

MINUTES OF THE MARCH 23, 2009, FINANCE COMMITTEE MEETING

The Finance Committee (“the Committee”) of the Smithsonian Board of Regents met on Monday, March 23, 2009, at 3:00 p.m. at the Smithsonian Institution in Washington, D.C. Participating were Committee Chair Eli Broad*, members Robert Kogod and Roger Sant, and ex officio member Patricia Stonesifer. Staff in attendance were Secretary Wayne Clough; Treasurer Sudeep Anand; Executive Assistant to the Secretary Patricia Bartlett; Chief Financial Officer of Smithsonian Enterprises Gregory Bokman; Chief Investment Officer Amy Chen; Director of the Office of Planning, Management and Budget Bruce Dauer; Assistant General Counsel Farleigh Earhart; Chief of Staff to the Board of Regents John K. Lapiana; Chief Financial Officer Alice Maroni; Under Secretary for Finance and Administration Alison McNally; and President of Smithsonian Enterprises Tom Ott. Also in attendance was Budget Analyst Amy Crochiere, who recorded the minutes.

Call to Order and Approval of Minutes

Committee Chair Eli Broad called the meeting to order and greeted the members. The Committee members approved the minutes of the January 13, 2009, meeting.

Fiscal Year 2009 Mid-Year Financial Report

Chief Financial Officer (CFO) Maroni reviewed the fiscal year 2009 mid-year financial report. Fiscal year 2009 is proving to be a difficult year financially. The Institution’s fiscal year 2009 budget, which was finalized in August 2008, did not anticipate the effects of the global economic crisis, which continues to take its toll on the Smithsonian. Revenues are forecast to decline by \$21 million compared to budget, driven primarily by a decrease in Federal revenues due to restrained spending while operating under a Continuing Resolution, as well as declines in interest income, business activities, and charitable giving. Expenses are forecast to be below budget by \$10 million due largely to restrained spending while operating under a Continuing Resolution and management actions to reduce spending. The largest variance to budget is due to the change in the Endowment’s market value. The Endowment forecast reflects its 13.2 percent decline through January 2009, subtracts the payout, and makes no attempt to predict market performance for the remainder of the fiscal year. Overall, the Institution’s net assets are forecast to decrease by \$81 million, largely as a consequence of the poor performance of the financial markets.

With respect to the Federal budget, the Institution operated under a Continuing Resolution for nearly the first six months of fiscal year 2009, which held Federal spending to fiscal year 2008 levels. In response, management imposed a Federal hiring freeze and forestalled certain categories of spending. In February 2009, the Institution received \$25 million from the American Recovery and Reinvestment Act of 2009 for facilities repair and revitalization. In March 2009, Congress enacted and the President signed into law an omnibus appropriations bill that results in a 7 percent increase in Federal funding for the Smithsonian over the prior year and is sufficient to cover most of the Institution’s mandatory expense increases. The omnibus

** participated by teleconference*

appropriations bill provides \$123 million for facilities revitalization. In addition, it provides \$15 million to continue the Legacy Fund, which was started in fiscal year 2008. In a change from the prior year, the \$15 million Legacy Fund now provides for a one-to-one match of Federal dollars to funds raised privately by the Institution for facilities revitalization, with authority to incrementally spend the amounts from the Fund as equal amounts are raised.

With respect to the Central Trust budget, most major sources of income have experienced declines. The one bright spot is the forecast increase in overhead recoveries from grant and contract activity at the Smithsonian Astrophysical Observatory. The income source most seriously affected by the economic decline is that from the business activities operated by Smithsonian Enterprises (SE). SE's revenues are expected to fall short of budget by nearly \$18 million, which would result in a net gain impact of \$9.3 million in the absence of mitigation plans. SE management took immediate action to offset most of the lost income. Nevertheless, SE's net gain is forecast to end fiscal year 2009 \$1 million short of budget. In response to the decline in unrestricted Central Trust revenue, management took immediate action to reduce Central Trust spending by freezing all Central Trust hiring with limited exceptions, freezing the pay of Trust executives whose compensation is market-based and those in positions with Federal equivalents whose compensation is currently above the Federal pay cap, eliminating vacant positions, and shifting expenses to alternative funding sources. In addition, the Secretary chartered two pan-institutional teams to consider options for stimulating new unrestricted Trust revenues and to evaluate the composition of the Institution's Central Trust budget. Looking forward, the recommendations of these two teams, along with the results of the strategic plan, will inform the fiscal year 2010 Trust budget.

