

MINUTES OF THE MAY 14, 2015, FINANCE COMMITTEE MEETING

The Finance Committee (“Committee”) of the Board of Regents of the Smithsonian Institution (“Smithsonian”) held a meeting on May 14, 2015, at the Smithsonian Castle in Washington, D.C. Participating were Committee Chair David Rubenstein and Committee members John W. McCarter, Jr.* and Roger Sant. Committee members Representative Xavier Becerra, John Fahey, and David Silfen were unable to participate.

Also present by invitation of the Committee were Acting Secretary Albert Horvath; Acting Chief of Staff to the Secretary Greg Bettwy; Office of the Regents Writer-Editor Julie Bindelglass; Smithsonian Enterprises Vice President of Finance and Administration Bruce Dauer*; Director of the Office of Finance and Accounting Jean Garvin; Director of the Office of Planning, Management, and Budget Irene Kariampuzha; Acting Under Secretary for Finance and Administration and Chief Financial Officer John Lapiana; General Counsel Judith Leonard; Deputy Chief of Staff to the Regents Rachel Parker; Director of the Office of Government Relations Nell Payne; and Chief of Staff to the Regents Porter Wilkinson.

CALL TO ORDER

Committee Chair David Rubenstein called the meeting to order at 12:02 p.m.

FISCAL YEAR 2015 FINANCIAL RESULTS

Acting Under Secretary for Finance and Administration and Chief Financial Officer John Lapiana presented the Quarterly Financial Report. Mr. Lapiana explained that the format of the report has been revised to create a more comprehensive reporting and Board governance tool. In reviewing the report with the Committee, he highlighted two items. First, progress on the construction of the National Museum of African American History and Culture (“NMAAHC”) is being closely monitored, but the project is currently on track to meet the anticipated budget and schedule. Mr. Lapiana noted that the projected budget for the NMAAHC is now estimated at \$542 million, which is a \$2 million dollar increase from prior projections. Second, the construction of the Smithsonian Tropical Research Institute Gamboa Lab also face challenges due to labor difficulties, but management expects completion to be on time and within budget.

FISCAL YEAR 2016 FEDERAL BUDGET UPDATE

Associate Director of the Office of Planning, Management, and Budget Irene Kariampuzha provided a timeline and overview of the fiscal year 2016 Federal budget. Ms. Kariampuzha focused on Salaries and Expenses and Facilities Capital, pointing out that the amount requested for Facilities Capital reflects that the Smithsonian’s first priority in fiscal year 2016 is ongoing projects. The fiscal year 2016 Office of Management and Budget (“OMB”) request reflects an approximate \$60 million increase from the fiscal year 2015 enacted budget amount of \$675 million. This amount reflects increases in non-discretionary pay, rent, and telecommunications

**participated by telephone*

costs with additional funds for key strategic plan priorities. The fiscal year 2016 budget request was submitted to Congress and included a 14.1 percent increase over the fiscal year 2015 enacted level. The budget briefings presented to Congress regarding the fiscal year 2016 request have been positively received, but the House and Senate have not yet started to mark up the appropriation bills.

FISCAL YEAR 2017 FEDERAL BUDGET PRIORITIES

Acting Secretary Albert Horvath presented the proposed fiscal year 2017 Federal budget priorities. Each year, the Committee is asked to approve the priorities, which are a key factor in developing the Federal budget request. Mr. Horvath proposed that the first priority would be to cover Non-Discretionary expenditures. The second priority would be to focus on Research and Museum Program Infrastructure. The third priority would be Facilities, Maintenance, Security, and Support. Based on a recent assessment of the current state of Smithsonian facilities, the Smithsonian will need \$150 million for facilities maintenance. Mr. Horvath stated that the final budget priority for fiscal year 2017 is facilities capital. For Facilities Capital, he proposed a budget request of \$200 million, with the majority of the funding to be used for renovations and restoration of the National Air and Space Museum (“NASM”).

The Committee went on to discuss other initiatives in need of funding such as renovations to the birdhouse at the National Zoological Park, the exterior renewal of the Hirshhorn Museum, and the extensive renovations needed at NASM. The Committee agreed that while all of these are important projects, the priority for the fiscal year 2017 Federal budget must be to fund projects that are already underway.

FISCAL YEAR 2016 ENDOWMENT PAYOUT

Mr. Lapiana presented the proposed fiscal year 2016 Endowment payout. The proposed Endowment payout is the same as the payout for fiscal year 2015. Mr. Lapiana estimated that the payout would be approximately \$59.3 million for programmatic activity and \$5.8 million for the Smithsonian Campaign.

UPDATE ON EXTERNAL DEBT

Mr. Horvath updated the Committee on the status of the Smithsonian’s external debt. The Smithsonian continues to carry the highest rating possible from Standard & Poor’s and Moody’s. Both organizations rate the Smithsonian at AAA/Stable. Currently, the Smithsonian has a total of \$201.4 million in external debt, \$127.5 million of which is variable-rate debt and \$73.9 million is fixed-rate debt. Mr. Horvath also updated the Committee on the Smithsonian’s cash holdings, money market holdings, and agency bonds. He explained that the Smithsonian does not expect to issue any new debt in the foreseeable future and noted that management will continue to refine the manner in which unendowed cash holdings are evaluated.

ADJOURNMENT

The meeting was adjourned at 12:40 p.m.

EMAIL BALLOTS

The following motions were approved by email on June 1, 2015.

VOTED that the Finance Committee approves the draft minutes of the January 9, 2015, Committee meeting without modification.

VOTED that the Finance Committee recommends that the Board of Regents approves the fiscal year 2017 Federal budget priorities proposed by the Acting Secretary.

VOTED that the Finance Committee recommends that the Board of Regents approves a five percent payout from the Smithsonian Endowment in fiscal year 2015 to support programmatic activity. The Finance Committee further recommends up to an additional one percent payout from the Smithsonian Endowment in fiscal year 2016 to fund certain expenses associated with the national fundraising campaign. The payout shall be calculated against the trailing five-year average market value of the Smithsonian.

Respectfully submitted,

David Rubenstein, Chair