive Director

SUBJECT: SBCF Budget and Transfers from the Quasi-Endowment, Strategic Pool, and Liquidity-RAC Subaccount to the Liquidity-Operating Subaccount for Fiscal Year 2022-2023

Under our Bylaws, the Foundation's fiscal year runs from July 1 to June 30, and its annual budget must be approved by the San Bruno City Council. As we approach the end of the 2021-2022 fiscal year, I will present the 2022-2023 budget to the Board for approval at the June 1, 2022, Board meeting. I will also present the budget to the City Council on May 31, the day before our Board meeting, and if the SBCF Board approves it, the budget will be submitted to the City Council for approval at its regular meeting on June 28, 2022.

1. SBCF's Overall Financial Picture

Before I provide a detailed account of the FY2022-2023 budget, I think it is instructive to review the overall financial health of the organization. The following chart provides a high-level picture of the Foundation's overall financial history and health and includes both the investment portfolio managed by Sand Hill Global Advisors, LLC, as well as other funds (including initial funds received from the restitution funds to support the Foundation's operations in 2015-2016 prior to establishing the investment accounts as well as donations received):

| SBCF Financial Snapshot (rounded to millions of \$) | |
|--|---------------|
| Total Initial Assets | \$71 million |
| Investment Gains Through 4/30/22 | +\$16 million |
| Donations and Other Income Through 4/30/22 | +\$2 million |
| Total Funds Disbursed Through 4/30/22 | -\$29 million |
| Portfolio Value as of 4/30/22 | \$60 million |

Total initial assets include the \$69.8 million that was transferred to our Fidelity investment accounts in 2016 as well as about \$700,000 in cash that the City had transferred to the Foundation prior to then to cover our expenses from inception through June 2016. Investment

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gains are those made by the investment portfolio (the funds managed by Sand Hill). Donations and other income have flowed through our operating accounts but are not reflected in our investment portfolio.

We are in a period of high market volatility, and while the Foundation's investment portfolio has experienced some unrealized losses in the past year, the Foundation's overall financial health remains strong. As of April 30, 2022, the Foundation's total assets were \$60,068,244, with total liabilities of \$30,150,891 and net assets of \$29,917,353.

2. Budgeting Principles

In developing this budget, I am guided by the principles of transparency and economy. As prudent stewards of the restitution funds, we want to communicate our decisions and activities with the community and have accordingly provided ample budget to do so. At the same time, we will be cost-conscious in all categories of expenses.

As I remind the Board each year, ours is not a typical nonprofit budget, where the goal is for expenses to equal revenues. Most nonprofit budgets are income-driven because the nonprofit is able to spend only the funds it expects to bring in that year. In contrast, as a result of our ample investment portfolio, the Foundation's budget is expense-driven. Our budgeted "income" consists primarily of transfers from our assets (Quasi-Endowment, Strategic Pool, and Liquidity-RAC subaccount) to our operating budget to cover our cash needs during the fiscal year, along with a relatively small cohort of donations and interest income earned on our operating funds. We do not seek – and typically do not achieve – a "balanced budget," as our cash needs do not necessarily match our recorded expenses in a given year. This is because we record grant and scholarship commitments as expenses at the time agreements are executed and scholarships awarded, but grant and scholarship payments are often made in a later fiscal year. As a result, the fact that in the FY2022-2023 budget funds available for operations (\$34,155,025) far exceed expenses (\$6,418,163) should not be a cause for concern. The calculations of our expenses and funds available for operations should be analyzed separately, as they are based on different factors and needs.

3. FY2022-2023 Expenses

We have three main categories of expenses: Direct Program Expenses (Crestmoor Scholarships, Community Grants Fund, Strategic Grants, and Other Grants), Personnel Expenses, and Non-Personnel Support Costs. As previously mentioned, grant and scholarship commitments are recorded as expenses at the time grant agreements are executed and scholarships are awarded (but not necessarily paid out). We are currently projecting expenses of \$6,418,163.

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a. Direct Program Expenses

- Crestmoor Scholarships: This line is set at \$160,000, which is a \$40,000 increase from the \$120,000 awarded in 2017, 2018, and 2019. In 2020 and 2022, we awarded \$190,000 in scholarships based on a \$70,000 restricted donation from the Joseph W Welch Jr Foundation (in 2022, we also received a \$1,000 restricted donation from an individual donor). In 2021, we awarded \$195,000 in scholarships based on another \$70,000 donation from the Welch Foundation, a \$7,349 donation from the San Mateo County Association of REALTORS® Foundation, and a \$1,000 donation from an individual donor. At this time, we do not anticipate any donations earmarked for the Crestmoor Scholarship in fiscal year 2022-2023. However, in November 2019 (prior to the first Welch donation), the Board approved an increase in scholarship awards to \$160,000 based on a recommendation from the Ad Hoc Committee on Crestmoor Scholarship, and this is the basis for the \$160,000 budgeted amount. At this level, the Foundation will likely award a total of 11 scholarships in 2023: six high school to four-year college, two high school to community college, and three community college to four-year college.
- Community Grants Fund: This line is set at \$300,000, reflecting \$200,000 of the Foundation's funds and a \$100,000 donation from a community partner. This level of funding is consistent with the total amount of grants awarded the past three years of the program, with donations from Google.org/YouTube.
- Strategic Grants: This line is budgeted at \$5,500,000. It includes a \$5 million placeholder for a potential significant strategic grant; the Board anticipated the possibility of at least one major strategic grant of up to \$5 million as part of Strategic Plan 2.0, and we know that the City of San Bruno may approach SBCF for additional funding to cover anticipated costs related to the Recreation and Aquatic Center project. The \$5 million placeholder gives the Board the flexibility to consider such a request or other major strategic grantmaking opportunities that may arise. If no such opportunities materialize in the coming fiscal year, the Board retains the ability to decide not to make such an investment in 2022-2023.

