

## MINUTES OF THE AUGUST 27, 2012, FINANCE COMMITTEE MEETING

The Finance Committee (“the Committee”) of the Board of Regents of the Smithsonian Institution held a meeting on August 27, 2012, beginning at 2 p.m. Participating were Committee Chair David Rubenstein and Committee members France A. Córdova, Senator Thad Cochran, Representative Steven LaTourette, and Roger W. Sant. Committee member David Silfen was unable to participate. Also participating in the meeting for the budget discussion topics were Representative Sam Johnson and Robert Kogod and Regent nominee Barbara Barrett.

Staff participating for all or part of the meeting included Secretary G. Wayne Clough; Treasurer Sudeep Anand; Chief of Staff to the Secretary Patricia Bartlett; Smithsonian Enterprises Chief Financial Officer Gregory Bokman; Inspector General Scott Dahl; Deputy Under Secretary for Finance and Administration Bruce Dauer; Under Secretary for Finance and Administration and Chief Financial Officer Albert Horvath; Acting Director, Office of Planning, Management and Budget Ken Johnson; Chief of Staff to the Regents John K. Lapiana; General Counsel Judith Leonard; Smithsonian Enterprises President Chris Liedel; Liaison to Representative Xavier Becerra Grisella Martinez; and Director of Government Relations Nell Payne.

### CALL TO ORDER

The Chair called the meeting to order at approximately 2:00 p.m.

### APPROVAL OF MINUTES

The draft minutes of the April 23, 2012, meeting were approved without comment.

### FISCAL YEAR (FY) 2012 INTEGRATED BUDGET UPDATE

Mr. Horvath presented a brief status report on the FY 2012 integrated budget:

#### **Revenue:**

Federal appropriations for FY 2012 are \$810.2 million, including \$75 million in capital funding for the construction of the National Museum of African American History and Culture (NMAAHC). Sponsored projects and gift revenues are both on track to meet their FY 2102 targets (\$150 million and \$200 million, respectively), he said. In addition, he observed that Smithsonian Enterprises is expected to exceed its budgeted net gain contribution (\$29.2 million) for the fiscal year.

#### **Expenses:**

Mr. Horvath said that spending at year-end should be on budget and that the

Smithsonian will end the year with a “balanced bottom line.”

Mr. Horvath said he intends to focus on clearer financial projections for the Regents as the Smithsonian moves into FY 2013 and beyond, with particular effort on producing more instructive data on expenses.

### **FY 2013 INTEGRATED BUDGET**

Mr. Horvath said that total FY 2013 revenue is expected to be \$1.3 billion, a 6.2 percent increase from FY 2012. This includes the level of appropriations requested in the President’s budget submission to Congress (\$856 million), fundraising (\$210 million), and sponsored projects (\$170 million). Smithsonian Enterprises is budgeting a “modest increase” in net revenue (to \$30.2 million). Mr. Horvath expects that the Endowment payout will remain flat from FY 2012, at \$53.5 million. Total expenses are budgeted to increase \$56 million, or 5 percent, primarily due to costs associated with NMAAHC construction.

Mr. Horvath emphasized that the FY 2013 budget proposal was balanced and that if a full-year continuing resolution were passed at FY 2012 appropriated levels, the results would “not be catastrophic, although they would “create complexity” for the progress on NMAAHC construction, slow the non-capital “ramp up” for NMAAHC’s opening in late 2015, and provide no money for repairs from the August 2011 earthquake.

Mr. Rubenstein noted that a six-month continuing resolution was currently pending in Congress. Mr. Horvath said that the continuing resolution, if passed, would provide 50 percent of the \$75 million in capital funding for NMAAHC for those six months.

Mr. Horvath described cost efficiencies identified in response to Office of Management and Budget (“OMB”) advice, particularly in the areas of information technology, energy usage, and utilities rates.

After brief discussion, the Committee approved the following motion:

**VOTED** that the Finance Committee recommends that the Board of Regents approves the budget of appropriated funds for fiscal year 2013 when signed into law by the President, the institutional budget for Trust funds for fiscal year 2013 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.

### **FY 2014 BUDGET SUBMISSION TO OMB**

Mr. Horvath then provided an overview of the FY 2014 Federal budget process. He noted that the Committee’s consideration of the Smithsonian’s proposed Federal budget “starts the clock” on a months-long process. At OMB’s invitation, the Smithsonian will submit a “guidance”

budget proposal for \$829 million and a “requirements” budget proposal for \$873 million. The “guidance” budget proposal follows Office of Management and Budget instructions to all Federal agencies to reduce their FY 2014 budget projection that was contained in their FY 2013 budget proposals by 5 percent. In contrast, the “requirement” budget proposal reflects the Smithsonian’s determinations of its needs in light of the strategic plan and other priorities.

