

TRUSTEES OF THE PUBLIC LIBRARY OF THE CITY OF BOSTON

**Meeting of the Trustees Finance and Audit Committee
Friday, November 6, 2015 / 8:00 a.m.
Trustees Ante Room, McKim Building, Central Library
700 Boylston Street, Boston, MA 02116**

MINUTES

A meeting of the Boston Public Library Trustees Finance and Audit Committee was held on Friday, November 6, 2015 at 8:00 a.m., at the Boston Public Library, Central Library, Commonwealth Salon, 700 Boylston Street, Boston, MA 02116.

Present at the meeting were Finance and Audit Committee Chair Evelyn Arana-Ortiz and Committee members Rep. Byron Rushing, Zamawa Arenas, and John Hailer.

Also present were Boston Public Library Staff: Interim President David Leonard, Chief Financial Officer Ellen Donaghey, and Clerk of the Board Deborah Kirrane. Attending from City of Boston was Management Analyst Edward Pesce. Sebastian Grzejka and Michael Gaughan of New England Pension Consultants, were also in attendance. Elissa Cadillic, President of AFSCME Local 1526 listened to the meeting via teleconference.

Ms. Arana-Ortiz, Chair of the Trustees Finance and Audit Committee (“Committee”) presiding, called the meeting to order at 8:00 a.m., and addressed review and approval of minutes of September 20, 2015 Meeting. Upon motion made and duly seconded, Minutes of Trustees Finance and Audit Committee Meeting of September 20, 2015 were unanimously approved.

Ellen Donaghey, Boston Public Library Chief Financial Officer delivered an update on the unassigned fund balance. Monies from this fund have been used to pay for improvements to Central Library staff area, finance previously grant-funded positions, as well as costs associated with Rare Books Department clean-up and dehumidifying processes. The BPL expects to receive reimbursements of costs related to Rare Books Department from capital and insurance proceeds and will keep Trustees advised of same. David Leonard, Interim President of the Boston Public Library added that BPL Leadership would return to the Committee with plans and options for the unassigned fund. Rep. Rushing asked that a specific title be given to the fund.

The Committee next addressed Boston Public Library Retail Tenant Central Library / Johnson Building recommendation and the consideration of the proposal submitted by The Catered Affair and WGBH Educational Foundation. Mr. Hailer understood there to be good, healthy discussions on this issue. He asked that the Committee further discuss the issue at the current meeting in preparation for bringing it before the full board of Trustees at the November 10, 2015 meeting.

Mr. Leonard offered a synopsis of events of the third and final meeting of the Retail Tenant Advisory Committee, held on October 16, 2015. At the conclusion of that meeting, members were polled. Four members were in favor of advancing the TCA/WGBH proposal, and four members were against. Three members not in attendance were later polled and indicated their support of the TCA/WGBH proposal. Thus, final voting was seven votes in favor and four votes opposed to advancing the TCA/WGBH proposal.

Mr. Leonard stated it is his duty to report on the merits of the vote. He has a written position statement that addresses merits and concerns raised, but ultimately the position of the President's Office is to respect the 7-4 vote of the Retail Tenant Advisory Committee and see the recommended proposal move forward. Mr. Leonard cited the original intent of the overall project and that the recommended proposal does, in fact, meet the established criteria and any reservations can inform staff during contract negotiations with selected vendor. The Finance and Audit Committee is obligated to vote on the proposal being put forth, but contract negotiations can further ensure confidence in the proposal by addressing expected programming elements and operating efficiencies.

Mr. Leonard explained that the Finance and Audit Committee can, as a matter of process, decide to defer the vote to the Trustees Meeting on November 10. Mr. Hailer would like to see the Committee discuss the situation at the current meeting and defer the vote to the meeting on November 10. Ms. Arana-Ortiz asked that W. Tod McGrath, the third party retail advisor hired to assist the Retail Tenant Advisory Committee and the Trustees, be present at the November 10 meeting. Ms. Arenas confirmed that two Trustees have recused themselves from the issue and Rep. Rushing confirmed that he is unable to attend the November 10 meeting.

Mr. Hailer would like to see a vote as close as possible to a unanimous vote, understanding that the issue before the Committee is challenging. He would like to see the term "retail" not used, as the space is more appropriately an "enterprise" opportunity. He confirmed the two Trustee recusals based on a conflict of interest.

