

## MINUTES OF THE AUGUST 26, 2014, FINANCE COMMITTEE MEETING

The Finance Committee (“the Committee”) of the Board of Regents of the Smithsonian Institution held a meeting on August 26, 2014, at the Smithsonian Castle in Washington, D.C. Participating were Committee Chair David Rubenstein\* and Committee members John McCarter, Roger W. Sant, and David Silfen; Board Vice Chair Shirley Ann Jackson also participated. Senator Thad Cochran and Representative Xavier Becerra were unable to participate.

Participating staff included Secretary G. Wayne Clough; Counselor to the Chief Justice Jeffrey P. Minear; Chief of Staff to the Secretary Patricia Bartlett; Smithsonian Enterprises (SE) Vice President of Finance and Administration Bruce Dauer; Office of the Regents Senior Writer-Editor Barbara Feininger (recorder); Office of Finance and Accounting Director Jean Garvin; Inspector General Cathy Helm; Under Secretary for Finance and Administration and Chief Financial Officer Albert Horvath; Deputy Under Secretary for Finance and Administration John K. Lapiana; General Counsel Judith Leonard; SE President Chris Liedel; Assistant to Congressman Becerra Grisella Martinez\*; Deputy Chief of Staff to the Regents Rachel Parker; Senior Government Relations Officer Maura Reidy; Office of Planning, Management and Budget Director David Voyles; and Chief of Staff to the Regents Porter N. Wilkinson.

### CALL TO ORDER

Committee Chair David Rubenstein called the meeting to order at 11:00 a.m.

### APPROVAL OF MINUTES

Upon motion duly made and seconded, the draft minutes of the April 1, 2014, meeting were approved without modification.

### FISCAL YEAR 2014 FINANCIAL BUDGET UPDATE

Mr. Horvath updated the Committee on the Smithsonian’s fiscal year 2014 performance through June 30, 2014. Revenues remain consistent and forecasts are generally on target versus budget. The Smithsonian received \$805 million in fiscal year 2014 Federal appropriations. Fiscal year 2014 gifts are on track to meet target, and fundraising progress continues towards the working goal of the Smithsonian Campaign. Smithsonian Enterprises (SE) total revenues are below budget because of the October 2013 Federal shutdown and weather-related closures; however, net gain is expected to meet or exceed the budget. Grant and contract activities also were impacted by the shutdown and are below budget. Expenses remain below budget. Major capital projects are trending on budget. Smithsonian leadership met with Moody’s in July 2014 and updated ratings are anticipated by September 2014.

## FISCAL YEAR 2015 FEDERAL AND TRUST CONSOLIDATED BUDGET

Mr. Horvath presented the preliminary budget for fiscal year 2015. The Smithsonian requested \$857 million in Federal appropriations, including \$7 million for the President's Opportunity, Growth, and Security Initiative and \$10 million for Smithsonian STEM education initiatives. Markups from the House and the Senate are below the Smithsonian's request, although previously agreed-upon capital funding for the National Museum of African American History and Culture (NMAAHC) remains intact at this time. Contingency plans have been developed for the current House and Senate marks, and the Smithsonian will likely ask for the ability to redirect certain line items to cover expenses, such as rent increases, if one of these two funding levels is enacted. The Committee discussed the possible impact of a continuing resolution for fiscal year 2015.

Mr. Horvath discussed anticipated Trust revenues for fiscal year 2015. The budget will remain essentially flat. The annual fundraising goal will be determined by the Advancement Committee in October 2014. The fiscal year goal for grant and contract activities will remain the same.

Upon motion duly made and seconded, the following action was approved for recommendation to the Board of Regents:

**VOTED** that the Finance Committee recommends that the Board of Regents approves the budget of appropriated funds for fiscal year 2015 when signed into law by the President and the institutional budget for Trust funds for fiscal year 2015 reflected in this report, and authorizes expenditures by the Secretary in accordance therewith. Any material changes in program plans incorporated into this budget shall be made only with the approval of the Board of Regents or its Executive Committee.

## FISCAL YEAR 2016 FEDERAL BUDGET REQUEST TO THE OMB

The Committee was asked to recommend that the Executive Committee, on behalf of the full Board, approve the Smithsonian's budget request for fiscal year 2016 for presentation to the Office of Management and Budget (OMB). The budget request must be submitted by September 9, 2014.

