The Finance Committee (“the Committee”) of the Smithsonian Board of Regents met on Tuesday, September 16, 2008, at 1:30 p.m. at the Smithsonian Institution in Washington, D.C. Committee members attending the meeting were Robert Kogod and Roger Sant (ex officio); Chair Eli Broad and David Silfen participated by teleconference. Staff present at the meeting were Secretary G. Wayne Clough; Executive Assistant to the Secretary Patricia Bartlett; Acting Under Secretary for Finance and Administration Alison McNally; Chief Financial Officer Alice Maroni; Treasurer Sudeep Anand; Chief Investment Officer Amy Chen; Assistant General Counsel Farleigh Earhart; Director of External Affairs Virginia Clark; Director of the Office of Planning, Management and Budget Bruce Dauer; Director of the Office of Government Relations Nell Payne; Acting President of Smithsonian Enterprises Tom Ott; Chief Financial Officer of Smithsonian Enterprises Gregory Bokman; Chief of Staff to the Board of Regents John Lapiana; Program Officer Grace Jaeger; and 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 approved the minutes of the May 1, 2008, meeting.

Self-Assessment Process

The Chair reminded the Committee that its charter calls for an annual evaluation of the adequacy of the Committee’s charter and of the Committee’s own performance with respect to the requirements of the charter. The Chair has received five responses indicating high levels of satisfaction. He asked the committee members who have not yet responded to return the self-assessment package to him.

Finance Committee Charter

Chief Financial Officer (CFO) Alice Maroni discussed proposed amendments to the Finance Committee Charter. In response to the Board of Regents’ May 2008 decision to reorganize its committees, the Investment Committee was established as a standing Regents’ committee with the understanding that a committee charter would be drafted subsequently for the conduct of its activities. The Charter of the former Finance and Investment Committee was accordingly amended to reflect the duties and responsibilities of the Finance Committee. In addition, other edits were suggested to bring the new Finance Committee Charter into conformance with the standard style for Regents’ committee charters.

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

**VOTED** that the Board of Regents approves the amended Finance Committee Charter.

Transfer to the Archives of American Art Endowment

Treasurer Sudeep Anand discussed a proposal to reassign $2.36 million within the Institution’s Endowment to the Archives of American Art (AAA) Endowment. AAA relocated to the Victor Building when renovations began on the Patent Office Building. AAA used $9.64 million of a $12 million grant it received from the Brown Foundation to consolidate its collections, operations, and offices at the Victor Building. Smithsonian management recommended that the remaining
$2.36 million be transferred into the existing AAA Endowment so that AAA receives the full benefit of the Brown Foundation grant. The source of funds for this transfer is the $70 million that the Board of Regents authorized be transferred from the short-term portfolio into the Institution’s Endowment in fiscal year 2007. These funds consisted of the net cash from the sale of the Victor Building and other real estate transactions. The Committee discussed the current value and investment of the AAA Endowment.

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

**VOTED** that the Board of Regents approves the transfer of $2.36 million of the $70 million short-term funds currently invested in the Institution’s Endowment to the Endowment of the Archives of American Art.

**Donald W. Reynolds Center Enhancement Endowment**

Treasurer Anand described a proposal to create the Donald W. Reynolds Center Enhancement Endowment. The Smithsonian American Art Museum (SAAM) and the National Portrait Gallery (NPG) were asked to raise money to contribute to the construction and renovation of the Patent Office Building. To keep the project on schedule, SAAM advanced $1.3 million on behalf of NPG. NPG does not have sufficient funds to repay SAAM. Smithsonian management proposes to place $1.3 million from the Institution’s working capital into a quasi-endowment for SAAM. The principal and return on this endowment will be used for part of SAAM’s contribution to the Reynolds Center F Street Stairs project. This project is currently planned for 2013, with a preliminary cost estimate of $9.2 million. The Smithsonian Central Trust would contribute $4.6 million; SAAM, $2.9 million; and NPG, $1.7 million. If at the end of five years, the Secretary determines the funds are not required for the F Street Stairs project, the funds will be transferred to SAAM’s Endowment for other uses.

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

**VOTED** that the Board of Regents approves the creation of a quasi-endowment called the Reynolds Center Enhancement Fund and the transfer of $1.3 million from the Smithsonian Institution Central Trust to fund it.

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

CFO Maroni reviewed the fiscal year 2008 year-end financial report. For fiscal year 2008, she noted that the Institution’s financial position is sound, despite the slump in the economy. Private sector giving is stronger than expected and net income from Smithsonian Enterprises is on track to exceed budget. Predictably, the downturn in the economy has negatively affected the performance of the Institution’s Endowment. Nevertheless, the calendar year-to-date 2008 performance of the Smithsonian’s Endowment through August 2008 (-7.5%) exceeded the policy benchmark return (-9.6%) and is forecast to reach a value of $1.021 billion at fiscal year-end. Revenues are forecast to exceed budget by $23 million, driven primarily by stronger donor and sponsor contributions. Expenses are forecast to be $16 million below budget, largely as a consequence of a smaller Federal appropriation than planned and therefore less Federal spending than budgeted. Overall, the Institution’s net assets are forecast to decrease by $10 million, $43 million below budget due to the poor performance of the financial markets.
Resource constraints remain a serious Institutional challenge. Federal increases have gone largely to pay mandatory operating bills such as pay raises, electricity, and rent. Funding for the revitalization of the Smithsonian’s physical infrastructure totaled $120 million in fiscal year 2008, short of the $150 million annual goal. The $120 million includes $15 million from the Legacy Fund, which is a matching fund set up to provide one Federal dollar for every two dollars raised privately for facilities revitalization. Use of the Legacy Fund has been delayed while the Institution tries to meet the $30 million matching requirement. Maintenance funding is also short in fiscal year 2008, at $51.4 million against an annual need of $100 million. Unrestricted, non-Federal sources of income are not growing. Efforts to increase funding for important programmatic initiatives, facilities revitalization, and maintenance requirements remain the Institution’s highest priorities.