Rep. Rushing prefers not to defer as he wants to vote 'no,' and have his opposition reflected in meeting minutes.

Mr. Leonard proceeded with a presentation of reasons why the proposal should advance. As part of the renovation of the Johnson Building / Central Library, a portion of the building was made available for a retail/enterprise tenant whose offerings appropriately complement BPL's dedication to the advancement of learning. Further goals of the renovation included energizing the Johnson Building to make it more welcoming, inviting, comfortable, clean and safe, better connecting the Johnson Building and BPL to the Street, bringing increased number of users into the building, and connecting the Johnson and McKim Buildings into a single complex. The mission compatible, enterprise partner proposal would expand on existing BPL services and bring energy to the front of the Johnson Building.

The project was formally conceived in 2011 and a master plan issued in 2013, based on a six-month study that built upon a two-year process and the Compass Principles. Numerous community advisory meetings and trustee presentations were held.

The Johnson Building exercise resulted in the following goals: to improve visitor's first experience, to enrich library services and user experience, and to provide a positive financial impact for the BPL. To inform the project, the BPL engaged Byrne McKinney & Associates and Pinnacle Advisory Group, to conduct a Retail and Market Conference Analysis. The report determined types of feasible and desirable retail partners, and identified the corner space as the most attractive to reenergize Johnson Building, provide increased opportunities for attracting more members of the public into the Library, and to create a multi-layered friendly experience for current users. The master plan specifically stated that achieving this goal requires balancing income opportunities with compatibility and connectivity to the BPL's mission. Mr. Leonard

quoted from the report stating “as this is not a typical relationship between landlord and tenant, creation of the high possible rent was not a conceptual master plan priority.”

Chris Gordon was retained as a development advisor, to assist formally in developing the space and identifying potential tenants and, in spring 2015, Mr. Gordon suggested retention of a real estate broker to ensure widest possible distribution of request for proposal (RFP) for the space, and The Dartmouth Company was engaged to market the RFP, released in March 2015 for which responses were due in May 2015. At the same time, a large banner advertising the space was prominently displayed at the front of Johnson Building. Per Dartmouth Company’s request, the RFP response date was extended to late May and extended again to July 2015, in an effort to attract more bidders. Dartmouth Company’s final report shows contact with more than 100 businesses and non-profits of which three chose to respond, two of whom may have applied without the involvement of Dartmouth Company. Dartmouth Company explained that many non-profits were unable to monetize the space as the BPL prohibits charging admission and many potential respondents had difficulty with the mission compatible requirement.

At the July 18, 2015 meeting of the Trustees Finance and Audit Committee, Trustees asked that a third party validator be hired to offer an unbiased review of the RFP response selection process. Accordingly, W. Tod McGrath was identified. Mr. McGrath is a principle of AdvisorRE with over 30 years of experience in the Boston commercial real estate market and serves as the Executive Director of the MIT Center for Real Estate.

A Retail Tenant Advisory Committee (RTAC) was formed and tasked with reviewing candidates and recommending to the BPL Interim President, the most suitable tenant. RTAC met three times. During the first two meetings the three respondents were evaluated and merits discussed based on the respondents’ non-price proposals. Each respondent was interviewed at the second meeting and all proposals were ranked. Of a possible 540 points, The Catered Affair/WGBH received 407 points, and the next two proposals 256 and 182 points, respectively.

At third meeting of RTAC, respondents were evaluated with an eye toward the rent each would pay. Some committee members were disappointed by rents offered, but BPL believes it is the value of the mission compatible portion of the proposal that should go forward.

It is Mr. McGrath’s opinion that the real estate firm had overestimated the value of the space. Concerns regarding the mission compatibility requirement, the uncertainties of having the government as a landlord, and certain of the restrictions imposed had significant impact on those who chose not to bid.

Mr. Leonard concluded by stating that the market has presented the BPL with three proposals and the appropriate committee voted that one of the proposals is mission compatible, offers the BPL a positive financial impact, and thus is the proposal that should be accepted.

If the process were to be re-opened, Mr. Leonard stated there is no guarantee BPL would receive better responses. A re-bid would likely bring more questions and/or difficulties in obtaining a tenant. Given that the enterprise space is such an integral component of the overall project, having the space vacant would damage the integrity of the overall project. Internally BPL does not have the capacity or funds to deliver an alternative.

