

MINUTES OF THE APRIL 1, 2014, FINANCE COMMITTEE MEETING

The Finance Committee (“the Committee”) of the Board of Regents of the Smithsonian Institution held a telephonic meeting on April 1, 2014. Participating were Committee Chair David Rubenstein and Committee members Representative Xavier Becerra; John W. McCarter, Jr.; Roger W. Sant; and David Silfen. Committee member Senator Thad Cochran was unable to participate.

Staff participating included Secretary G. Wayne Clough; Chief of Staff to the Secretary Patricia Bartlett; Associate General Counsel Craig Blackwell; Acting Inspector General Epin Christensen; Smithsonian Enterprises (SE) Vice President for Finance and Administration Bruce Dauer; Under Secretary for Finance and Administration and Chief Financial Officer Albert Horvath; Office of Planning, Management, and Budget Associate Director Ken Johnson; Deputy Under Secretary for Finance and Administration John K. Lapiana; General Counsel Judith Leonard; SE President Chris Liedel; Liaison for Representative Becerra Grisella Martinez; Director of Government Relations Nell Payne; Office of Planning, Management and Budget Director David Voyles; and Chief of Staff to the Regents Porter N. Wilkinson.

CALL TO ORDER

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

APPROVAL OF THE MINUTES

Upon motion duly made and seconded, the draft minutes of the January 14, 2014, meeting were approved without modification.

FISCAL YEAR 2014 FINANCIAL BUDGET RESULTS

Under Secretary for Finance and Administration and Chief Financial Officer Al Horvath presented the fiscal year 2014 interim financial report. Fiscal year 2014 major revenue sources include \$805 million in fiscal year 2014 Federal appropriations. With regard to Trust funding, as of February 28, 2014, fundraising totals \$58.7 million (\$180 million goal); awarded government grants and contracts total \$34.3 million (\$150 million goal); SE net gain totals 3.9 million (\$32 million goal); and SE total revenues total \$49.6 million (\$152.5 million). Government grant and contract activity was impacted by the October 2014 Federal shutdown and the delay in appropriations for research agencies that provide funding to the Smithsonian. SE also was affected by the shutdown, as well as weather-related museum closings, but anticipates it will meet its net gain goal. Slowed fiscal year 2014 expenses reflect the impact of the shutdown and the delayed timing of Federal appropriations. Major capital projects are progressing and approval was received from the National Capital Planning Commission and the Commission of Fine Arts for the National Museum of African American History and Culture’s (NMAAHC) corona.

FEDERAL BUDGET UPDATE: FISCAL YEAR 2015

Mr. Horvath reviewed the fiscal year 2015 Federal budget request. The Smithsonian's request includes \$701 million for salaries and expenses (versus \$647 million in fiscal year 2014). The salaries and expenses request includes \$10 million for STEM (science, technology, engineering, and math) education; \$8.1 million for facilities operations, security, and support; and \$9.1 million to support NMAAHC staffing increases.

The fiscal year 2015 Federal budget request also includes \$150 million for facilities capital and an additional \$7 million for the President's "opportunity, growth, and security initiative." The latter will support the Consortia and other pan-institutional initiatives. All numbers were negotiated with the Office of Management and Budget and included in the passback.

FISCAL YEAR 2016 FEDERAL BUDGET PRIORITIES

Mr. Horvath presented the Smithsonian's proposed fiscal year 2016 Federal budget priorities. Approval of the budget priorities is the first step in the development of the Federal budget request. The priorities will inform a detailed fiscal year 2016 Federal budget that will be submitted to the Office of Management and Budget (OMB) and then to the Congress.

The proposed budget priorities include full funding for non-discretionary costs, such as an anticipated 1 percent pay raise, rent, utilities, and other infrastructure cost increases; NMAAHC operations; research and museum program infrastructure costs, such as collections care, digitization, and scholarship initiatives; and facilities maintenance, security, and support. For the first time, OMB will allow the Smithsonian to submit a \$200 million request to support the Institution's base facilities capital program. An increase in base facilities capital funding will help address deferred maintenance issues, as well as support ongoing work on the revitalization and use of the Arts and Industries Building. The Committee also discussed anticipated private and Federal funding for the Giant Magellan Telescope initiative.

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

VOTED that the Finance Committee recommends that the Board of Regents approves the fiscal year 2016 Federal budget priorities proposed by the Secretary.

FISCAL YEAR 2015 ENDOWMENT PAYOUT

Mr. Horvath presented the proposed fiscal year 2015 Endowment payout in support of programming activities and certain campaign expenses. The proposed payout of 5 percent against a five-year trailing average market value (totaling \$55.8 million) will support programmatic activities, and an additional 1 percent payout (totaling \$5.8 million) will fund prior year Smithsonian campaign expenses. The payout rates parallel those used in recent years. Against the Endowment's February 28, 2014, actual market value of \$1.23 billion, the effective payout rates for programming would be 4.53 percent, with a total payout of 5 percent.

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

VOTED that the Finance Committee recommends that the Board of Regents approves a 5 percent payout from the Smithsonian Endowment in fiscal year 2015 to support programmatic activity. The Board further authorizes up to an additional 1 percent payout from the Smithsonian Endowment in fiscal year 2015 to fund certain expenses associated with the national fundraising campaign. The payout shall be calculated against the current five-year average market value of the Smithsonian Endowment.

SMITHSONIAN ENTERPRISES

Mr. Rubenstein reminded the Committee that the Board previously authorized SE to pursue equity investments that advance the programmatic and financial imperatives of the Smithsonian. Mr. Liedel updated the Committee on SE's investment in E-line Media, the first made under the agreement. SE invested in the educational gaming company in August 2013.

Mr. Liedel introduced a new investment opportunity: the purchase of Tween Tribune, LLC, assets, including its websites, archives, tangible and intangible editorial processing assets, and property such as computers. The company produces a daily news site in English and Spanish that is directed to K-12 students. The site currently has 1.6 million registered students and over 160,000 registered teachers. Tween Tribune features are based on Associated Press news features and reflect high editorial standards. Visitation to the Tween Tribune website experienced a 60 percent increase from 2012 to 2013. Due diligence on the venture was performed by the Smithsonian's external auditors, KPMG, which noted a stable technology environment. Funding for the investment would come from SE's normal business operations. The Committee expressed its support for the investment.

EXECUTIVE SESSION

The Committee adjourned for an executive session at 12:00 p.m.

ADJOURNMENT

The meeting was adjourned at about 12:15 p.m.

Respectfully submitted,

David Rubenstein
Chair