This budget line also includes an additional \$500,000 that can be used for other, smaller strategic grants, such as continuation of support for Community Day, additional COVID-relief grants, other strategic grants that the Foundation has been investigating (particularly those related to education), and smaller grants that could result from the Listening Campaign and strategic planning process.

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As a reminder, all strategic grants require specific Board approval, not just inclusion in the budget. Decisions on specific strategic grants will take place as proposals are vetted during the course of the year.

- Other Grants: Each year we budget \$10,000 for our Off-Cycle Small Grants process. This process is used to consider funding requests from organizations that: (a) seek funding for programs or projects that benefit the San Bruno community in a particularly meaningful and significant way and fall within one of the Foundation's focus areas; (b) do not exceed \$10,000; (c) cannot be reasonably considered during the next Community Grants Fund application schedule due to timing requirements; and (d) meet the organization and activity eligibility requirements of the Community Grants Fund.

b. Direct Personnel Expenses

- Salaries & Wages: This line reflects the Executive Director's current salary and the Program Manager's anticipated wages for the fiscal year. The Program Manager position (0.3 FTE, non-exempt) is paid hourly based on actual hours worked, and the budgeted amount is an estimate for the fiscal year. Actual salary/wages may be slightly different than the budgeted amount.
- Payroll Taxes & Benefits: This line reflects payroll taxes, workers compensation insurance premiums, and employee benefits for the fiscal year. Benefits include retirement plan contributions, life insurance, and personal time off.

Total Personnel Expenses are budgeted to decrease 5.7% (\$14,853) from the projected level for 2021-2022, as the current year's personnel expenses have been higher than expected, due in part to multiple transitions in the Program Manager position.

c. Non-Personnel Support Costs

- Occupancy: This line reflects the total rent for 2022-2023 under the current office lease, which runs through March 2025. Monthly rent will be \$1,344.96 from July through December 2022, \$1,360.44 for January through March 2023, and \$1,399.44 for April through June 2023.
- Insurance: This line is based on the Foundation's current commercial general liability, property, auto, cyber, and directors and officers liability insurance policies

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(\$15,325), which have an annual renewal date of March 21. It also includes the Foundation's crime insurance policy (\$3,247), which has a renewal date of May 27. I have added an extra \$1,000 in case we experience any premium increases upon renewal in 2023.

- Telecommunications: This line includes continuation of cell phone expenses for the Executive Director and Program Manager (\$1,056), broadband Internet access for the office, and the office landline (\$1,056 for Internet and landline through San Bruno CityNet Services combined). This line also includes telecommunications expenses for the Program Manager, who works from home (\$240).
- Postage & Shipping: This line includes office postage (\$720) as well as the projected postage required for the fall Annual Report mailing (nonprofit rate) to all San Bruno addresses (\$1,500). Based on feedback during Community Listening Campaign 2, this line includes an additional \$1,500 to allow for one additional citywide mailing during the year.
- Marketing & Communications: This line covers the projected printing costs associated with the Annual Report (\$8,000) and one additional citywide mailing (\$3,500). It also includes funds for graphic design services (\$1,500), flyer/poster printing for the Community Grants Fund (\$700), flyer/poster printing for the Crestmoor Scholarships (\$800), website and e-newsletter costs (\$275), holiday cards (\$200), and costs associated with online grant and scholarship applications (\$1,903).
- Office Supplies and Equipment: This line includes \$140 monthly for office supplies and \$500 for computer backup and other software fees and miscellaneous office equipment expenses (such as repairing the printer, which has seen considerable wear and tear over the past seven years). It also includes \$3,000 for a new laptop and related software for the Executive Director. The current laptop is now three years old, and while it is working properly now, by the end of the next fiscal year it may be time to invest in a new laptop if the current laptop begins to falter. The projected useful life for business computer equipment is typically three years.
- Legal Fees: Based on 2021-2022 expenses for outside nonprofit counsel (NEO Law Group), \$10,000 (\$833 per month) has been budgeted. In past years, this line has also included reimbursement for 5% of the City Attorney's compensation. With the current City Attorney's retirement, I have included a \$25,200 placeholder for comparable services (7 hours a month at \$300 per hour), in the event that we contract with an outside firm for public and municipal law counsel. An additional

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\$10,000 has also been added for specialized legal advice (for example, employment law counsel) that may be needed. We typically come in well under budget on this line, assuming no unexpected, major legal issues arise.

