

MINUTES OF THE AUGUST 30, 2011, FINANCE COMMITTEE MEETING

The Finance Committee (“the Committee”) of the Smithsonian Board of Regents met on Monday, August 30, 2011, at 2:00 p.m. at the Smithsonian Institution in Washington, D.C. Participating were Committee Chair David M. Rubenstein*, members Senator Thad Cochran* and Roger W. Sant*, and ex officio member Patricia Q. Stonesifer*. Also participating were Regents Xavier Becerra*, John McCarter*, and Alan Spoon; Smithsonian National Board Chair Paul Neely*; and Counselor to the Chief Justice Jeff Minear*. Committee member David Silfen was unable to participate. 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, 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 Ed Patrick, who recorded the minutes.

Call to Order and Approval of Minutes

Committee Chair David Rubenstein called the meeting to order and greeted the members. The Committee approved the minutes of the April 4, 2011, meeting.

Smithsonian Institution Fiscal Year 2011 Financial Report

Mr. Dauer presented the Institution’s financial situation. This report summarizes the Institution’s financial performance against budget from October 1, 2010, to June 30, 2011. It highlights the five key funding sources that have the most impact on the Institution’s operations and financial stability and tracks performance against quarterly goals. With respect to Federal appropriations, the report shows the Institution is under plan. This reflects receiving several continuing resolutions (CR) through the year with the last CR enacted on April 15, 2011, funding the remainder of the fiscal year at a level 0.2 percent below the fiscal year 2010 appropriated level. This lower level of \$761.6 million is reflected in the year-end forecast. On the private side, fundraising is ahead of plan by \$2 million, and government grants and contracts are ahead by \$9.5 million, although the year-end forecast reflects no increase above the original annual budget. Smithsonian Enterprises is slightly ahead of plan on net gain, but is below plan for revenues by \$10 million. The report also tracks expenses against quarterly goals. Through June 2011, expenses were below plan because fiscal year 2011 appropriations were \$19.4 million lower than the Institution’s budget request, on which the annual plan was based.

Fiscal Year 2012 Integrated Federal and Trust Budget

Mr. Dauer then presented the fiscal year 2012 integrated budget. The five key revenue sources for fiscal year 2012 that have the most significant impact on the Institution’s operations and financial stability are Federal appropriations, fundraising, government grants and contracts,

* *participated by teleconference*

new revenue, and the Endowment's payout. Taken together, these key revenue sources represent an increase of \$161.5 million, or 14 percent, over the fiscal year 2011 budget.

With respect to Federal revenue, the budget is based on the fiscal year 2012 budget request submitted to Congress in February 2011. Totaling \$861.5 million, it contains a \$99.9 million, or 13 percent, increase over the fiscal year 2011 Federal budget. The Federal increase is primarily for construction of the National Museum of African American History and Culture.

Fiscal year 2012 Trust revenues are estimated to increase \$61.6 million from fiscal year 2011. The increased Trust revenues include \$0.8 million in Smithsonian Enterprises (SE) net gain; \$32 million in fundraising (19 percent increase over fiscal year 2011); \$28 million in government grants and contracts (23 percent increase over fiscal year 2011); and \$0.8 million from the Endowment's payout.

Expenses are estimated to be \$1.079 billion in fiscal year 2012, an increase of \$83 million, or 8 percent, over fiscal year 2011 expenses. The major increase in expenses is attributed to increased requirements for the National Museum of African American History and Culture.

Mr. Dauer concluded the presentation by stating that the Central Trust budget is in balance; however, the diversion of the Endowment payout and the redirection of overhead recovery to fund the national campaign necessitated a 5 percent reduction to Central Trust-funded activities.

The Committee approved the following motion:

VOTED that the Finance Committee recommends that the Board of Regents approves the budget of appropriated funds for fiscal year 2012 when signed into law by the President, the institutional budget for Trust funds for fiscal year 2012 reflected in this report, and authorizes expenditures by the Secretary in accordance therewith. Any material changes in program plans incorporated into this budget shall be made only with the approval of the Board of Regents or its Executive Committee.

Fiscal Year 2013 Federal Budget Submission to the Office of Management and Budget

Mr. Dauer stated that the Office of Management and Budget (OMB) has not given official guidance for fiscal year 2013. The Smithsonian plans to submit a modest requirements budget of plus 5 percent for salaries and expenses (S&E), and to separately request "above the line" \$85 million needed for construction and \$14 million required for operation (S&E) for the National Museum of African American History and Culture.

