

## MINUTES OF THE SEPTEMBER 19, 2014, COMPENSATION AND HUMAN RESOURCES COMMITTEE MEETING

The Compensation and Human Resources Committee (“the Committee”) of the Smithsonian Institution Board of Regents held a telephonic meeting on September 19, 2014. Participating were Committee Chair Ambassador Barbara Barrett and members Representative Xavier Becerra and John Fahey; Board Chair and ex officio member John W. McCarter, Jr., also participated. Committee member Senator Thad Cochran was unable to participate.

Participating staff included Secretary G. Wayne Clough, Office of Human Resources (OHR) Associate Director Greg Bettwy, OHR Director James D. Douglas, Office of the Regents Senior Writer-Editor Barbara Feininger (recorder), Liaison for Senator Cochran T.A. Hawks, Inspector General Cathy Helm, Under Secretary for Finance and Administration and Chief Financial Officer Albert Horvath, General Counsel Judith Leonard, Liaison for Representative Becerra Grisella Martinez, Deputy Chief of Staff to the Regents Rachel Parker, and Chief of Staff to the Regents Porter N. Wilkinson. PricewaterhouseCoopers (PwC) consultants Bruce Clousure, Scott Olsen, and Heather O’Neill also participated in part of the meeting.

### CALL TO ORDER

Committee Chair Ambassador Barbara Barrett called the meeting to order at 8:00 a.m.

### APPROVAL OF THE MINUTES OF THE MAY 14, 2014, COMMITTEE MEETING

Upon motion duly made and seconded, the draft minutes of the May 14, 2014, Committee meeting were approved subject to an editorial correction.

### 2015 COMPENSATION: OPERATING ENVIRONMENT

PwC consultant Heather O’Neill briefed the Committee on market and regulatory conditions that might impact the Committee’s compensation decision-making process. From a market perspective, many non-profit organizations are moving towards different retention mechanisms and enhancing incentive plans in the areas of development and advancement. There are increased recruitment efforts in the areas of media and IT. Investment offices continue to focus on incentive plans. Nationally, there has been a 3 percent rise in overall merit increases.

From a regulatory perspective, there continues to be extensive emphasis on better governance, transparency, and disclosure. Most provisions of New York State’s Non-Profit Revitalization Act of 2013 took effect in July 2014, increasing the governance and accountability of organizations and expanding independence between governing boards and management, including with regard to executive compensation decisions. In 2012, New York State also passed a cap on nonprofit executive pay for organizations that receive substantial state funding. In 2014, the Ways and Means Committee proposed a tax reform act that could impact nonprofit executive compensation. In the for-profit sector, executive compensation decisions continue to be at the discretion of individual organizations.

*\* participated by teleconference*

## **2015 COMPARABLE GROUPS**

Ms. O'Neill discussed PwC's methodology and analysis of competitive compensation data for over 100 executive-level Federal-equivalent and market positions. The benchmarks will support the presumption of reasonableness under the IRS's Intermediate Sanctions rules. PwC grouped the Smithsonian's positions into 11 job families, matching each to comparable labor markets and, where necessary, applied a not-for-profit differential of approximately 25 percent. PwC's opinions are justifiable from a regulatory perspective; no calculated calls were made. Ms. O'Neill reminded the Committee that, in March 2014, the Board of Regents approved moving the Secretary's compensation philosophy to plus or minus 15 percent of the competitive 75th percentile of the not-for-profit labor market. Because of the Smithsonian's unique role as a public trust, other executive positions remain targeted at the competitive 50th percentile.

The Committee agreed with PwC's recommended compensation justifications and, upon motion duly made and seconded, approved the following motion:

**VOTED** that the Compensation and Human Resources Committee approves the proposed comparable approach for the 2015 compensation year.

## **2015 DISQUALIFIED PERSON POSITIONS**

OHR Associate Director Greg Bettwy presented materials to support the Committee's annual decision on disqualified persons. There were no reorganizations or budgetary shifts that required amending the 2014 position list for the 2015 decision-making process.

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

**VOTED** that the Compensation and Human Resources Committee adopts the proposed 2015 list of disqualified persons.

## **2015 DECISION-MAKING LEVELS**

Mr. Bettwy presented staff's recommendation that the decision-making levels for 2014 be retained for the 2015 compensation review. The full Board will make compensation decisions for approximately 34 positions and the Acting Secretary will determine compensation levels for approximately 200 positions. The Board's review will include positions that are direct reports to the Regents and/or the Secretary, disqualified persons, and positions with a proposed salary above \$250,000 or proposed total compensation above \$275,000. The Compensation and Human Resources Committee agreed to adopt the 2015 decision-making levels.

## **2015 COMPENSATION PHILOSOPHIES**

Mr. Bettwy reviewed proposed 2015 compensation philosophies for senior-level Trust and Federal executives. A 1 percent salary increase is anticipated for Federal employees, which also

will impact Trust compensation. The Trust compensation philosophy, which is reviewed annually, is memorialized to demonstrate compliance with IRS regulations. The Committee agreed to adopt the 2015 Federal and Trust compensation philosophies.