- Accounting & Payroll Fees: Payroll fees (\$1,092) are based on the current arrangement with our payroll vendor (Intuit QuickBooks). For audit and tax preparation services, \$10,100 is budgeted, per the Foundation's contract with Novogradac & Company. In addition to \$540 for QuickBooks accounting software, \$23,760 is included for the accounting consultant/full charge bookkeeper, per the terms of our professional services agreement with him.
- Other Consultants: This line includes \$9,438 for the IT consultant (based on current usage and the terms of our professional services agreement); \$10,000 for a consultant to lead the Board's diversity, equity, and inclusion (DEI) activities; \$15,000 for a fundraising consultant to provide an analysis of the Foundation's fundraising potential and the cost of building up a fundraising operation; and \$1,000 for other consultants (such as for translation services). The DEI and fundraising consultants have not been secured at this time, and the budget estimates are ceiling placeholders. It is anticipated that actual expenses will be lower than the budgeted amount.
- Travel, Meetings & Conferences: Not knowing at what point the Foundation will resume in-person meetings and gatherings, this line includes expenses for both virtual and hybrid (combination in-person and virtual) meetings: \$2,091 for Board meeting room rental (budgeted for 10 meetings, assuming the soonest the Board begins hybrid meetings is in September), \$12,500 for use of San Bruno CityNet Services staff and technology to video 10 in-person meetings for access on Zoom, \$700 for two Zoom Pro subscriptions and one Zoom webinar subscription, \$200 for meeting-related refreshments (including an in-person scholarship reception), \$180 for the Program Manager's mileage reimbursement, and \$200 for miscellaneous conference, training, and meeting expenses. If the Board continues to meet exclusively on Zoom for the foreseeable future, meeting costs should be substantially lower than what is budgeted.
- Miscellaneous: This line includes various expenses that may arise and do not fit in any of the other cost categories. It typically covers professional organization membership fees (such as the San Bruno Chamber of Commerce, Thrive: Alliance of Nonprofits, and the California Association of Nonprofits), bank fees, online news

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subscriptions, Board and partner recognition, and government/agency taxes and fees.

Total Non-Personnel Support Costs are budgeted to increase \$67,493 from the 2021-2022 year-end projection (but note that they are only a \$25,217 increase from the 2021-2022 budgeted amounts). This is due to a combination of (a) budgeting based on contract ceilings and providing flexibility for unanticipated expenses, and (b) several new expenses (*e.g.*, significantly increased meeting costs in the event that the Board transitions to hybrid meetings by the fall). Budgeted amounts operate as ceilings, and I am very cost-conscious in all purchasing decisions, so that actual costs frequently turn out to be lower than the budget projections. Please note that in 2021-2022, actual Non-Personnel Support Costs are projected to be 24.2% (\$42,276) lower than the budgeted amount, and that from 2015-2016 to 2020-2021, actual Non-Personnel Support Costs have averaged 11.6% lower than the budgeted amount.

The biggest changes in Non-Personnel Support Costs are: (a) a nearly \$2,500 decrease in Insurance premiums (due to a transition to a new carrier for our directors and officers insurance policy); (b) a \$26,899 increase in Other Consultants Fees (primarily because such fees have been much lower than usual in the current fiscal year and we anticipate working with a DEI consultant and a fundraising consultant in 2022-2023); (c) a \$15,049 increase in Travel, Meetings & Conferences (due to significantly increased meeting costs associated with an anticipated transition to hybrid Board meetings); a \$17,995 increase in Legal Fees (due to uncertainty regarding the cost of new public/municipal law counsel resulting from the retirement of the City Attorney); and (e) a \$5,276 increase in Marketing & Communications (due to funds available for a second citywide mailing).

4. FY2022-2023 Funds Available for Operations

As mentioned above, this is not a balanced budget, where income equals expenses. Instead, the Funds Available for Operations are determined by analyzing the Foundation's cash needs for the fiscal year. Our assumption is that all Personnel Expenses and Non-Personnel Support Costs will be paid out during the fiscal year (\$448,163). Projected cash needs for Program Disbursements (total of \$35,640,792) are as follows:

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| | |
|---|---------------------|
| Crestmoor Scholarship | |
| 2020 Scholars | \$35,000 |
| 2021 Scholars | \$35,000 |
| 2022 Scholars | \$55,000 |
| 2023 Scholars | \$50,000 |
| Total Crestmoor Scholarship | \$175,000 |
| Community Grants Fund | |
| Grants to be awarded in December 2022 | \$300,000 |
| Total Community Grants Fund | \$300,000 |
| Strategic Grants | |
| RAC Grants | \$29,465,792 |
| Community Day 2022 | \$30,000 |
| Music Education Strategic Initiative Extension | \$160,000 |
| Possible major grant – to be determined | \$5,000,000 |
| Other miscellaneous strategic grants – to be determined | \$500,000 |
| Total Strategic Grants | \$35,155,792 |
| Other Grants | |
| Out-of-Cycle Responsive Grants | \$10,000 |
| Total Other Grants | \$10,000 |

Total cash needs for 2022-2023 are estimated at \$36,088,955. This figure, after adjustment for residual 2021-2022 cash balance, drives the Foundation's Funds Available for Operations in 2022-2023.

