

MINUTES OF THE SEPTEMBER 25, 2012, COMPENSATION AND HUMAN RESOURCES COMMITTEE MEETING

The Compensation and Human Resources Committee (“the Committee”) of the Smithsonian Institution Board of Regents held a meeting on September 25, 2012, beginning at 1:00 p.m. at the Smithsonian Institution Building in Washington, D.C. Participating were Committee Chair Patty Stonesifer and members France A. Córdova, Senator Thad Cochran, and John McCarter. Representative Xavier Becerra was unable to participate.

Also present were Secretary G. Wayne Clough, Chief of Staff to the Secretary Patricia Bartlett, Associate Director of the Office of Human Resources (OHR) Gregory R. Bettwy, OHR Director James D. Douglas, Under Secretary for Finance and Administration Al Horvath, Chief of Staff to the Regents John K. Lapiana, General Counsel Judith Leonard, Liaison to Representative Becerra Grisella Martinez; and PricewaterhouseCoopers (PwC) consultants Bruce Clousure and Heather O’Neal.

CALL TO ORDER

Ms. Stonesifer called the meeting to order at 1:00 p.m., thanking members for their participation and welcoming Dr. Córdova to her first meeting as a Committee member.

APPROVAL OF MINUTES

The Committee approved the draft minutes of the January 9, 2012, meeting without modification.

CALENDAR YEAR (CY) 2013 SALARY FREEZE

Ms. Stonesifer reminded the Committee that President Obama proposed extending the Federal salary freeze that has been in place since 2011 through April 2013, at which time he proposed that pay scales be increased by 0.5 percent. The pay increases would still depend on Congressional action.

Ms. Stonesifer directed the Committee’s attention to two proposals regarding the impact of the President’s proposal. The first assumes that pay scales are increased in April 2013. In that case, she said, the Secretary recommends that all Smithsonian salaries remain frozen until April 2013, at which time normal compensation increases would resume. Under these circumstances, Ms. Stonesifer said that the Committee would review proposed compensation increases in January 2013, but no action would be taken to implement compensation decisions until April 2013, when the freeze expires.

The alternative proposal assumes that the freeze will continue throughout CY 2013. In that case, salaries for the Smithsonian’s Federal employees would remain frozen; however, Dr. Clough expressed concern that continuing the pay freeze on the Trust side might create

significant recruitment or retention problems. In that case, he requests the option to bring to the Committee recommendations for limited exceptions to the freeze.

Mr. Douglas noted that the Smithsonian's plans were consistent with those of other government agencies. He added that the Smithsonian, as with other agencies, will permit scheduled step increases.

The Committee concurred with the Secretary's proposed approach to a Federal salary freeze in CY 2013.

INSPECTOR GENERAL COMPENSATION APPROACH

In January 2012, the Inspector General (IG) position was converted from Trust to Federal, requiring the Committee to revisit the current approach to setting the IG's compensation. Ms. Stonesifer noted that Federal law requires certain comparable positions (Director of Equal Employment and Minority Affairs) to be considered in setting IG compensation. Staff recommended that a Federal position be added to the existing set of comparables to better reflect the Federal nature of the position. Likewise, staff proposed removing the Trust position of Chief Financial Officer from the list, since that was abolished as a separate position, and replacing that with the Director of Smithsonian Libraries position.

After review of the materials, the Committee passed the following motion:

VOTED that the Compensation and Human Resources Committee approves the recommendation that the salary approach for the Inspector General be amended as proposed.

REVIEW OF FEDERAL EQUIVALENT POSITIONS

Ms. Stonesifer noted that the Secretary requested the Committee to consider recast two positions designated as Federal-equivalent to market-based for compensation purposes. She reminded members that in 2008, the Committee identified 38 positions compensated under a market-based approach and, given the nature of the duties of those positions, put them instead under a Federal-based compensation scale. Ms. Stonesifer noted that these determinations were made under a two-part test: (1) whether the position is in a job family that exists in a significant way in the Federal pay system and (2) whether the Smithsonian is likely to find sufficient bona fide candidates in the Federal labor market.

At the Committee's January 9, 2012, meeting, the Secretary requested that the Smithsonian's outside compensation consultant provide updated recommendations on two positions: Director of Smithsonian Libraries and Smithsonian Enterprises Chief Financial Officer. Ms. O'Neill noted additional responsibilities were added to both positions since 2008. In the case of the Director of the Libraries, she said that the scope of responsibilities still are not greater than those of other large Federal library operations and that PwC concluded that the position should remain

Federal-equivalent. On the other hand, Ms. O’Neill said that the SE Chief Financial Officer performs duties that do not exist in Federal positions and should therefore be compensated under a market-based approach.

After review of the materials, the Committee passed the following motion:

VOTED that the Compensation and Human Resources Committee approves the recommendation that the Chief Financial Officer position in Smithsonian Enterprises be moved to a market-based approach and that the Director of Smithsonian Institution Libraries remains under the Federal equivalent approach.

CERTIFICATION UPDATE

Mr. Bettwy updated that Committee on the status of the Smithsonian’s request to the Office of Personnel Management (OPM) to “certify” the Institution’s senior level performance system. He said that certification could bring a number of benefits to the Smithsonian, the most prominent being higher pay scales and salary caps, which could help the Smithsonian compete in the recruitment market. However, Mr. Bettwy added, certification comes with a rigid Federal-type evaluation approach with “much more hands-on” involvement by OPM in the Smithsonian’s Federal executive pay and appraisal decision-making process. Dr. Clough noted that seeking certification was especially appropriate given the current constraints on Federal pay and the difficulty in recruiting and retaining employees for certain key positions.