### **COMMITTEE CHARTER REVIEW**

The Committee charter is reviewed on an annual basis. Mr. Bettwy presented proposed amendments that are intended to better reflect the actual compensation approval practice for certain Trust and Federal positions, as well as to specifically note employee engagement, succession management, leadership and employee development, and diversity. Revisions to term limits, he added, are under consideration for all Regent committees. Upon motion duly made and seconded, the following motion was approved:

**VOTED** that the Compensation and Human Resources Committee recommends the proposed charter changes to the Governance and Nominating Committee for approval.

### **INVESTMENT INCENTIVE PAYOUTS**

The Committee reviewed preliminary data for the Investment Incentive payout for the annual performance period ending June 30, 2014. Mr. Bettwy reminded the Committee that this incentive program includes both quantitative and qualitative components. The formula for the quantitative component, which was modified by the full Board in early 2014, is based on the performance of the Smithsonian's portfolio as compared to established one- and three-year period benchmarks. The portfolio's performance was 1.3 percent (130 basis points) above the one-year benchmark and 2.1 percent (210 basis points) above the three-year benchmark. Mr. Bettwy also reviewed preliminary estimates of maximum total cash levels for certain Office of Investment executives.

Representative Becerra commended the management for the careful development of the Institution's Investment Incentive Program.

### **2015 EXECUTIVE COMPENSATION PROCESS TIMELINE**

The executive compensation process timeline for 2015 was reviewed. Mr. Bettwy reported that the process is on schedule. The Committee noted the potential impact of growing inequities between frozen Federal salaries of current senior executives and market-based compensation packages for new hires. The issue will be considered at a later Committee meeting.

### **SMITHSONIAN ENTERPRISES INCENTIVE PLAN**

In May 2014, the Committee approved the general framework for the Smithsonian Enterprises (SE) Incentive Program, and engaged PwC to develop additional details and specifics for the annual and long-term incentive plans, including analyses of governance, participation, and background issues.

PwC consultant Bruce Clousure provided an overview of PwC's proposed amendments to the SE annual incentive plan. The proposed annual incentive plan includes minor refinements to participation and target award levels with regard to market practices and internal SE equity, as well as substantive adjustments to plan metrics by substituting net gain with revenue and cost-ratio metrics (which will provide improvements from a regulatory perspective). PwC proposed minor refinements to weightings to place greater emphasis on mission goals. With regard to performance and payouts, PwC validated the budget processes for setting goals and proposed lowering the cap on the maximum award opportunity and broadening the performance range to better align with market practices. Mr. Bettwy noted that the Institution could decide that the annual SE budget would be a threshold, not a target, with regard to annual performance compensation.

Mr. Clousure reviewed the proposed SE long-term incentive plan, for possible fiscal year 2015 implementation. PwC proposed minor refinements to the participation group; no changes were proposed for target award levels. With regard to metrics, PwC suggested substituting market valuation relative to peers with revenue growth and return on invested capital, which would improve regulatory positioning, among other things. Mr. Fahey expressed concern about the proposed revenue-growth metric for the long-term incentive plan with regard to, for example, beneficial partnership opportunities that could enhance the Smithsonian's reach more than its revenues. Under Secretary for Finance and Administration and Chief Financial Officer Al Horvath offered to work with PwC to develop concrete examples to support further deliberations by the Committee.

PwC proposed moving long-term plan weighting to 100 percent financial performance, which would be more consistent with market practice and greater emphasize long-term financial growth. With regard to long-term performance and payouts, PwC validated the budget processes for setting goals and did not propose changes to targets or maximum payout opportunities.

With regard to governance, PwC supports the amount of compensation opportunity provided by the annual and long-term incentive plans. Modest modifications to metrics will better align the plans with regulatory considerations.

The Committee agreed to consider additional modifications to the long-term incentive plan and to present a modified proposal to the full Board at its October 20, 2014, meeting. Upon motion duly made and seconded, the following motion then was approved:

**VOTED** that the Compensation and Human Resources Committee approves the recommendations from PwC for the Smithsonian Enterprises annual incentive plan.

## **SPOUSAL TRAVEL**

General Counsel Judith Leonard presented a review of the Smithsonian's existing travel policy and potential implications of its application to travel costs for the spouse of the new Secretary. She reminded the Committee that the policy was adopted in 2007 as part of the Board's governance reforms, and noted its compliance with IRS thresholds. The Committee discussed

the potential provision of a reasonable travel allowance, tax-related considerations, and the inclusion of the Board and external reviewers in governance and oversight processes. Specific language for an amended travel policy will be drafted by the General Counsel and submitted by electronic mail to the Committee for its review prior to the October 2015 Board meeting.

Upon motion duly made and seconded, the following motion then was approved:

**VOTED** that the Compensation and Human Resources Committee approves the proposed recommendation on spousal travel for the Secretary, subject to explicit drafting proposed by the General Counsel.

The Committee adjourned for an executive session at 9:52 a.m.

#### **EXECUTIVE SESSION**

The Committee met in executive session with OHR staff to consider compensation issues related to the transition period between the December 2014 retirement of Secretary Clough and the July 2015 installation of Secretary-elect David Skorton. A motion was approved for recommendation to the full Board. Staff were then excused and the Committee held a members-only executive session.

#### **ADJOURNMENT**

The meeting was adjourned at 10:10 a.m.

Respectfully submitted,

Barbara Barrett  
Chair