

## MINUTES OF THE DECEMBER 9, 2010, FINANCE COMMITTEE MEETING

The Finance Committee (“the Committee”) of the Smithsonian Board of Regents met on Thursday, December 9, 2010, at 3:00 p.m. at the Smithsonian Institution in Washington, D.C. Participating were Committee Chair Roger W. Sant, member David M. Rubenstein, and ex officio member Patricia Q. Stonesifer\*. Advancement Committee Chair Alan G. Spoon\* and Executive Committee member Robert P. Kogod also participated. Staff in attendance were Secretary G. Wayne Clough; Treasurer Sudeep Anand; Chief of Staff to the Secretary Patricia Bartlett; Smithsonian Enterprises Chief Financial Officer Gregory Bokman; Chief Investment Officer Amy Chen; Director of Advancement and Philanthropic Giving Virginia Clark; Acting Chief Financial Officer Bruce Dauer; Chief of Staff to the Regents John K. Lapiana; General Counsel Judith Leonard; Smithsonian Enterprises Director of Financial Planning Michael McCarthy; Under Secretary for Finance and Administration Alison McNally; Smithsonian Enterprises President Tom Ott; Director of Government Relations Nell Payne; and Inspector General A. Sprightley Ryan. 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 23, 2010, meeting.

### **Budget Outlook Update**

Secretary Clough provided an update on the status of the fiscal year 2011 Federal budget. The Institution is operating under a Continuing Resolution (CR) through December 18, 2010. The House of Representatives has passed a full-year CR, which would hold the Institution’s spending to its fiscal year 2010 level. The Senate, meanwhile, is working on an Omnibus appropriations bill that would provide funding at the fiscal year 2011 requested level. Passage of either a full-year CR or an Omnibus bill by both houses of Congress would reduce the risk that incoming House Republicans would cut the Institution’s fiscal year 2011 funding to fiscal year 2008 levels as they have proposed. Mr. Dauer pointed out that an appropriation at the fiscal year 2010 level would not require dramatic budget cuts because the Federal salary freeze proposed by the President and approved by the House would eliminate the Institution’s need to absorb federally mandated cost-of-living increases this year, and utilities savings will offset most other mandatory expenses. However, the Institution continues to plan for a worse-case scenario. With regard to the Institution’s proposed fiscal year 2012 Federal budget, there was nothing new to report. The Institution is awaiting the “passback” from the Office of Management and Budget, which is expected on December 14, 2010. The passback provides the Institution’s budget guidance for fiscal year 2012.

### **Smithsonian Networks Equity**

Mr. Ott reviewed the Institution’s option to increase its equity interest in Smithsonian Networks. The Institution currently owns a 10 percent interest in the Showtime Joint Venture.

\* *participated by teleconference*

It has the option to purchase an additional 20 percent interest, which will expire on December 31, 2010. The Institution hired a firm to provide a valuation for Smithsonian Networks utilizing income- and market-based approaches.

The Committee discussed the opportunities and risks associated with this option, and asked that Smithsonian Enterprises use this opportunity to get clarification on several points of the contract. The Executive Committee will make a final determination on behalf of the Board of Regents.

The Committee then approved the following motion:

**VOTED** that the Finance Committee recommends to the Executive Committee that the Secretary be authorized to express the Smithsonian's intention to exercise the contractual call option to acquire the additional equity interest in the Showtime Joint Venture.

### **Update on National Campaign Funding**

Secretary Clough reminded the Committee that management spent much of the summer and fall 2010 working with Smithsonian unit directors, staff, and advisory boards on the organization and implementation of the campaign. Ms. McNally reported that unit staffing plans have been developed that currently require a 67 percent increase in development FTE over seven years to successfully complete the campaign. Half of the total increase will be frontline unit staff. There is currently a \$10 million gap between the cost of the campaign and the funding identified, and the Institution is committed to closing this gap. An additional \$26 million is required for the acquisition and operation of a development information system over seven years, which is being addressed as a stand-alone requirement outside of the campaign funding model. Ms. Clark provided some benchmarking data about the costs of fund raising and implementing development information systems at comparable institutions. Ms. Stonesifer suggested that management consider converting the 1 percent increase in the Endowment payout to an absolute dollar amount to fund parts of the campaign. Ms. Stonesifer indicated that her goal was to limit withdrawals from the Endowment to the absolute amounts needed to allow the Endowment to maximize earnings. The Committee generally agreed with the proposed funding model, but noted that management has more work to do both to close the funding gap and, as an issue separate from the campaign, to identify funding for the development information system prior to a formal vote by the Committee in January 2011.

### **Wrap Up**

The Chair thanked the members of the Committee and staff for their active participation and adjourned the meeting at 5:05 p.m.