We have two categories of Funds Available for Operations: Operating Income and Transfers from Investments.

a. Operating Income

At this time, projected Operating Income is low (\$10,543):

- Interest Income: This line includes estimated investment income from the Operations portion of the Fidelity Liquidity Pool account and interest earned on the Wells Fargo bank accounts. This is a conservative estimate, based on 50% of the actual interest income anticipated for fiscal year 2021-2022. In the context of the full budget, even if Interest Income is higher than budgeted, it will remain a small portion of the Funds Available for Operations.

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- Restricted Donations: There are no firm commitments for donations earmarked to specific programs, but we may receive such restricted donations during the year.

b. Transfers from Investments

The Foundation's available funds come primarily from transfers from the Quasi-Endowment, the Strategic Pool, and the Liquidity Pool-RAC subaccount. The question in developing this budget is what portion of the needed funds comes from each pool. In answering this question, it is important to think back to the original purpose of each pool of funds. In responding to the results of the Community Listening Campaign, the Board decided to designate about \$55 million of the restitution funds to establish the Strategic Pool to be spent outright on strategic initiatives, including at least one major community facility project (which ultimately turned out to be the RAC).

The Liquidity Pool was created to serve as a holding account for expenditures planned in the subsequent 0-24 months. Its purpose is to mirror the Foundation's operating accounts, and it may be funded by both the Quasi-Endowment and the Strategic Pool. The investment goal for the Liquidity Pool is to preserve the principal balance of all funds directed into this pool, and as such, capital preservation and liquidity are the primary objectives. In 2018, the Board moved \$10 million from the Strategic Pool to the Liquidity Pool for use in the following fiscal year (and thus not part of the current fiscal year's operating budget) in order to reduce market volatility risk for a portion of the funds to be used to fund the RAC project. This led to the creation of two subaccounts in the Liquidity Pool – Liquidity-Operating and Liquidity-RAC – which receive different treatment in the Foundation's monthly financial statements, and each receives its share of interest income that the Pool accrues. In the balance sheet, funds in the Liquidity-RAC subaccount are shown as investment assets and not part of the operating budget. In contrast, the funds in the Liquidity Pool intended to support that fiscal year's operating budget (Liquidity-Operating) are shown as cash assets.

The Board also created the Quasi-Endowment with \$15 million of the restitution funds. The idea behind the Quasi-Endowment has been to follow a long-term endowment investment strategy, so that only a portion of the investment income would be used for operations, and that once the Strategic Pool had been depleted, a scaled-back version of the Foundation could continue to operate – possibly in perpetuity – funding the Crestmoor Scholarships, the Community Grants Fund, and potentially some smaller strategic projects on an ongoing basis. In creating the Investment Operating Plan in 2016, the Board decided not to take any Quasi-Endowment payout in the first year of possessing the restitution funds (2016-2017) to enable the Quasi-Endowment to grow. Since then, the Board has approved the annual payout rate to cover the year's cash needs for the Crestmoor Scholarship and Community Grants Fund, as follows:

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| Fiscal Year | QE Payout Rate | Average QE Balance of Past 12 Quarters | Approved QE Payout |
|--------------------|-----------------------|---|---------------------------|
| FY2017-2018 | 2.25% | \$15,685,369 | \$352,921 |
| FY2018-2019 | 1.95% | \$16,409,212 | \$319,980 |
| FY2019-2020 | 1.90% | \$16,711,034 | \$317,510 |
| FY2020-2021 | 1.70% | \$17,392,997 | \$295,681 |
| FY2021-2022 | 1.70% | \$18,407,790 | \$312,932 |

Consistent with the vision behind the Quasi-Endowment, the approved payout rates have been well below the maximum of 7% set out in the Investment Operating Plan and have allowed the Quasi-Endowment to continue to grow while the Foundation still has funds in the Strategic Pool to cover other expenses.