The fiscal year 2013 requirements budget totals \$809 million, which includes \$668 million for salaries and expenses (a \$31 million increase from the fiscal year 2012 request) and \$141 million for the facilities capital budget (a \$41 million increase from the fiscal year 2012 request). The increases are focused on the budget priorities approved by the Regents in April 2011.

To prepare for potential reductions, management has prepared contingency plans for a \$37 million reduction below the Smithsonian's fiscal year 2011 budget level. The cuts were identified as having lower priority for our Strategic Plan by individual units and then thoroughly reviewed and adjusted by management with a focus on the long-term, using the fiscal year 2015 goals and strategic initiatives. After these considerations, the resulting reductions are as follows: research (-\$2.6 million), education (-0.3 million), public programs (-\$2.9 million), collections (-\$1.1 million), management operations (-\$4.7 million), facilities operations and maintenance (-\$10.4 million), and facilities capital (-\$15.0 million). Eighty one percent of the proposed reductions are from the strategic plan's Mission-Enabling category.

The Committee approved the following motion:

VOTED that the Finance Committee recommends that the Executive Committee approves, on behalf of the Board of Regents, the Smithsonian Institution's budget request for appropriated funds for fiscal year 2013 for presentation to the Office of Management and Budget. Any material changes in program plans incorporated into this budget shall be made only with the approval of the Board of Regents or its Executive Committee.

Smithsonian Enterprises: Fiscal Year 2011 Outlook, and Fiscal Year 2012 Budget

Mr. Ott provided an update on Smithsonian Enterprises' (SE) fiscal year 2011 outlook and fiscal year 2012 budget. SE is on track to achieve its fifth consecutive year of net gain growth by ending fiscal year 2011 with a projected \$28.5 million net gain, which is approximately a \$1 million increase over net gains achieved in fiscal year 2010. This is driven primarily by Media strength, and includes increasing contributions from the Smithsonian Channel. SE plans to increase its fiscal year 2012 net gain by \$0.2 million, totaling \$28.7 million. Mr. Ott emphasized that SE's \$28.7 million budget could be exceeded with a stronger contribution from the SI Channel and if SE was able to hit its fiscal year 2012 budget through its other business lines; he also noted, however, that the current Retail growth goal is aggressive given the currently challenging retail environment. SE's fiscal year 2012 budget includes various investments and improvements totaling approximately \$3.2M, which are built into new and existing businesses to develop future revenue generators and are incorporated into the budgeted net gain results for next year.

Since a meeting with Senator Sanders on the Made-in-America initiative, SE has made great strides increasing the ratio of American-made products, including converting to all U.S.-made products at the Price of Freedom store.

Mr. Bokman then reviewed the July 2011 Balance Sheet. SE's balance sheet is largely traditional working capital and deferred income, primarily from magazine subscriptions not yet served. Compared to September 2010 data, receivables are down almost \$2.7 million, half of which is from advertisement and the other half from subscriptions. Inventory is down about \$1.9 million from September 2010, which is driven by the restructuring of the catalog.

Inventories should increase in fiscal year 2012 as the holiday season approaches and the catalog ramps back up. Property and equipment expenses are \$3 million less compared to September 2010, which reflects lower capital spending during the past few years.

Endowment Payout for Fiscal Year 2011

Ms. Chen reminded the Committee that the current Endowment payout policy is to pay out each year 5 percent of the average market value per share over the past 20 quarters. Last year the Committee agreed to a \$39.30 per share for all Endowment funds for fiscal year 2011, with the \$0.58 per share increase from fiscal year 2010 to be set aside for the national campaign (to the extent not prohibited by donor restrictions). The Board of Regents, based on the recommendation of the Finance Committee, approved up to an additional 1 percent payout for the national campaign for the next seven years (2012–2018). The proposed payout for fiscal year 2012 is \$47.00 per share, which represents \$39.17 per share for programs and operating expenses and up to \$7.83 per share for the national campaign. Note that due to donor restrictions, only about 50 percent (by market value) of the Endowment funds allow their payout to be used for the national campaign. The estimated maximum total payout in fiscal year 2012 is \$57.82 million, compared to an estimated \$51.96 million in fiscal year 2011.

The Committee approved the following motion:

VOTED that the Board of Regents approves a payout rate of up to \$47.00 per share for all Endowment funds for fiscal year 2012. This represents \$39.17 per share for programs and operating costs and up to \$7.83 per share for the National Campaign.

Wrap Up

The Chair thanked the members of the Committee and staff for their active participation and adjourned the meeting at 3:50 p.m.