Fiscal Year 2010 Federal Budget Request to Congress

Director of the Office of Planning, Management and Budget Bruce Dauer presented the details of the fiscal year 2010 Federal budget request to Congress and updated the Committee on the fiscal year 2009 Federal appropriation. Mr. Dauer reminded the Committee that fiscal year 2009 has been very unusual because of the simultaneous climaxing of the economic stimulus appropriation, the fiscal year 2009 appropriation, and the fiscal year 2010 President's budget. He then pointed out the new Administration's priorities, which include the economy, health care, clean energy, and education. In addition, the Administration is committed to reducing by half the Federal budget deficit during the President's first term.

The fiscal year 2009 Federal omnibus appropriation provided a \$49 million increase over the fiscal year 2008 appropriation. This appropriation allowed the Institution to lift the Federal hiring freeze it implemented under the Continuing Resolution. However, the late passage of the fiscal year 2009 appropriation will prevent the Institution from taking full advantage of \$21 million in increases for facilities maintenance, collections care, and security. As a result, about one-half of this amount will be reapplied to cover the unfunded portion of the fiscal year 2009 pay raise and non-discretionary increases in rent and utilities. These funds will be restored to their original purposes in fiscal year 2010. In addition, the Institution received \$25 million from the American Recovery and Reinvestment Act of 2009 for the repair and revitalization of existing facilities. These economic stimulus funds will be used at the Arts and

Industries Building for HAZMAT removal and leak repair, at the National Zoo for fire safety projects, and across the Institution for other safety projects.

Negotiations with the Office of Management and Budget (OMB) resulted in a fiscal year 2010 budget request to Congress that is 6% over the fiscal year 2009 appropriation (excluding the Legacy Fund). OMB has indicated that this is a far better outcome than that received by comparable organizations. The split between the Salaries and Expenses (S&E) and the Facilities Capital accounts is not yet final and is still being negotiated with OMB. The S&E account provides increases for governance improvements, triples collections care funding, and provides funds for research initiatives, digitization, and Web enhancement. The Facilities Capital account includes \$20 million for the design of the National Museum of African American History and Culture and enables the Institution to begin a four-year program to rehabilitate the Arts and Industries Building.

The Committee unanimously approved the following resolution for consideration by the Board of Regents:

VOTED that the Board of Regents authorizes the Secretary to submit to Congress a Federal budget request for appropriated funds for fiscal year 2010 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 Institution.

Update on Smithsonian Enterprises' Financial Performance

President of Smithsonian Enterprises Tom Ott discussed the performance of SE. For fiscal year 2009, SE's original budget projections included total revenue of \$174.9 million and net gain of \$27.2 million. At mid-fiscal year, SE projects a budget gap of \$17.6 million in revenue and \$9.3 million in net gain for fiscal year 2009. The budget gap has widened since the Committee was last updated in January 2009 due to further deterioration of print advertising sales, severe softening in retail sales, a drop in Smithsonian Journey's travel bookings, and the bankruptcy of a major licensing partner. SE has squeezed further savings from its program of cost control and increased revenue from its promotional business initiatives to produce \$8.3 million of incremental net gain, narrowing the budget gap to \$1 million. There is further risk to the budget, even with the approach of the peak summer season and the release of *Night at the Museum 2*. SE forecasts that retail will continue 10 percent below budget throughout the summer of 2009. SE will continue to monitor the economic environment and make additional operating adjustments as necessary. With respect to SE's capital budget, management is limiting spending to required and strategic revenue-generating projects. Two key projects, the renovation of the Carmichael Theater at the National Museum of American History and the overhaul of the Catalog's Web strategy, represent the majority of SE's capital budget.

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 4:30 p.m.