Presentation of the Fiscal Year 2009 Budget

CFO Maroni presented the fiscal year 2009 budget. Congress has yet to complete action on the Institution’s fiscal year 2009 Federal budget request. It is likely that the Smithsonian will be funded by a continuing resolution throughout much, if not all, of fiscal year 2009. Therefore, the fiscal year 2009 budget assumes that the Institution will be required to continue to operate at fiscal year 2008 funding levels for the first six months of the year, and that Congress will ultimately approve a fiscal year 2009 budget similar to the House Appropriations Committee position, but without the $75 million increase for renovation of the Arts and Industries Building. Because it is unlikely that either a full-year continuing resolution or the House Appropriations Committee position will cover the full cost of the anticipated, Federally mandated pay raise, management has imposed a Federal hiring freeze and plans to forgo the replacement of vehicles and obsolete computers.

One-third of the Institution’s annual support comes from Trust sources, including both contributions and private-sector grants, and grants and contracts from government agencies. The fund-raising goal for fiscal year 2009 is $130 million, including restricted and unrestricted contributions. Funding and spending for government grants and contracts is budgeted to decline with the completion of the Sant Ocean Hall, for which the National Oceanic and Atmospheric Administration provided $22 million in grants. Importantly, anticipated revenue for the unrestricted Trust budget, which provides critical leadership, administrative, and program support is flat with fiscal year 2008. Unrestricted Trust spending is budgeted to increase to $64 million, an increase of $5 million over the prior year. This includes increases for centrally funded pay raises, rent, and banking services; preparation of the Institution’s Strategic Plan; start-up of the national campaign; and installation of the Secretary’s permanent leadership group. Since this budget is essential to the success of the Institution, the Secretary is forming teams to review and identify ways to increase revenues and to limit expenses going forward.

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

**VOTED** that the Board of Regents approves the budget of appropriated funds for fiscal year 2009 when signed into law by the President 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.

**VOTED** that the Board of Regents approves the institutional budget for Trust funds for fiscal year 2009 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 2010 Federal Budget

Director of the Office of Planning, Management and Budget Bruce Dauer provided an update on the proposed fiscal year 2010 budget to be submitted to the Office of Management and Budget (OMB) when requested. OMB is not conducting its normal budget building process this year because of the upcoming change in Administration. However, the Smithsonian collected the usual Federal budget material and conducted its usual programmatic decision-making process to be prepared to answer questions from OMB or to submit its funding requirements to the transition team when requested. The Institution’s recommendation to the Board of Regents is to submit a fiscal year 2010 Federal budget of $883 million, which is $167 million or 23% more than the fiscal year 2009 appropriation request. This increase is comparable to submissions to OMB in previous years. The budget request balances the need for funding for facilities care with investments in the Institution’s programs, such as collections care and digitization; science initiatives like the next-generation telescope; and IT and science infrastructure. Notably, the budget includes an increase to facilities maintenance that would bring total salaries and operating expense funding for facilities maintenance to $100 million. This funding level would provide, for the first time, the industry minimum standard of two percent of the replacement value of the Institution’s facilities.

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

VOTED that the Board of Regents approves the Smithsonian Institution budget request for appropriated funds for fiscal year 2010 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 2009 Budget and Capital Plan

Acting President of Smithsonian Enterprises Tom Ott presented the fiscal year 2009 budget and capital plan for Smithsonian Enterprises (SE). SE estimates $27.2 million in net gain after taxes in fiscal year 2009, a five percent increase over the fiscal year 2008 forecast. SE projects strong growth in the Museum Retail business, due primarily to the reopening of the American History Museum, as well as other key exhibition openings and increased Mall traffic due to major events such as the Inauguration and festivities tied to the 200th anniversary of President Lincoln’s birthday. Together with the relaunch of the Catalogue, this growth is forecast to offset the decline in the Media division.

The Media division includes Smithsonian magazines, Smithsonian Books, and the Smithsonian Channel. A severe drop in advertising revenue due to economic concerns and the ongoing migration from print to digital media by marketers, combined with steep increases for paper and postage, continue to put significant pressure on the fiscal year 2009 SE budget. Cost reductions are in place to mitigate the impact on the margin. In addition, the Smithsonian Channel is budgeted to continue to earn guaranteed license fees only, as the ability to earn significant incremental revenue will not occur until the major distributors agree to carry the network. Mr. Ott noted the importance of these distributors to the success of the initiative.

Net gain for the Licensing and Business Development division, which includes Smithsonian Journeys, Student Travel, and Licensing, is forecast to be flat for fiscal year 2009. Corporate management costs are estimated to increase for fiscal year 2009 because the executive leadership team recommended by the SBV Task Force is now in place. The preliminary plan for capital investment in fiscal year 2009 is $4.763 million. The largest project is the conversion of the
Carmichael Auditorium at the American History Museum into a digital theater. The remaining projects are smaller renovation projects across the Institution. With the dissolution of SE’s Board, the Finance Committee will be updated on SE’s business operations on a routine basis going forward.

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 2:45 p.m.