

## **MINUTES OF THE JANUARY 20, 2010, FINANCE COMMITTEE MEETING**

The Finance Committee (“the Committee”) of the Smithsonian Board of Regents met on Wednesday, January 20, 2010, at 3:00 p.m. at the Smithsonian Institution in Washington, D.C. Participating were Committee Chair Roger Sant, members Robert Kogod and David Rubenstein\*, and ex officio member Patricia Stonesifer. Staff in attendance were Treasurer Sudeep Anand; Chief of Staff to the Secretary Patricia Bartlett; Smithsonian Enterprises Chief Financial Officer Gregory Bokman; Office of Planning, Management and Budget Director Bruce Dauer; General Counsel Judith Leonard; Chief Financial Officer Alice Maroni; Under Secretary for Finance and Administration Alison McNally; Smithsonian Enterprises President Tom Ott; Government Relations Director Nell Payne; and Comptroller Andrew Zino. Also in attendance was Budget Analyst Amy Crochiere, who recorded the minutes.

### **Call to Order and Approval of Minutes**

Committee Chair Roger Sant called the meeting to order and greeted the members. The Committee approved the minutes of the August 24, 2009, meeting.

### **Smithsonian Institution Fiscal Year 2009 Year-End Financial Report**

Chief Financial Officer (CFO) Alice Maroni reviewed the fiscal year 2009 year-end financial report. At year-end, the Institution’s financial position was strong, in spite of the challenging economy. On the Federal side, the Institution’s appropriation provided a 7 percent increase over the prior year and helped restore base funding that had been cut for existing public programs, education, and research. The Institution also received \$25 million from the American Reinvestment and Recovery Act of 2009 for facilities revitalization projects. On the Trust side, all the objective measures of the Institution’s financial strength were positive—Smithsonian Enterprises achieved a strong net gain finish of \$27 million; the Endowment was valued at \$884 million at fiscal year-end; private support exceeded the adjusted annual goal of \$126.6 million by 5.5 percent; and the Central Trust budget ended the year with a small fund balance.

The Institution’s leaders took extraordinary steps to keep Central Trust revenues and expenses in balance, including holding up or diverting \$7 million in planned spending. As a result, the Central Trust budget generated a surplus of \$2 million, reflecting a number of unexpected things that occurred in the last quarter of the fiscal year, including a decision by the National Oceanic and Atmospheric Administration to allow the Institution to retain \$1.2 million of indirect cost reimbursement by converting the funds to a management fee as part of the grant agreement for Ocean Hall at the National Museum of Natural History (NMNH). The Institution ended the year with a recorded surplus of \$365,000, having used the remaining balance to buy down planned expenses in fiscal year 2010, such as the debt payments for the Udvar-Hazy Center and the Discovery Center at NMNH and a portion of the Institution’s insurance coverage. Senior leadership is aware that the structural imbalance in the Central Trust budget is unsustainable and is considering every option for stimulating new and re-purposing existing Trust resources.

\* *participated by teleconference*

CFO Maroni discussed the new format of the fiscal year 2009 year-end financial report, explaining that it was an attempt to provide a shorter, more accessible format to replace the narrative version used in the past. She thanked Mr. Kogod for his advice and guidance thus far and welcomed any suggestions on how to continue to improve the way that financial data are presented to the Regents. Committee members agreed that the new format was an improvement and that it provided a useful look back at what had already occurred. However, the Committee requested a similar report that could be used to look forward and enable the Regents to monitor the current year's budget. Management will provide this report at the next Committee meeting.

### **Smithsonian Enterprises Fiscal Year 2009 Performance and Early View of Fiscal Year 2010**

President of Smithsonian Enterprises (SE) Tom Ott reviewed SE's fiscal year 2009 performance and presented an early view of fiscal year 2010. Mr. Ott reported SE's net gain for fiscal year 2009 was \$27 million, a 1 percent increase over fiscal year 2008 and an 8 percent increase over the June 2009 forecast. This result was due to year-long cost mitigation efforts of \$13 million that kept the budget in line despite lower revenue and allowed for maximization of key events such as the Presidential Inauguration, the *Night at the Museum: Battle of the Smithsonian* movie, and the anniversary of the first lunar landing, as well as the strong performance of the retail stores during the summer months.