SMITHSONIAN ENTERPRISES INCENTIVE PLAN UPDATE

Ms. Stonesifer noted that when Chris Liedel was hired as President of Smithsonian Enterprises, Dr. Clough asked him to explore modifying SE’s incentive plans to cover long-range incentive components. She noted that the process has begun and directed the Committee’s attention to the materials outlining the status of Mr. Liedel’s review.

OFFICE OF INVESTMENTS SENIOR LEVEL STAFF

After Mr. Bettwy provided a brief history of the compensation approach for senior staff in the Office of Investments, Mr. Horvath said alerted the Committee on “areas that the Chief Investment Officer is feeling pressure on” maintaining competitive salaries for her staff. Mr. Horvath described the major components of the current investment plan, including the deferral provisions, which require investment of deferred compensation in the Smithsonian short-term portfolio, the efficacy of deferral as a retention tool, the percentage of guaranteed base salary, and the “claw back” provision.

Committee members advised Mr. Horvath to look to the best practices of other similar institutions with an eye toward possibly identifying and adopting a best practice approach that would not need to be revisited. Mr. McCarter requested that, when the Committee next considers the issue, Mr. Horvath discuss the staff’s level of independent discretion to make,

rather than implement, investment decisions. Dr. Córdova also advised the Committee to not lose sight of the importance of tying compensation to performance.

CY 2013 COMPENSATION: ENVIRONMENTAL SURVEY

Mr. Clousure briefed the Committee on economic operating climate issues that could impact the Committee's compensation decision-making process. Mr. Clousure said that he expected non-profit executive pay to increase between 2.5 to 3 percent in 2013. He said the development, investment, media, and retail fields will be in the highest demand. Mr. Clousure discussed the potential impact from legislation being considered by the New York State legislature to limit compensation paid to leaders of institutions receiving grants from the state.

CY 2013 LIST OF DISQUALIFIED PERSONS

The Committee reviewed the proposed list of "disqualified persons" identified pursuant to Internal Revenue Service regulations. According to Mr. Douglas, the list is identical to that of CY 2012 except that the director of the National Museum of African-American History and Culture (NMAAHC) would replace the director of the Smithsonian American Art Museum, now that NMAAHC has a larger budget.

After review of the materials, the Committee passed the following motion:

VOTED that the Compensation and Human Resources Committee adopts the proposed 2013 list of disqualified persons, adding the Director of the National Museum of African American History and Culture and removing the Director of the Smithsonian American Art Museum.

CY 2013 DECISION-MAKING LEVELS

Mr. Bettwy noted that, prior to 2008, the full Board had reviewed and approved over 220 individual compensation decisions each year. Beginning in 2008, the process was refined, with the Board delegating more approval authority to the Committee and the Secretary in keeping with board best practices. Mr. Bettwy outlined the current levels of approval authority for senior compensation decisions: full Board of Regents (14 executives); Compensation and Human Resources Committee (21 executives plus recommendations for those decisions made by the full Board); and Secretary and his delegates (remaining senior executives). He also outlined the underlying criteria for the distribution: full Board (direct reports to the Board Regents, direct reports to Secretary, and other high-impact designated positions); the Committee (disqualified persons, excluding those subject to full Board approval, and other positions with a proposed CY 2013 salary of about \$250,000); and the Secretary (remaining senior executives).

After brief discussion, the Committee agreed to proposed decision-making levels as proposed by the Secretary.

CY 2013 COMPENSATION PHILOSOPHIES

The Committee agreed to the proposed compensation philosophies, as updated for the CY 2013 compensation process. Mr. Bettwy explained that the only proposed difference from the CY 2012 philosophies is to mandate justifications for executives whose market-based compensation exceeds the competitive range median by more than 15 percent, as well as those whose compensation fell below the competitive range median by more than 15 percent.

CY 2013 COMPARABLE DATA GROUPS

Ms. Stonesifer noted that PwC will be conducting its biannual full compensation analysis in 2013 (in the off-years, PwC ages the compensation data). Ms. O’Neill described the approach that PwC will employ for the analysis, which will generally follow that used in 2011. She directed the Committee’s attention to a series of charts contained in the materials that identified each Smithsonian job family and the comparable groups (or “comps”). This year, she said, PwC will present reference data from private universities for certain job families (*e.g.*, development, science, libraries), but not use that data in calculating the competitive range.

The Committee approved putting the full compensation analysis on a triannual cycle beginning in CY 2013, with the option to conduct analysis of individual positions as appropriate in the intervening years.

EXECUTIVE LEVEL SUCCESSION MANAGEMENT PLANNING

Ms. Stonesifer noted that with a recent increase in director level recruitments, many Regents have expressed interest in the Smithsonian’s succession management planning. Succession planning is a critical priority for all organizations, she said. The Committee agreed to consider how the Smithsonian can ensure it is, as Ms. Stonesifer said, “prepared from the bench and can also attract great people from the outside” at upcoming Board and Committee meetings.

EXECUTIVE SESSION

The Committee then went into Executive Session to discuss specific personnel issues.

The meeting was adjourned at 2:55 p.m.

Respectfully submitted,

Patty Stonesifer
Chair