The FY 2014 budget proposals, Mr. Horvath said, contains targeted increases (\$24 million in the “guidance” proposal and \$38 million in the “requirements” proposal) in priority areas supporting the strategic plan, including:

- Non-discretionary items – pay raises, rent, utilities, etc.
  - Items that leverage fundraising
- NMAAHC construction and operations
- Federal portion of public/private projects
  - Items for which private support is unlikely
- Collections care
- Information technology infrastructure for broadening access
- Facilities maintenance and revitalization

Mr. Horvath briefly reviewed for the Committee the proposed FY 2014 Facilities Capital budget under the two proposals (guidance: \$145 million; requirements: \$175 million).

Following discussion between Committee members and invited Regent participants, the Committee approved the following motion:

**VOTED** that the Finance Committee recommends that the Executive Committee approves, on behalf of the Board of Regents, the Smithsonian Institution’s budget request for appropriated funds for fiscal year 2014 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.

## **SMITHSONIAN ENTERPRISES UPDATE ON FY 2012 AND FY 2013 AND NEW INITIATIVES**

Mr. Liedel said that his presentation would provide an overview of Smithsonian Enterprises’ (SE) accomplishments since he joined SE in April 2012, underscore short-term goals contained in SE’s FY 2013 budget, and identify longer-term goals identified through a series of new initiatives.

Mr. Liedel began by reviewing SE’s year-to-date performance to July 31, 2012. He noted that SE current net gain was tracking \$2.2 million over budget, due in part to positive trends in retail and the Smithsonian Channel. However, advertising revenue was under budget by 12 percent and down 3 percent from the same time in FY 2011. Overall revenue for SE is expected to rise in FY 2012 (for the first time in five years) and net gain will increase for the sixth consecutive

year, he noted. In FY 2013, SE plans to double revenue growth to \$10 million; reinvest in the infrastructure; rely on the Smithsonian Channel to contribute more revenues; and increase net gain.

Mr. Liedel then detailed the current impact of Smithsonian Channel operations on SE financials, and provided a comparison of the Channel's launch (subscribers and advertising) with those of other start-up cable channels. He noted that SE has recently hired new staff to take advantage of advertising opportunities on the Channel. The Committee also discussed issues involving various ownership options and opportunities for the Channel.

Mr. Liedel noted that SE management — in coordination with Mr. Horvath's staff — is steering the FY 2013 budget and strategic initiatives to allow SE to steadily grow without putting the Smithsonian at risk. A \$3 million strategic reserve has been established to fund new initiatives, Mr. Liedel said. He noted that SE management is looking at various areas for revenue growth (*e.g.*, existing businesses, product-line extensions, new audiences, and new markets and channels).

Mr. Liedel outlined current plans to expand existing business activities, including (1) updating and improving *Smithsonian* magazine content on all platforms (print, website, apps); (2) focusing on subscriber growth for Smithsonian Channel and exploring new distribution outlets; (3) growing travel opportunities through Smithsonian Journeys; (4) concentrating on more impactful licensing partners; and (5) improving the retail experience to meet guest expectations at all museums. He then discussed five of 11 contemplated new initiatives that reflect SE's focus on mission reach and impact, expected revenues, and associated return.

In response to members' questions, Mr. Liedel said that the biggest challenges facing SE are transforming existing businesses, redirecting staff to support priority initiatives, the digital transformation in media, and managing the internal processes of the Smithsonian (*e.g.*, contracting). He said he was most pleased by "inheriting one of the best staffs [he] has ever seen."

## DEBT UPDATE

Mr. Horvath provided a brief update on the status of the Smithsonian's external debt. He noted that the Smithsonian's current credit rating is "AAA/P1 and Aaa/VMIG 2," which, Mr. Rubenstein observed, was higher than the rating of the United States government.

Mr. Horvath said that, of the Smithsonian's \$107 million of outstanding external debt, \$77.5 million is at a variable rate set weekly. He discussed the current stand-by bond purchase agreement ("SPBA") with Bank of America (BoA), which is intended to provide liquidity in the event of a failed remarketing. With a downgrade of certain banks, including BoA, the Smithsonian's short-term credit rating is endangered. Mr. Horvath described recent negotiations to secure a higher rated SBPA/liquidity provider to replace BoA.

Mr. Horvath reviewed the potential bond market options were the Smithsonian to issue bonds to cover current Trust capital requirements and to enhance SE's \$3 million initiatives development fund.

## **ADJOURNMENT**

The meeting was adjourned at 3:30 p.m.

Respectfully submitted,

David Rubenstein, Chair