The enterprise space has a \$400,000 to \$500,000 build out cost and those funds do not exist in BPL or in the project. The recommended retail proposal does provide revenue of \$136,000 in

addition to the built-out which could pay for two or three staff members to help animate the space. Increased staffing will be needed as a result of the expected traffic increase.

Mr. Leonard confirmed that approximately 100 possible tenants were contacted and that large numbers came in for site visits, sometimes several times, and simply chose not to bid. Ms. Donaghey will bring the list of those contacted to the November 10, 2015 Trustee Meeting.

Mr. Hailer stated that this has morphed from an enterprise mission to something now being called “retail.” Advancing the bid of the recommended vendor brings emphasis back to an enterprise and educational space. It is a creative bid that can be made even more creative. It is his experience that re-bidding would not make things better and would, instead, make things worse. It is his suggestion that the negotiations emphasize putting the enterprise considerations more in the forefront than retail concerns.

Ms. Donaghey advised that WGBH has been asked to attend Tuesday’s meeting to respond to Trustee concerns.

Rep. Rushing stated that Trustees and BPL staff have learned a lot in this process and that putting out a bid for retail space may not have been the best decision. He feels BPL has an advantage in waiting and putting out a more refined RFP based on lessons learned, addressed to a different group of respondents including major well-funded non-profits.

Rep. Rushing was upset with BPL staff for not having a plan B. He is concerned that if this process were to collapse there is no alternative but to board up the space. He feels the recommended vendor will be interesting for the first month only and would rather see a year delay than see BPL be stuck in a five year lease.

Ms. Arenas expressed a similar view to Rep. Rushing’s. She is concerned that BPL may be settling for a space as opposed to obtaining an ideal tenant. She believes RFP could be rewritten to better address BPL goals, and that a Plan B should have been in place. Ms. Arenas would like to see RFP process re-opened with RFP that reflects what BPL is looking for and accompanied by intentional reaching out to possible respondents.

Mr. Hailer, while having the same types of issues as Rep. Rushing and Ms. Arenas, sees WGBH as the leader in educational programming, in the top ten for educational content. He does not see the space as financial and would be ecstatic if BPL broke even financially. It is an educational space and he does not like using the word ‘retail’ to describe it. Trustees have an opportunity to take lessons learned and ask WGBH to address them in their proposal. He does not want to lose the bird-in-the-hand because Trustees think a respondent may apply, in a process where only three out of 150 potential vendors bid. He would rather work with WGBH as opposed to opening the process back up.

Ms. Arana-Ortiz stated she did not disagree with what other members have said, but that the BPL is not finished learning; RFP is just the beginning of the learning. WGBH is a compatible mission and someone who, as a partner, is safe for BPL to continue learning. There is a 50/50 chance that if the space is re-bid, an alternative vendor may be found, but would that vendor be at the same level as WGBH, as mission compatible to BPL? She does not feel that advancing this proposal is settling.

Ms. Arenas reminded all that WGBH is coming with The Catered Affair and proposal should be viewed as a whole. She agrees that WGBH is, historically and institutionally, mission compatible. She is not in favor of moving the proposal forward because of TCA/WGBH

partnership. A lot of things are unclear and that is a point of concern to her. Ms. Arana-Ortiz asked if language could be included in the contract to mitigate some of these through contractual or partnership concerns.

Mr. Leonard stated the recommended proposal is exciting, compelling, shows promise and potential. He is aware of acceptable risk, but does not see The Catered Affair as a disadvantage. TCA is a known quantity, they know how to operate in BPL buildings, and that mitigates any risk. BPL has been provided copies of the understanding between the two firms and he offered to speak to this at the November 10 Trustee Meeting. Mr. Leonard is not concerned about The Catered Affair being part of the partnership as it provides the educational piece and the café piece, as well as exploring the gift shop-like function that has been substandard in the BPL operation. He feels the potential and the upside are stronger than any risk, including the risk of not proceeding.

When asked, Mr. Leonard stated that Committee members and Interim President may each vote.

Mr. Hailer stated that Mr. Leonard has valid points and, further, that Trustees need to trust management and administration and accept their satisfaction with this proposal. Accordingly, he will vote in favor of the TCA/WGBH proposal.