Mr. Horvath reviewed the fiscal year 2016 Federal budget process and commented on the current Federal budget environment. Congress approved a two-year funding framework in January 2014 that will end in fiscal year 2015, after which sequestration will return if no other actions are taken. There is little optimism that a long-term budget plan will emerge over the next 12 months.

The Smithsonian will submit three scenario-based fiscal year 2016 Federal budget requests to OMB:

1. a "full requirements" request (\$960.2 million, including \$760.2 million for Salaries and Expenses and \$200.0 million for Facilities Capital) that reflects the full needs of the Smithsonian and the priorities of the strategic plan,

2. an “increase guidance” request (\$892.5 million),
3. and a “decrease guidance” request (\$850.0 million).

Mr. Horvath reviewed key areas of increase in the “full requirements” budget request, including a \$25.0 million increase in maintenance funding; a \$10.3 million increase for facilities operations and security for NMAAHC; a \$2.0 million increase for 11 curator positions across six museums; and a \$100 million increase for capital renewal funding.

The Smithsonian’s deferred maintenance requirements currently total over \$1 billion. The Committee discussed the impact of the planned renovation of the National Air and Space Museum on Federal budget negotiations, as well as the potential impact of reduced appropriations on the Smithsonian’s overall facilities capital and maintenance needs.

Upon motion duly made and seconded, the following action was approved for recommendation to the Executive Committee on behalf of the Board of Regents:

**VOTED** that the Finance Committee recommends that the Executive Committee, on behalf of the Board of Regents pursuant to Board Bylaw 3.01, approves the Smithsonian Institution’s budget request for appropriated funds for fiscal year 2016 for presentation to the Office of Management and Budget. Any material changes in program plans incorporated into this budget shall be made only with the approval of the Board of Regents or its Executive Committee.

[In a phone conference subsequent to this meeting, the Executive Committee, on behalf of the full Board, approved the Finance Committee’s recommendation.]

## **SMITHSONIAN ENTERPRISES UPDATE**

Smithsonian Enterprises (SE) President Chris Liedel reviewed the fiscal year 2014 third quarter SE financial performance summary and the proposed fiscal year 2015 SE budget. Through June 2014, SE performance was strong: revenues totaled \$44.3 million and the net gain totaled \$14.8 million — the best net gain financial quarter ever experienced by SE. *Smithsonian* magazine’s first double issue was well received; SE assumed responsibility for the National Zoological Park’s parking operations; and the retail division produced stronger bottom lines. The release of new Great Courses and Gale Cengage products were delayed. Overall net gain after unrelated business income tax reflected a 19 percent increase.

SE successfully managed impacts of the October 2013 Federal shutdown. Uncertainty continues with regard to the print advertising market, resulting in an increased focus on preserving bottom-line profitability at the expense of revenue growth.

Fiscal year 2013 was a record year for SE. In comparison, SE revenues through June 2014 are down 1 percent and net gain is off by \$0.8 million. Nevertheless, SE’s financial position continues to improve. Current and total assets grew by 11 percent, current liabilities were

reduced by 7 percent, and net assets reflected nearly a \$10 million improvement — a 124 percent increase in SE net worth.

Over the past 12 months, SE made an equity investment in E-line Media and acquired the assets of TeenTribune. Other investments are under consideration. In addition, Smithsonian.com monthly online impressions have grown from 2.2 million to over 4 million unique visitors each month. SE's 30 percent stake in the Smithsonian Channel is now valued at approximately \$100 million, an increase of roughly \$30–35 million. The Smithsonian's original investment in the Smithsonian Channel totaled \$9 million.

New business activities include an augmented reality dinosaur display that attracted over 900,000 visitors at the National Museum of Natural History. Summer profits from the new venture are anticipated to total \$50,000. The Digital Studio also was launched.

Mr. Liedel reviewed the proposed SE fiscal year 2015 budget. Consumer and education products will focus on the strategic priorities of revitalizing education, valuing world cultures, and strengthening collections. SE retail activities may be impacted by capital infrastructure conversions, such as theatre renovations. Print advertising will remain the biggest challenge to SE media activities.

## **ADJOURNMENT**

There being no further business, Mr. Rubenstein thanked the participants for their contributions. The meeting was adjourned at 11:52 a.m.

Respectfully submitted,

David Rubenstein  
Committee Chair