Residual cash on hand as of June 30, 2022, is projected to be \$2,035,739. Of the residual cash on hand, \$190,873 is earmarked for Community Grants and Crestmoor Scholarships. This year, I reconciled all past disbursements for the Community Grants Fund and the Crestmoor Scholarship with Quasi-Endowment payout and restricted donations for those two programs since fiscal year 2017-2018 (the first year we had Quasi-Endowment payout). Although Quasi-Endowment payout has been calculated each year based on expected cash needs, Quasi-Endowment payout has often exceeded actual payments for the Crestmoor Scholarship and Community Grants Fund programs for two primary reasons. First, because the payout rate is expressed as a percentage and not as a precise dollar amount, the payout has generally been slightly more than the needed amount. Second, the Foundation received restricted donations during the last few years that were not taken into account at the time the budget was created and the Quasi-Endowment payout rate was set, so the full payout amount was ultimately not needed.

As a result, of the projected June 30 cash on hand, \$190,873 will be designated for Community Grants and Crestmoor Scholarship cash needs, and the balance (\$1,844,866) will be designated for non-RAC Strategic Grants and operating expenses.

- Quasi-Endowment Payout: The cash flow needs of the Crestmoor Scholarships and Community Grants Fund are expected to be \$475,000 for fiscal year 2022-2023. As mentioned above, \$190,873 of the cash on hand at the end of fiscal year 2021-2022 will go toward meeting these cash needs, leaving a balance of \$284,127 to be funded by new Quasi-Endowment payout. At the June 1 meeting, the Board will consider a proposal from the Investment Committee to set the fiscal year 2022-2023 payout rate for the Quasi-Endowment at 1.41%, which would cover the balance of the cash flow needs of the Crestmoor Scholarships and Community Grants Fund.

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The payout amount is determined by multiplying the average of latest available 12 prior quarter-ending Quasi-Endowment values (\$20,279,185, covering Q2 2019 through Q1 2022). The 1.41% payout rate thus results in a payout of \$285,937.

The main driver behind the other transfers from the Strategic Pool and the Liquidity-RAC subaccount is the remaining set of RAC grant payments. Although the Board has made an overall \$50 million commitment to the City for the RAC, the Foundation is funding the project through a series of eight grants supporting different components of the project. Thus far we have made grant payments totaling \$20,534,208.22.

| RAC Grant # | For | Total Grant Amount | Total Grant Payments as of 5/15/2022 | Balance to Pay |
|-------------|--|------------------------|--------------------------------------|------------------------|
| 1 | Conceptual Design | \$416,108.85 | \$416,108.85 | \$0.00 |
| 2 | Architectural Services | \$5,420,388.00 | \$4,978,524.07 | \$441,863.93 |
| 3 | Project & Construction Management Services | \$1,079,000.00 | \$658,830.51 | \$420,169.49 |
| 4 | City Compliance Review | \$1,061,611.00 | \$526,826.54 | \$534,784.46 |
| 5 | Temporary Facilities | \$375,000.00 | \$84,538.20 | \$290,461.80 |
| 6 | Business Plan | \$60,000.00 | \$60,000.00 | \$0.00 |
| 7 | Tom Lara Field Parking Lot | \$1,123,438.00 | \$922,841.57 | \$200,596.43 |
| 8 | Construction | \$40,464,454.15 | \$12,886,538.48 | \$27,577,915.67 |
| | TOTAL | \$50,000,000.00 | \$20,534,208.22 | \$29,465,791.78 |

Given the expected construction timeline (through the fall of 2023), all remaining RAC grant payments, which total \$29,465,791.78, will likely fall within the 0-24 month window for the Liquidity Pool and, based on the estimated cash flow timeline the City has provided, about \$25.5 million will be needed in FY2022-2023. As a result, the Investment Committee recommends that the FY2022-2023 budget include transfers covering the full amount of the remaining funds needed to meet all potential remaining RAC grant payment obligations.

To cover the \$29,465,791.78 in remaining RAC grant payments, I propose the following breakdown:

| RAC Funding | |
|--|---------------------|
| Liquidity-RAC Balance as of 4/30/2022 (close out this account) | \$8,774,970 |
| Strategic Payout for FY 2022-2023 | \$20,690,822 |
| TOTAL | \$29,465,792 |

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- Strategic Pool: The total transfer from the Strategic Pool is budgeted at \$25,083,576. Of this amount, as noted above, \$20,690,822 is for RAC grant payments. The remaining \$4,392,754, along with the projected cash remaining from 2021-2022 of \$1,844,866, will cover all operating expenses and non-RAC strategic and other grant payments (not including Community Grants and Crestmoor Scholarship payments).
- Liquidity-RAC: Given that the Liquidity-RAC subaccount consists of funds specifically earmarked for the RAC and a goal is to include transfers from investments to cover all remaining RAC grant payments this year, the intent is to completely use up the Liquidity-RAC funds, transferring them to Liquidity-Operating and thereby closing the Liquidity-RAC subaccount. The budgeted transfer amount of \$8,774,970 is equal to the April 30, 2022, Liquidity-RAC subaccount balance. However, the budget resolution would give the discretion to transfer the entire subaccount balance at the time of transfer, so that the subaccount is completely depleted.