Rep. Rushing asked if the Trustees would see what the negotiation points are with WGBH and TCA. Will Trustees see the parameters of what is required by WGBH? Will they broadcast every day? Messrs. Hailer and Leonard are engaged with WGBH and WGBH is very interested in exploring this further. This is a space that will evolve and BPL will learn as time goes on. The space may not even look the same after five years as it does at the end of year one, but if BPL does not get someone in, we are never going to start.

Rep. Rushing does not want to end up subsidizing WGBH.

Ms. Arana-Ortiz pointed to contract language that should be included to address the exact parameters of what WGBH is going to provide. Mr. Leonard explained that emerging objections are what will feed the negotiation process. Any contract will not be standard boilerplate, but will contain language that speaks directly to requirements and penalties for non-conformance.

Ms. Arenas would like to be clear on next steps and information that is presented to Trustees. Four Trustees participated in RTAC, and the same four Trustees are participating as members of Finance and Audit Committee. The proposal will now go before the full board of Trustees on November 10 where, essentially, one Trustee will vote and, in all fairness to that Trustee, it is important she receive a full picture of this discussion, concerns raised, and what is being done to mitigate those concerns. Ms. Arenas asked that both WGBH and TCA appear at the November 10 Trustee Meeting and a robust discussion be held.

Mr. Hailer pointed to the fact that committees exist so other Trustees can trust decisions made. He does not want a contract negotiation at the November 10 meeting, but a discussion on concept. He views the current proposal as an opportunity with a well-known and content-centric organization.

Ms. Arenas says the discussion should be around compatibility, partnership and the principles guiding that partnership, not nuts and bolts of the contract. Trustees should be clear on philosophy, commitment, roles and responsibilities of each party.

Mr. Leonard explained that a vote to advance the proposal allows BPL to get to the contract negotiations stage and determine and confirm these points. Normal contract negotiations would involve BPL Finance Department and City of Boston representatives, together with subject matter experts from BPL, working to ensure programmatic aspects are enshrined.

Mr. Hailer confirmed that all conversations with WGBH have been open-minded. Concerns include how partnership would be governed between WGBH and TCA, but BPL has been working successfully with TCA, they are a known system. He stated this was a good concept and a good idea.

Ms. Arana-Ortiz called for a vote on the following:

“That, the Trustees Finance and Audit Committee recommend the Trustees of the Public Library of the City of Boston, accept the proposal of The Catered Affair and WGBH Educational Foundation, as recommended by Interim President and the Retail Tenant Advisory Committee.”

Mr. Hailer, Ms. Arana-Ortiz, and Mr. Leonard voted in favor of recommending the proposal, while Rep. Rushing and Ms. Arenas voted not to recommend.

Ms. Arena-Ortiz asked that WGBH and TCA attend the November 10 Trustee Meeting. Ms. Arenas asked for clarification of how much input Ms. DeBonis can have in the discussion and all conflicts should be disclosed and announced prior to discussions at the November 10 Trustee Meeting.

Ms. Arena-Ortiz thanked everyone for their candid and open discussions. The order of the Agenda was next changed and New England Pension Consultants’ Report was placed behind the next votes to be taken.

Ms. Donaghey reviewed for the Committee the proposal brought by SpencerStuart in response to the BPL’s Presidential Search Services RFP and asked that the Committee vote to recommend approval of the award of contract to the Trustees at the November 10 meeting. SpencerStuart averaged 70 out of a possible 75 points in scoring, references were checked which included Colgate and Columbia Universities, and New York Public Library. All references pointed to SpencerStuart’s experience with public process, constituency groups, and willingness to locate non-traditional candidates. Search Committee Chair, John Palfrey, surfaced a potential conflict and appropriately disclosed his own past dealings with SpencerStuart. The cost of the executive firm would be borne out of general fund. The disclosure was vetted by City of Boston Legal Counsel and determined not to be of concern. Upon motion made and duly seconded, the Committee unanimously voted:

VOTED: “that the Trustees Finance and Audit Committee recommend approval by the Trustees of Spencer Stuart, 281 Tresser Blvd., Stamford CT, the most responsive and responsible bidder in a Public Request for Proposal process advertised under M. G.L. c. 30B, a contract for Boston Public Library Executive Search Firm Services during period November 2015 through November 2016.”

