

## **MINUTES OF THE MAY 4, 2017, FINANCE COMMITTEE TELECONFERENCE MEETING**

The Finance Committee (“Committee”) of the Board of Regents (“Board”) of the Smithsonian Institution (“Smithsonian”) held a meeting on May 4, 2017, at the Smithsonian Castle in Washington, D.C. Participating were Committee Chair John Fahey and Committee members Timothy O’Neill and Steve Case.

Also present by invitation of the Committee were Chief of Staff to the Secretary Greg Bettwy; Office of the Regents Senior Researcher & Writer Jennifer Ehlinger; Vice President of Finance & Administration for Smithsonian Enterprises Bruce Dauer; Director of the Office of Finance & Accounting Jean Garvin; Liaison to Senator Perdue Lauren Hancock; Under Secretary for Finance & Administration/Chief Financial Officer Albert Horvath; General Counsel Judith Leonard; Smithsonian Enterprises President Chris Liedel; Assistant Inspector General for Operations William Hoyt; Director of Planning, Management & Budget David Voyles; and Chief of Staff to the Regents Porter Wilkinson.

### **CALL TO ORDER**

Committee Chair John Fahey called the meeting to order at 12:01 p.m.

### **APPROVAL OF THE AUGUST 22, 2016, COMMITTEE MEETING MINUTES**

Upon motion duly made and seconded, the minutes of the August 22, 2016, Committee meeting were approved without modification.

### **FISCAL YEAR 2017 FINANCIAL RESULTS**

Under Secretary for Finance & Administration/Chief Financial Officer Albert Horvath reviewed the fiscal year 2017 financial data as of March 31, 2017. The Smithsonian began the fiscal year operating under a continuing resolution (“CR”) and will continue to operate on a CR through May 5, 2017. The CR is at the FY 2016 enacted appropriations of \$696.0 million for Salaries and Expenses and \$144.2 million for Facilities Capital. The fiscal year 2017 plan will be revised once the Smithsonian receives its fiscal year 2017 appropriation. In addition, appropriations of \$260 million from fiscal year 2016 remain available for use in the current fiscal year. Mr. Horvath noted that prior to the end of the fiscal year; management and individual units will work to fully obligate fiscal year 2016 funds, which are set to expire by September 30, 2017.

Mr. Horvath reported that the Smithsonian’s primary Trust revenue sources of gifts, business activities, and sponsored research are all performing well for the year, while expenses remain within budgetary guidelines. Revenues for the period totaled \$889 million, to include \$104.8 million from Contributions; \$38.4 million from government grants and contracts; \$11.5 million in overhead and fees collected from grants and contracts; \$39.6 million from the Endowment Payout; and \$92.9 million from business activities, including \$80.7 million from Smithsonian Enterprises.

*\*participated by telephone*

The Smithsonian's Net Operating Revenue for the period ending on March 31, 2017, was \$102 million. There have been no material unanticipated expenses during the course of fiscal year 2017. Expenses for the period totaled \$787 million, which includes the spending of funds carried forward from fiscal year 2016.

#### **FISCAL YEAR 2018 FEDERAL BUDGET REQUEST TO CONGRESS**

Mr. Horvath then updated the Committee on the fiscal year 2018 federal budget request to Congress. On April 4, 2017, the Smithsonian received final settlement on the fiscal year 2018 Budget from the Office of Management and Budget ("OMB"), which reflects the amount of funds the President will include in his overall fiscal year 2018 budget submission to Congress

Mr. Horvath reviewed the Passback from OMB, which provides \$947 million to the Smithsonian. Funding includes \$719 million for Salaries and Expenses, and \$228 million for Facilities Capital, and is \$83.7 million or 12.7 percent, higher than the fiscal year 2017 final settlement amount. The President's fiscal year 2018 federal budget submission for the Smithsonian is due to Congress on May 22, 2017.

Upon motion duly made and seconded, the Committee approved the following motion for recommendation to the Board:

**VOTED** that the Finance Committee recommends that the Board of Regents authorize the Secretary to submit to Congress a federal budget request for appropriated funds for fiscal year 2018 as part of the President's budget in the amount of \$947 million, as negotiated with the Office of Management and Budget, 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.

#### **FISCAL YEAR 2018 ENDOWMENT PAYOUT**

Mr. Horvath reviewed the fiscal year 2018 Endowment Payout recommendation. The Smithsonian's historical policy is to pay out five percent of the trailing average market value per share over the previous five years to support programs and activities. Since 2011, an additional annual payout of up to one percent has been added in order to pay for the costs of the National Campaign, the practice of which is expected to end at the conclusion of the Campaign in fiscal year 2018. The projected payout to support programmatic activity for fiscal year 2018 is \$66.4 million and the campaign financing payout is projected at \$5.9 million.

Upon motion duly made and seconded, the Committee approved the following motion for recommendation to the Board:

**VOTED** the Finance Committee recommends that the Board of Regents approves a five percent payout from the Smithsonian Endowment in fiscal year 2018 to support programmatic activity. Further, the Board approves up to an additional one percent

payout from eligible Smithsonian Endowment funds in fiscal year 2018 for expenses associated with the Smithsonian Campaign. The payout shall be calculated against the trailing five-year average market value of the Smithsonian Endowment.

#### **UPDATE ON EXTERNAL DEBT**

Mr. Horvath reviewed the status of the Smithsonian's external debt. The Smithsonian's current external debt is \$198.5 million. Fundraising and other business revenues are expected to meet the debt requirements. As of March 31, 2017, the Smithsonian's short-term liquidity totaled \$296.2 million, which is sufficient to put towards the repayment of the external debt. Mr. Horvath also briefed the Committee on the potential defeasance of the Smithsonian's Series 2010 Bonds, which would relieve the Smithsonian from annual debt burden related to 2010 loans, which were used to fund construction of the Discovery Center at the National Museum of Natural History. Management expects that the defeasance of the Series 2010 Bonds will be presented to the Committee, and subsequently to the full Board for a discussion and vote in the near-term.

#### **EXECUTIVE SESSION**

The Committee then conducted an executive session to discuss the Smithsonian Channel Equity Put Option. The SNI/SI Network LLC ("Channel") is a joint venture that was established in 2006 with Showtime Networks Inc. ("Showtime"). The Smithsonian's joint venture agreement with its partner, Showtime, provided that the Smithsonian could sell back ("put") to its partner a portion, or all, of its ownership interest in 2014, 2016, or 2018. Under the agreement, Showtime is only obligated to execute against one of these possible dates. The Smithsonian declined to exercise this option in January 2014. The Board voted during its special telephonic meeting on May 1, 2016, to exercise the put option and sellback a portion of its equity stake in the Smithsonian Channel. On May 2, 2016, the Smithsonian initiated the formal put process by issuing a notice to Showtime. The Committee was updated on the status of the negotiations and discussed next steps on how best to proceed.

#### **ADJOURNMENT**

There being no further business to consider, the meeting was adjourned at 12:55 p.m.

Respectfully submitted,

John Fahey, Chair