The Investment Committee recommends that Board give the Executive Director the discretion to manage all transfers from investment accounts, including the discretion to divide each category of transfers into smaller increments, set the timing of the incremental transfers based on the Foundation's cash flow needs, and transfer less than the approved transfer amounts as circumstances may warrant. Thus, as the City continues to update its cash flow timeline and based on guidance from the Investment Committee and Sand Hill Global Advisors, the Executive Director has the ability to manage and adjust the transfers based on evolving information. Similarly, the Executive Director can wait to transfer funds from the Strategic Pool to cover any non-RAC strategic grants until such grants are approved and grant payments are due.

At its recent meeting, the Investment Committee discussed the timing of the transfer(s) from Strategic to Liquidity-Operating to cover the remaining RAC grant payments, especially given the current market volatility. After much discussion, the Committee noted that the balance in Liquidity-RAC should more than cover the first quarter of RAC grant payments in 2022-2023 and came to consensus to recommend that \$10 million be transferred from Strategic to Liquidity-RAC in the first month or so of the new fiscal year, so that 2-3 quarters worth of RAC grant payments are in the Liquidity Pool, with the remaining funds (approximately \$10.7 million) to be transferred from Strategic to Liquidity-Operating later in 2022. The Committee recommends that the Executive Director have the discretion to work with Sand Hill to select the exact timing of the transfers and noted that the Committee would meet again in August, at which time it would discuss and provide additional guidance on the timing of transferring the remaining funds for the RAC grant payments.

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Together, Operating Income and Transfers from Investments result in a total of \$34,155,025 in Funds Available for Operations. With residual cash from FY2021-2022 carried forward into FY2022-2023, this total will cover anticipated FY2022-2023 cash needs.

The attached resolution, which I recommend the Board adopt, authorizes four actions. It: (a) approves the FY2022-2023 budget; (b) sets the Quasi-Endowment payout rate for FY2022-2023; (c) approves a transfer from the Strategic Pool to the Liquidity-Operating subaccount as part of the FY2022-2023 operating budget; and (d) approves a transfer from the Liquidity-RAC subaccount to the Liquidity-Operating subaccount and closure of the Liquidity-RAC subaccount as part of the 2022-2023 operating budget.

As I will be presenting the budget to the San Bruno City Council on May 31, 2022, the day before the SBCF Board will consider the budget, I will present any feedback I receive from the Council at the Board meeting.

Attachments:

1. Resolution Approving Fiscal Year 2022-2023 Budget, Setting the Quasi-Endowment Payout Rate for Fiscal Year 2022-2023, Approving Transfer from the Strategic Pool Investment Account to the Liquidity-Operating Subaccount for Fiscal Year 2022-2023, and Approving Transfer from the Liquidity-RAC Investment Subaccount to the Liquidity-Operating Subaccount for Fiscal Year 2022-2023
2. Exhibit A: 2022-2023 Proposed Budget

RESOLUTION NO. 2022-__

**RESOLUTION OF THE SAN BRUNO COMMUNITY FOUNDATION
APPROVING FISCAL YEAR 2022-2023 BUDGET, SETTING THE QUASI-ENDOWMENT PAYOUT
RATE FOR FISCAL YEAR 2022-2023, APPROVING TRANSFER FROM THE STRATEGIC POOL
INVESTMENT ACCOUNT TO THE LIQUIDITY-OPERATING SUBACCOUNT FOR FISCAL YEAR 2022-
2023, AND APPROVING TRANSFER FROM THE LIQUIDITY-RAC INVESTMENT SUBACCOUNT TO
THE LIQUIDITY-OPERATING SUBACCOUNT FOR FISCAL YEAR 2022-2023**

WHEREAS, the San Bruno Community Foundation's next fiscal year will begin on July 1, 2022, and prudent financial management of the Foundation's finances requires the creation of an annual budget prior to the start of the fiscal year;

WHEREAS, Article XVI(c) of the Foundation's Bylaws require that the Foundation's annual budget be approved by the San Bruno City Council;

WHEREAS, the proposed fiscal year 2022-2023 budget as attached in Exhibit A reflects decisions about program initiatives and investment strategy that the Foundation's Board of Directors has made or may make;

WHEREAS, the Board of Directors, upon receipt from the City of San Bruno in May 2016 of the restitution funds resulting from the City's settlement with Pacific Gas & Electric Company following the 2010 gas pipeline explosion in San Bruno's Crestmoor neighborhood, established three Fidelity brokerage accounts to hold the Foundation's funds: Quasi-Endowment Pool account, Strategic Pool account, and Liquidity Pool account;

WHEREAS, Section VII.1 of the Foundation's Investment Policy Statement states:

The SBCF Board will determine the spending policy for the Quasi-Endowment with input from the Investment Committee. The SBCF Board will use the following guidelines in approving a fixed payout amount each year. The SBCF Board will review this policy annually.

The payout amount will be determined once annually, prior to the conclusion of the Foundation's fiscal year for the subsequent fiscal year. The payout rate will range up to 7%, as determined by the Board, multiplied by the average of the latest available twelve (12) prior quarter-ending Quasi-Endowment values.