Ms. Donaghey next presented two contracts which are anticipated to be ready for approval in December: a contract to provide customer service training, manual, and continuing education, and a contract for the painting of the Honan Allston Branch. Rather than wait for the January

2016 Trustee meeting, it is requested that the Finance and Audit Committee recommend that the Trustees delegate approval of these contracts back to the Finance and Audit Committee. Upon motion duly made and seconded, the following votes were unanimously approved.

VOTED: “that, the Trustees Finance and Audit Committee request the Trustees of the Public Library of the City of Boston, delegate approval of the Central Library / Johnson Building Renovation Training Contract to the Trustees Finance and Audit Committee.”

VOTED: “that, the Trustees Finance and Audit Committee request the Trustees of the Public Library of the City of Boston, delegate approval of the Honan Allston Painting Contract to the Trustees Finance and Audit Committee.”

Ms. Arana-Ortiz introduced Sebastian Grzejka and Michael Gaughan, principals of New England Pension Consultants (“NEPC”), to deliver NEPC’s report. Mr. Gaughan reminded the Committee of its decision to hire Segall, Bryant and Hammill to manage the Small Cap Allocation fund. Looking forward, NEPC would like to discuss the Large Cap fund, review absolute return and unconstrained fixed income manager options, and implement these changes in winter 2016. NEPC confirmed that BPL has a strong asset allocation foundation, but NEPC would like to make it even more efficient going forward.

Messrs. Grzejka and Gaughan discussed certain absolute return and unconstrained fixed income managers for the Committee to review, and described the strengths of each. They spoke to the benefits of absolute return/unconstrained asset allocation, how this type of strategy would pair well with other investments in the portfolio, and will bring this topic to the next meeting for further discussion. Mr. Hailer asked that ‘unconstrained’ be explained. Mr. Grzejka stated that unconstrained managers have products that are meant to be very flexible and can invest in high yield, more aggressive products. He recommends a portion of the fixed income be invested in this type of allocation.

Mr. Grzejka confirmed that there are two decisions to be made. First, to retain the current or find a new manager for about 10% of the portfolio, and second, whether to move to an unconstrained bond mandate. Mr. Hailer further explained that absolute return was predominant in pension endowment type funds, and a better model for institutions like the Boston Public Library.

Ms. Arana-Ortiz asked if NEPC was proposing a change in allocations. Mr. Grzejka responded that the recommendation was to diversity within the fixed income allocation; no structural change is recommended at this point. Mr. Hailer explained that NEPC is trying, within the fixed income space, to provide decent yield while managing risk and exposure. NEPC would like to discuss underlying allocations at a future Finance and Audit Committee meeting.

NEPC is proposing to introduce an unconstrained fixed income manager to work within the current portfolio, to start diversifying the portfolio.

Mr. Hailer explained that ‘absolute return’ is exactly that, gaining an X amount of returns by giving the manager flexibility to globally allocate within asset classes and make some trades. He encouraged the Committee to continue to look at the return over a period of time instead of managing to a benchmark or index and said that absolute return for institutions is a preferred way to proceed.

For purposes of this meeting, NEPC is asking for a vote allowing NEPC to introduce an unconstrained fixed income manager as an interim target while NEPC continues to look for managers and receives an agreement on the large cap allocation. While the current manager has been with the portfolio for quite some time, it may be worthwhile to review the manager and see what other managers exist. Upon motion made and duly seconded, it was

VOTED: “that the Trustees Finance and Audit Committee allow New England Pension Consultants to search for an Unconstrained Fixed Income manager.”

NEPC suggested that moving forward, managers be invited to future Finance and Audit Committee meetings so that members of the committee may meet them and ask questions in an effort to evaluate same.

Mr. Grzejka explained that the difference between large cap managers being considered is how each manager approaches the allocation. Compared to the current manager, these managers use a quantitative approach for the majority of their processes. NEPC recommended managers that are more concentrated and have conviction in the securities they are purchasing but, out of this group, there is one that they especially prefer. This preferred manager only manages this one product, their results are consistent and the managers are invested in their own product. NEPC recommends that the Committee interview the current manager and the preferred manager.

