

MINUTES OF THE JANUARY 12, 2009, COMPENSATION AND HUMAN RESOURCES COMMITTEE MEETING

The Compensation and Human Resources Committee (“the Committee”) of the Smithsonian Institution Board of Regents conducted a meeting on January 12, 2009, beginning at 2 p.m. at the Smithsonian Institution Building in Washington, D.C. Participating were Committee Chair Patricia Stonesifer and Committee members Representative Xavier Becerra*, Senator Thad Cochran*, John McCarter*, and Roger W. Sant. Also present by invitation of the Committee were Secretary G. Wayne Clough; Chief of Staff to the Secretary Patricia L. Bartlett; Associate Director of Human Resources Gregory R. Bettwy; Director of the Office of Planning Management and Budget Bruce Dauer; Director of the Office of Human Resources James D. Douglas; Assistant to Senator Cochran T. A. Hawks*; Chief of Staff to the Regents John K. Lapiana; Under Secretary for Finance and Administration Alison McNally; and Associate General Counsel Christine Nicholson.

Ms. Stonesifer called the meeting to order.

With regard to the approval of the minutes of the December 16, 2008, Committee meeting, Ms. Stonesifer advised members that additional edits were necessary to ensure that the language of certain motions was accurate. [The revised minutes were later approved during the Committee’s executive session.]

Ms. Stonesifer then noted that since the Committee would be entertaining a full agenda, she would dispense with the report of the Chair. In its stead, she asked the Secretary and Mr. Dauer to provide the Committee with an overview on how the current economic climate has adversely impacted the Smithsonian’s budget forecasts. Overall, the Secretary explained, the Trust budget was under significant financial stress and that he was implementing tactical measures as necessary.

He then described a number of options he and senior staff were considering that could affect senior level compensation decisions, as well as other measures Smithsonian Enterprises was developing. Among the options considered were pay freezes, delaying salary increases, and eliminating or freezing cash awards.

Mr. Dauer presented Trust budget projections for the remainder of fiscal year 2009. He said that, after a number of remedial steps, particularly those of Smithsonian Enterprises, were taken, the Trust budget forecasts an approximately \$2 million budget gap. He noted that all units receiving Trust funds were being asked to identify the ramifications of budget cuts at various levels (five, eight, and 10 percent).

Mr. McCarter discussed the serious effect of the current economic challenges on the budget and personnel at the Field Museum in Chicago, where he is President and Chief Executive

** participated by teleconference*

Officer. He noted that the dire economic situation will continue to force non-profit leaders to ask whether they have done enough to counter its effects. Secretary Clough concurred and added that more bold and painful actions may be necessary in the near future.

In response to Ms. Stonesifer's question regarding whether one-time mitigations would be sufficient if the economic challenges continued into the next year and beyond, Ms. McNally noted that the Secretary had launched two teams to review the Smithsonian's budgeting philosophy and to identify new revenue streams. The Secretary added that all options may have to be considered again in fiscal year 2010.

For calendar year 2009 compensation decisions, the Secretary proposed that Committee endorse his recommendation that any salary increases for Trust executives with market-based compensation be deferred for at least three months. The Committee suggested that the Secretary update the Finance Committee at that time on the state of the Smithsonian's finances and opine on whether the compensation freeze could be listed, as well as consider the criteria for determining whether these salary increases should be retroactive. Ms. Stonesifer stressed that staff must develop objective criteria and/or benchmarks to help guide those decisions.

Next, the Committee turned to the 2009 compensation process. Ms. Stonesifer asked each member to verify that he or she had no conflicts of interest in making these executive compensation decisions. Each individual stated he or she did not. Ms. Stonesifer also verified that she did not have a conflict of interest.

The Committee reviewed background diversity information on Smithsonian senior executives. Mr. Becerra commended the Institution on its pay equity between genders, but expressed concern over the increasing lack of diversity among senior executives, particularly Latinos, where the number of executives dropped from seven to one. Mr. Bettwy explained that of the six losses, three were due to retirement, one left the Smithsonian for a better paying position, one resigned, and one died. The Secretary stressed that the importance of increasing diversity at the Smithsonian. Mr. Becerra emphasized that the Smithsonian's commitment to diversity must "come from the top," and that if the membership of search committees is diverse, recruitment of underrepresented groups will be made easier.

The Committee then went into Executive Session and approved the following motion:

VOTED that the Compensation and Human Resources Committee accepts with gratitude the Secretary's offer to forego any increase in his compensation at this time. The Committee recognizes that the Board Chair, Roger Sant, conducted an informal review of the Secretary's performance since his arrival in July 2008 and found it to be outstanding. The Committee retains its discretion to revisit the issue of the Secretary's compensation in June 2009.

The following motion was discussed but not approved at this meeting. Ms. Stonesifer said that the amendment would be circulated for consideration and vote by an alternative

method:

VOTED that the Compensation and Human Resources Committee adopts the recommendation of the Secretary regarding the compensation structure for the Office of Investments, with the following clarification: In a year where there is no positive absolute return on the Endowment, a presumption will exist against any quantitative incentive payment.

There being no further business, the meeting was adjourned at approximately 4:05 p.m.

Respectfully submitted,

Patricia Stonesifer, Chair