WHEREAS, Section VI.1.d.i of the Foundation's Investment Operating Plan with investment adviser Sand Hill Global Advisors (SHGA), which provides pool-specific operating guidelines for payout or other withdrawals, states:

Payout amount [for the Quasi-Endowment Pool] will be determined once annually, prior to the conclusion of the Foundation's fiscal year for the subsequent fiscal year. The payout rate will range up to 7%, as determined by the Board, multiplied by the average of the latest available twelve prior quarter-ending Quasi-Endowment values. From the initial funding of the Quasi-Endowment Pool through the end of fiscal year 2016-2017, the payout rate will be 0%. During fiscal year 2017-2018, the default payout rate will be 2.25%, multiplied by the simple average of all quarter-ending Quasi-Endowment values available at the time of the annual payout decision. Cash proceeds will be deposited in the SBCF Liquidity Pool on an as-needed basis.

WHEREAS, a Quasi-Endowment payout rate of 1.41% for fiscal year 2022-2023 would provide the funds to cover cash flow needs for the Crestmoor Neighborhood Memorial Scholarship and the Community Grants Fund, consistent with the original long-term vision for the Quasi-Endowment, and allow the Quasi-Endowment the opportunity to continue to grow;

WHEREAS, the Investment Committee, on May 18, 2022, passed a resolution recommending that the Board of Directors set the Quasi-Endowment payout rate for fiscal year 2022-2023 at 1.41%, resulting in a payout of \$285,937;

WHEREAS, the Section VII.2 of the Foundation's Investment Policy Statement states:

The Strategic Pool has been earmarked by the Board to fund strategic projects, including but not limited to capital improvement projects of community facilities, that benefit the San Bruno community. As such, withdrawals will be determined by the timing of project expenditures, as well as guidance from the SBCF Board. The Investment Committee and SBCF staff will provide direction to the Investment Manager regarding liquidation of investments to fund the withdrawals. Cash proceeds will be deposited in the SBCF Liquidity Pool on an as-needed basis.

WHEREAS, Section VI.1.d.ii of the Foundation's Investment Operating Plan states:

Withdrawals [from the Strategic Pool] will be determined by the timing of project expenditures, per guidance from the SBCF Board. SBCF will provide a schedule of likely withdrawals to SHGA at the time of the annual budget planning process. Cash proceeds will be deposited in the SBCF Liquidity Pool on an as-needed basis.

WHEREAS, transfers of up to \$25,083,576 from the Strategic Pool and the full balance from the Liquidity Pool-RAC subaccount (\$8,774,970 as of April 30, 2022) to the Liquidity Pool-Operating subaccount may be needed to cover the Foundation's operating expenses and strategic grant obligations for the 2022-2023 fiscal year; and

WHEREAS, the Investment Committee and Board recommend that the Executive Director have the discretion to manage the transfers from the Quasi-Endowment, Strategic Pool, and Liquidity-RAC subaccount to the Liquidity-Operating subaccount, including dividing

the transfers into smaller increments, setting the timing of the incremental transfers, and transferring less than the approved payout amount as circumstances may warrant, based on the Foundation's cash flow needs.

NOW, THEREFORE, BE IT RESOLVED that the Board of Directors approves the fiscal year 2022-2023 Foundation budget attached as Exhibit A.

FURTHER BE IT RESOLVED that the Board of Directors sets the Quasi-Endowment payout rate for fiscal year 2022-2023 at 1.41%, resulting in a transfer from the Quasi-Endowment account to the Liquidity-Operating subaccount of \$285,937, to be used to meet the cash needs of the Crestmoor Neighborhood Memorial Scholarship and the Community Grants Fund in the 2022-2023 fiscal year, and grants the Executive Director the discretion to divide the transfer into smaller increments, set the timing of the transfer of those increments, and transfer less than the approved amount, based on the Foundation's cash flow needs.

FURTHER BE IT RESOLVED that the Board of Directors approves a transfer from the Strategic Pool account to the Liquidity-Operating subaccount of \$25,083,576 to cover operating expenses and strategic grant obligations for the 2022-2023 fiscal year, and grants the Executive Director the discretion to divide the transfer into smaller increments, set the timing of the transfer of those increments, and transfer less than the approved amount, based on the Foundation's cash flow needs.

FURTHER BE IT RESOLVED that the Board of Directors approves a transfer from the Liquidity Pool-RAC subaccount to the Liquidity Pool-Operating subaccount of the full account balance at the time of transfer (\$8,774,970 as of April 30, 2022), and grants the Executive Director the discretion to divide the transfer into smaller increments, set the timing of the transfer of those increments, transfer less than the approved amount, and close the Liquidity-RAC subaccount, based on the Foundation's cash flow needs.

FURTHER BE IT RESOLVED that the Board of Directors directs the Executive Director to submit the fiscal year 2022-2023 budget to the San Bruno City Council for consideration and approval.