In conclusion, NEPC confirmed that performance has been tough for the last quarter, but that October saw a phenomenal turnaround. Ms. Arana-Ortiz asked that the two fund managers attend the next meeting of the Finance and Audit Committee, and thanked NEPC for their presentation.

The meeting next moved to Public Comment. Elissa Cadillic, via telephone, offered thoughts regarding retail space. She was pleased to hear so much discussion among Trustees. She believes that BPL has an opportunity to fill the space from within. Citing currently filled tables and chairs, she believes placing furniture in the space would make the space vibrant. With respect to WGBH, she stated WGBH could partner with BPL without necessarily becoming a tenant. Her concerns regarding The Catered Affair relate to the impact on staff and patrons of having food brought from a kitchen in McKim Building to café space in Johnson Building. She points to penalties for non-compliance in the current TCA contract as an indication of a less than perfect partner and encouraged the Trustees to wait and re-bid a new RFP, targeted to a different group.

In regard to the vote related to a training contract, Ms. Cadillic stated that BPL previously sponsored a customer service training program, a manual exists and it is not being used. She suggested re-energizing the current manual and asked that BPL not spend money on something it does not have staff to support.

Ms. Arena-Ortiz thanked Ms. Cadillic for participating in the Retail Tenant Advisory Committee. She recognized Ms. Cadillic’s passion about training. Ms. Arena-Ortiz would like to see the BPL sustain the training as opposed to one-time event. These points have been raised with BPL and the Trustees would like to see these conversations continue. The vote in the meeting was only to delegate approval. This is an operational matter and Ms. Arena-Ortiz expects BPL to put forward a comprehensive training program.

Brandon Abbs, President of Citywide Friends thanked the Committee. He enjoyed participating on the Retail Tenant Advisory Committee, enjoyed the discussions, and commended Mr.

Leonard and Ms. Donaghey for their efforts. He urged BPL to consider re-releasing the RFP with an eye toward enterprise versus retail space as retail space does not resonate with non-profits. The RFP should be re-released with lower expectations for income. He asked that expenses related to the search be posted at www.bpl.org and further suggested income from the space be grown and not just placed to operating expenses.

Mr. Leonard confirmed that costs associated with RFP would include those borne by Dartmouth Company, W. Tod McGrath, Christopher Gordon, Byrne McKinney.

Marlene Neinhaus next read a statement from David Vieira and asked that said statement be included in the record.¹ Mr. Abbs confirmed that Mr. Vieira's statement is not on behalf of Citywide Friends but rather Mr. Vieira as a member of the public.

Ms. Neinhaus next spoke on her own behalf. She is concerned about locking BPL into a contract for the space prior to a new president being hired and new trustees being appointed, as the recommendation for retail space is from a prior BPL administration. She stated that hiring a Branch Library Director prior to the hiring of a new president was not a good idea. She would like a new president to set his/her own imprint and not being able to do so may serve as a hindrance to recruitment.

Mr. Hailer commended members of the public. Comments were well said and he is glad that people are engaged in what is taking place. Ms. Arena-Ortiz agreed and thanked all for their engagement.

With no further business before the Committee, the meeting was adjourned at 9:26 a.m.



Deborah A. Kirrane
Clerk, Board of Trustees

¹ Statement attached hereto.

11/6/2015

Thank you for the opportunity to be able to present this statement to the committee. I apologize for not being present in person but your schedule change finds me with another commitment.

I continue to be distressed at the amount of time and effort that is being put into the monetization of our library. For over 160 years the public library of the city of Boston has been supported by the taxpayers of the people of Boston. This commercialization effort does not in any way appear on the mission statement of our library to be "dedicated to the advancement of learning". Most institutions of this type attract benefactors who willingly give to support the needs and aspirations of their institution. Selling off parts of our library in order to generate income is neither wise or appropriate. Despite a great deal of hype and hyperbole the Boston Public Library Foundation has failed in its mission to build an endowment capable of addressing the needs of our system. I urge the trustees to turn away from this experiment of "enterprise funding" and push the BPLF to re-energize it's efforts. With a new executive director in place this is the perfect time to do so. Please continue to make our library a place of learning and not a place for shopping.

Sent from iPhone #
617.364.1507.
Please excuse typos
on elf-size keyboard.
Regards,
Dave Vieira