Mr. Ott said that SE is on track to achieve its budgeted net gain of \$25 million in fiscal year 2010, but also said that there is some risk that SE will be unable to achieve its stretch net gain goal of \$26 million if the budgeted conversion of the Carmichael Auditorium at the National Museum of American History to a digital theatre is delayed further, or if the project in total is re-scoped due to a potential alternative use of the space by the Museum. Meeting this stretch goal may also require the \$450,000 budgeted for SE's strategic investments to be deferred. SE's fiscal year 2010 net gain budget assumed a similar economic environment, but without the one-time events listed above that contributed to SE's fiscal year 2009 performance. Mr. Ott then discussed performance by division, and noted several licensing opportunities with potential new revenues that are key to the budget.

### **Smithsonian Institution Presentation of the Fiscal Year 2011 Federal Budget to Congress**

Office of Planning, Management and Budget Director Bruce Dauer presented the fiscal year 2011 Federal budget request as approved by the Administration. The Institution's negotiations with the Office of Management and Budget (OMB) resulted in a fiscal year 2011 budget request to Congress of \$798 million, which is a 5 percent increase over the fiscal year 2010 appropriation and a great outcome considering the Administration's commitment to flat discretionary spending as a means to address the Federal budget deficit. The 5 percent increase will allow the Institution to cover most of its mandatory cost increases, further the implementation of the Institution's strategic plan, and advance collections care and research. There are a variety of factors that contributed to this success, including OMB's favorable reaction to the Institution's strategic plan; a strong but realistic appeal focused on the priorities of this plan; the Administration's growing recognition of the Institution's research capabilities;

the Institution's strong relationship with OMB staff; and the favorable impression created by the Institution's proposed budget reductions in the appeal, though only the salary savings related to the buyout program and a small reduction to facilities maintenance were included in the final budget. Regarding the facilities capital budget, the Institution received a \$12 million increase, but no funds were provided to reduce risk to the National Museum of African American History and Culture's construction schedule.

The Committee unanimously approved the following resolution to recommend that the Board of Regents authorizes the Secretary to submit the fiscal year 2011 Federal budget request:

**VOTED** that the Finance Committee recommends that the Board of Regents authorizes the Secretary to submit to Congress a Federal budget request for appropriated funds for fiscal year 2011 as part of the President's budget in the amount negotiated with OMB, and authorizes the Secretary to inform OMB and Congress fully about the implications of the President's budget for the mission and priorities of the Smithsonian.

Because the Committee believes that fiscal year 2012 will be fiscally challenging, the Committee then briefly discussed the potential budget issues the Institution might face in fiscal year 2012. The Committee agreed to raise these issues at the Board's January 2010 meeting so that the Regents can begin to formulate a strategy for how to overcome these challenges in fiscal year 2012.

### **Best Practices Study Update**

Under Secretary for Finance and Administration Alison McNally provided the Committee with an update on the Best Practices Study. This study will evaluate whether the Institution is organized as efficiently and effectively as possible to execute the Institution's strategic plan. The Institution received eight proposals that were evaluated by a five-member selection panel. The panel then interviewed the three best-qualified consulting teams based on a revised statement of work. The panel made its recommendation and the contract will be awarded to McKinsey & Company by January 22, 2010. Phase 1 of the study will begin in early February 2010 and last about eight weeks. The results of Phase 1 will be evaluated before a decision is made to proceed to phases 2 and 3. Mr. Sant noted the Regents' hope that the study would streamline the operation of the Institution and informed the Committee that three outside consulting experts had agreed to serve as an ad hoc advisory group to the Committee to advise and guide the Board through this process. Under Secretary McNally added that the Secretary would be forming an internal steering Committee as well.

### **Discovery Center Refinancing Update**

In June 2009, the Committee and the Board of Regents approved the refinancing of the tax-exempt debt used to finance the Discovery Center at the National Museum of Natural History. Treasurer Anand updated the Committee on the status of this refinancing, reporting that the Institution is proceeding with the refinancing through the District of Columbia (D.C.) because current interest rates are below the rate on the original debt. He said that he had testified at a hearing of the D.C. Committee on Finance and Revenue, which is chaired by Councilmember

Jack Evans. The hearing was uneventful and is a prelude to the TEFRA (Tax Equity and Fiscal Responsibility Act) hearing with the full City Council on January 27, 2010. Mr. Anand noted that, based on the currently planned schedule, the Institution will go to market with the new debt in March 2010.

### **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 4:55 p.m.