Dated: June 1, 2022

ATTEST:

Raul Gomez, Secretary

I, Raul Gomez, Secretary, do hereby certify that the foregoing Resolution No. 2022-__ was duly and regularly passed and adopted by the Board of Directors of the San Bruno Community Foundation on this 1st day of June, 2022, by the following vote:

AYES: Board members:

NOES: Board members:

ABSENT: Board members:

SAN BRUNO

Community Foundation

2022-2023 Proposed Budget

| | <u>2021-22 Budget</u> | <u>April 2022 Actual</u> | <u>May-Jun 21 Projected</u> | <u>Projected 2021-22</u> | <u>Proposed 2022-23 Budget</u> | <u>Change vs. 2021-22 Actual</u> |
|--|-----------------------|--------------------------|-----------------------------|--------------------------|--------------------------------|----------------------------------|
| INCOME | | | | | | |
| 1 Interest Income | \$ 39,173 | \$ 17,572 | \$ 3,514 | \$ 21,086 | \$ 10,543 | \$ (10,543) |
| 2 Donations | - | 71,000 | 100,000 | 171,000 | - | (171,000) |
| 3 Miscellaneous Income | - | - | - | - | - | - |
| 4 Subtotal Operating Income | 39,173 | 88,572 | 103,514 | 192,086 | 10,543 | (181,543) |
| 5 Transfers from Quasi Endowment | 312,932 | 200,000 | 112,932 | 312,932 | 285,937 | (26,995) |
| 6 Transfers from Strategic Pool | 26,456,233 | 500,000 | - | 500,000 | 25,083,576 | 24,583,576 |
| 7 Transfers from Liquidity-RAC | 10,631,501 | 1,700,000 | - | 1,700,000 | 8,774,970 | |
| 8 Subtotal Transfers from Investments | 37,400,666 | 2,400,000 | 112,932 | 2,512,932 | 34,144,482 | 24,556,580 |
| 9 FUNDS AVAILABLE FOR OPERATIONS | 37,439,839 | 2,488,572 | 216,446 | 2,705,018 | 34,155,025 | 24,375,037 |
| EXPENSES | | | | | | |
| 10 Crestmoor Scholarships | 160,000 | - | 190,000 | 190,000 | 160,000 | (30,000) |
| 11 Community Grants Fund | 300,000 | 300,000 | - | 300,000 | 300,000 | - |
| 12 Strategic Grants | 45,964,454 | 40,514,454 | \$320,000.00 | 40,834,454 | 5,500,000 | (35,334,454) |
| 13 Other Grants | 10,000 | 10,000 | - | 10,000 | 10,000 | - |
| 14 Subtotal Direct Program Expenses | 46,434,454 | 40,824,454 | 510,000 | 41,334,454 | 5,970,000 | (35,364,454) |
| 15 Salaries & Wages | 223,600 | 189,944 | 37,979 | 227,923 | 223,075 | (4,848) |
| 16 Payroll Taxes & Benefits | 24,636 | 30,431 | 4,747 | 35,178 | 25,173 | (10,005) |
| 17 Subtotal Direct Personnel Expenses | 248,236 | 220,375 | 42,726 | 263,101 | 248,248 | (14,853) |
| 18 Occupancy | 15,758 | 13,015 | 2,690 | 15,705 | 16,349 | 644 |
| 19 Insurance | 24,248 | 18,971 | 3,058 | 22,029 | 19,572 | (2,457) |
| 20 Telecommunications | 2,851 | 2,193 | 400 | 2,593 | 2,552 | (41) |
| 21 Postage & Shipping | 3,500 | 2,012 | 120 | 2,132 | 3,720 | 1,588 |
| 22 Marketing & Communications | 17,200 | 11,352 | 750 | 12,102 | 17,378 | 5,276 |
| 23 Office Supplies and Equipment | 6,100 | 3,175 | 700 | 3,875 | 5,180 | 1,305 |
| 24 Legal Fees | 41,556 | 21,205 | 6,000 | 27,205 | 45,200 | 17,995 |
| 25 Accounting & Payroll Fees | 35,332 | 29,615 | 5,000 | 34,615 | 35,792 | 1,177 |
| 26 Other Consultants | 20,870 | 4,539 | 4,000 | 8,539 | 35,438 | 26,899 |
| 27 Travel, Meetings & Conferences | 4,220 | 22 | 800 | 822 | 15,871 | 15,049 |
| 28 Miscellaneous | 3,063 | 1,805 | 1,000 | 2,805 | 2,863 | 58 |
| 29 Subtotal Non-Personnel Support Costs | 174,698 | 107,904 | 24,518 | 132,422 | 199,915 | 67,493 |
| 30 TOTAL EXPENSES | 46,857,388 | 41,152,733 | 577,244 | 41,729,977 | 6,418,163 | (35,311,813) |
| 31 NET SURPLUS | \$ (9,417,549) | \$ (38,664,161) | \$ (360,797) | \$ (39,024,958) | \$ 27,736,862 | \$ 59,686,850 |