Call to Order and Approval of Minutes

Committee Chair Eli Broad called the meeting to order and greeted the members. In the absence of a quorum, the minutes of the previous meeting of September 16, 2008, were approved by the Committee by ballot in the days immediately following the meeting.

Update on the Endowment's Performance

Chief Investment Officer Amy Chen provided an update on the Endowment’s performance. As of December 31, 2008, Endowment assets totaled $783 million. The Chair informed the Committee that the Investment Committee discussed restructuring the portfolio to weather the impact of the current economic recession. The Chief Investment Officer is developing a plan to reduce exposure to equities and to increase the allocation to potentially better risk rewards found in other asset classes. The Investment Committee is considering allocations to corporate debt, commercial mortgage-backed securities, gold, and Treasury Inflation Protected Securities (TIPS). The Finance Committee agreed and suggested that the plan consider the Institution’s cash and liquidity requirements. Mr. Sant reminded the Committee that the Institution has cash assets outside the Endowment.

Update on Smithsonian Enterprises’ Performance

President of Smithsonian Enterprises Tom Ott discussed the performance of Smithsonian Enterprises (SE). For fiscal year 2009, SE’s original budget projections included total revenue of $174.9 million and net gain of $27.2 million. Through November 2008, SE’s net gain was close to budget, despite a 7 percent revenue shortfall. By December 2008, the effect of the challenging economy was clearly visible in the media and retail businesses, especially the magazine and the catalogue, with poor forward indicators for the travel business. As a result, SE is projecting a budget gap of $13 million in revenue and $5–6 million in net gain for fiscal year 2009. SE is implementing a program of cost control and new and promotional business initiatives that are expected to produce $5.8 million of incremental net gain, fully closing the projected budget gap for net gain. SE will continue to monitor the economic environment and make additional operating adjustments as necessary. The actions which SE is currently implementing include targeted staff reductions, renegotiated key media contracts, and reduced size and scope of printing of
spring and summer catalogues, as well as revenue initiatives tied to the Inauguration, *Night at the Museum II*, and extended hours.

**Fiscal Year 2008 Year-End Financial Report**

Chief Financial Officer (CFO) Maroni reviewed the fiscal year 2008 year-end financial report. She informed the Committee that the figures in her presentation were unaudited actuals and that the audit was expected to be completed by the end of January 2009. For fiscal year 2008, CFO Maroni noted that, from an operational standpoint, the Institution’s financial posture was sound. Net income from SE exceeded budget and private-sector giving was stronger than expected. Despite the steep decline in the financial markets, the Endowment fared better than its policy benchmark. Revenues exceeded budget by $53 million, driven primarily by strong donor and sponsor contributions. Expenses were below budget by $55 million for a variety of reasons, including lower Federal expenses recognized for operations due to the across-the-board rescission enacted by Congress, lower unrestricted Trust expenses due to slower than planned backfill of leadership positions and development vacancies, and lower depreciation expenses due to the delayed opening of the National Museum of American History. Overall, the Institution’s net assets decreased by $100 million, driven primarily by the impact of the U.S. economic recession on the Institution’s Endowment.

The uncertainties about the depth of the economic recession and the outcome of the Federal appropriation process make fiscal year 2009 difficult to predict. Resource constraints remain a serious Institutional challenge. Federal increases have gone largely to pay mandatory operating bills such as pay raises, electricity, and rent. Unrestricted, non-Federal sources of income are not growing, and the Institution’s Trust hiring freeze is not sustainable over the long-term. In response to these challenges, the Institution is engaged in four important efforts in fiscal year 2009, including developing a strategic plan; planning for a national fund-raising campaign; identifying new, and perhaps untraditional, sources of revenue; and assessing the composition of the Central Trust budget.

**Updates on Fiscal Year 2009 and Fiscal Year 2010 Budgets**

Director of the Office of Planning, Management and Budget Bruce Dauer reported on the fiscal years 2009 and 2010 budgets. In September 2008, the Board of Regents approved the submission of an $883 million Federal budget request for fiscal year 2010 to the Office of Management and Budget (OMB), but the Bush Administration prohibited the submission. It is likely that the incoming Administration will change this submission to reflect its priorities, but a Smithsonian submission had not been requested yet. Career OMB staff, however, did request an outline of the Institution’s planned request.

With regard to the fiscal year 2009 Federal budget, the Institution is currently operating under a Continuing Resolution, which holds spending to the fiscal year 2008 level. House and Senate Subcommittee staff have “conferenced” on the appropriation. House staff believe there will be an appropriation, but Senate staff believe there will be a full-year Continuing Resolution. In addition, the Institution is being considered for inclusion in the economic stimulus package under development. Both citizen and Congressional Regents are actively working to ensure the Institution’s inclusion in the package, and indications...
are hopeful. With regard to the Institution’s fiscal year 2009 Trust budget, a drop in income appears likely due to the effect of the declining economy on the Institution’s investments and membership programs. The Institution is implementing actions to mitigate this drop, including delaying pay increases for senior-level Trust employees and instituting a full Trust hiring freeze.

**Wrap Up**

The Chair thanked the members of the Committee and staff for their active participation and adjourned the meeting to conduct an executive session at 4:10 p.m.