

## MINUTES OF THE MAY 19, 2016, FINANCE COMMITTEE MEETING

The Finance Committee (“Committee”) of the Board of Regents of the Smithsonian Institution (“Smithsonian”) held a meeting on May 19, 2016, at the Smithsonian Castle in Washington, DC. Participating were Committee Chair David Rubenstein and Committee members John Fahey\*, John W. McCarter, Jr.\*, Timothy O’Neill\*, and Roger Sant\*. Senator David Perdue and Representative Xavier Becerra were unable to attend the meeting.

Also present by invitation of the Committee were Secretary David Skorton\*; Acting Chief of Staff to the Secretary Greg Bettwy\*; Office of the Regents Senior Researcher and Writer Jennifer Ehlinger (recorder); Director of the Office of Finance and Accounting Jean Garvin; Under Secretary for Finance & Administration/Chief Financial Officer Albert Horvath; General Counsel Judith Leonard; Smithsonian Enterprises President Chris Liedel; Deputy Chief of Staff to the Regents Rachel Parker; Director of Government Relations Nell Payne; Director of Planning, Management, and Budget David Voyles; and Chief of Staff to the Regents Porter Wilkinson.

### CALL TO ORDER

Committee Chair David Rubenstein called the meeting to order at 10:00 a.m.

### APPROVAL OF THE DECEMBER 7, 2015, COMMITTEE MEETING MINUTES

Upon motion duly made and seconded, the draft minutes of the December 7, 2015, Committee meeting were approved without modification.

### FISCAL YEAR 2016 FINANCIAL BUDGET/ACTUAL RESULTS

Under Secretary for Finance and Administration/Chief Financial Officer Albert Horvath reviewed the fiscal year 2016 financial data as of March 31, 2016. The Smithsonian began the fiscal year operating under a continuing resolution (“CR”) and received its fiscal year 2016 appropriation of \$840.2 million on December 18, 2015. The enacted appropriations provide \$696 million for Salaries and Expenses and \$144.2 million for Facilities Capital. In addition, appropriations of \$242 million from fiscal year 2015 remain available for use in the current fiscal year. Mr. Horvath noted that prior to the end of the fiscal year, management and individual units will work to fully obligate fiscal year 2015 funds, which are set to expire by September 30, 2016.

Mr. Horvath reported that the Smithsonian’s primary Trust revenue sources of gifts, business activities, and sponsored research are all performing well for the year, while expenses remain within budgetary guidelines. Revenues include \$113.8 million from Contributions; \$30.3 million from government grants and contracts; \$11.5 million in overhead and fees collected from grants and contracts; \$35.7 million from the Endowment Payout; \$80.7 million from business activities, including \$12.6 million from Smithsonian Enterprises; and \$20.2 million from investment income, undistributed deposits, and reimbursements.

*\*participated by telephone*

Mr. Horvath also noted that the National Museum of African American History and Culture (“NMAAHC”) is continuing to progress with exhibit and large artifact installation underway. The museum is on track for its public opening on September 24, 2016.

#### **FISCAL YEAR 2017 FEDERAL BUDGET UPDATE**

Mr. Horvath updated the Committee on the fiscal year 2017 federal budget request and commented on the current federal budget environment. On January 7, 2016, the Smithsonian received final settlement on the fiscal year 2017 budget request from the Office of Management and Budget (“OMB”). The Smithsonian submitted its fiscal year 2017 federal budget justification to Congress on February 9, 2016, and on March 23, 2016, Secretary Skorton testified before the House Subcommittee on Interior, Environment and Related Agencies of the Committee on Appropriations on the request. The total funding requested for fiscal year 2017 is \$922.2 million, which includes \$759.2 million for Salaries and Expenses, and \$163 million for Facilities Capital. The Smithsonian’s request represents a 9.8% increase from the fiscal year 2016 enacted budget amount of \$840.2 million. This amount reflects increases for Non-Discretionary Expenditures; Maintenance Funding (including NMAAHC); Facilities Operations, Security, and Support (including NMAAHC); Information Technology Infrastructure; Museum Program Infrastructure; Science Research; and Digitization, Preservation of Cultural Heritage, and Latino and Asian Pacific American Initiatives. Management expects that the federal government will begin fiscal year 2017 under a CR and final appropriation bills will be passed following the 2016 Presidential Election.

#### **FISCAL YEAR 2017 ENDOWMENT PAYOUT**

Mr. Horvath reviewed the fiscal year 2017 Endowment payout recommendation. The Smithsonian’s historical policy is to pay out five percent of the trailing average market value per share over the previous five years to support programs and activities. Since 2012, an additional annual payout of up to one percent has been added in order to pay for the costs of the National Campaign, the practice of which is expected to end in fiscal year 2017. The projected payout to support programmatic activity for fiscal year 2017 is \$63.1 million and the campaign financing payout is projected at \$5.8 million.

Upon duly made and seconded, the Committee approved the following motion:

**VOTED** that Finance Committee recommends that the Board of Regents approves a five percent payout from the Smithsonian’s Endowment in fiscal year 2017 to support programmatic activity. The Finance Committee further recommends up to an additional one percent payout from eligible Smithsonian Endowment funds in fiscal year 2017 to cover expenses associated with the national fundraising campaign. The payout shall be calculated against the current five-year average market value of the Smithsonian Endowment.

## **UPDATE ON EXTERNAL DEBT**

Mr. Horvath reviewed the current status of the Smithsonian's external debt. The Smithsonian's Standard and Poor's rating was reaffirmed at an AAA/Stable rating on April 20, 2016. Management will meet with Moody's in July in order to attain their rating as well. The current external debt is at approximately \$200 million, which consists of a fixed-rate debt amount of \$72.5 million and a variable-rate debt of \$127.5 million. Mr. Horvath also updated the Committee on the Smithsonian's cash holdings, money market holdings, and agency bonds. The Smithsonian has short term cash holdings of \$253.9 million, in a mix of money markets, agency bonds, and in operating accounts at two different financial institutions. As of March 31, 2016, the Smithsonian had collected approximately \$76.6 million in funds from gift payments and retail revenues to put toward the repayment of the external debt.

## **EXECUTIVE SESSION**

The Committee then conducted an executive session to discuss the Smithsonian Channel Equity Put Option. The SNI/SI Network LLC ("Channel") is a joint venture that was established in 2006 with Showtime Networks Inc. ("Showtime"). In 2011, the Smithsonian purchased additional equity interest in the Channel. The joint venture agreement provided that the Smithsonian could sell back ("put") to its partner a portion, or all, of its ownership interest in 2014, 2016, or 2018. The Committee discussed the status of the put option with respect to the motion passed by the full Board on May 2, 2016.

## **ADJOURNMENT**

There being no further business to consider, the meeting was adjourned at 10:37 a.m.

Respectfully submitted,

David Rubenstein, Chair