

MINUTES OF THE AUGUST 10, 2017, FINANCE COMMITTEE TELECONFERENCE MEETING

The Finance Committee (“Committee”) of the Board of Regents (“Board”) of the Smithsonian Institution (“Smithsonian”) held a meeting on August 10, 2017. Participating were Committee Chair John Fahey and Committee members Roger Ferguson and Timothy O’Neill.

Also present by invitation of the Committee were Secretary David Skorton; Associate General Counsel Craig Blackwell; Office of the Regents Senior Researcher and Writer Jennifer Ehlinger; Vice President of Finance and Administration for Smithsonian Enterprises Bruce Dauer; Julie Eddy, from the Office of Representative Matsui; Deputy Chief of Staff to the Regents Kate Forester; Director of the Office of Finance and Accounting Jean Garvin; Under Secretary for Finance and Administration/Chief Financial Officer Albert Horvath; Inspector General Cathy Helm; General Counsel Judith Leonard; Smithsonian Enterprises President Chris Liedel; Director of Planning, Management and 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 11:00 a.m. Due to a lack of quorum, the planned motions for the Committee’s approval will be circulated subsequently via email ballot.

FISCAL YEAR 2017 FINANCIAL RESULTS

Under Secretary for Finance and Administration/Chief Financial Officer Albert Horvath reviewed the fiscal year 2017 financial results as of June 30, 2017. He reminded the Committee that the Smithsonian had been operating under a continuing resolution (“CR”), and the federal appropriation was not approved until May at \$863.3 million. Mr. Horvath reported that the Smithsonian’s other revenue sources were performing on or ahead of budget for the fiscal year 2017, with revenues earned by Smithsonian Enterprises exceeding expectations in large part due to earnings from the National Museum of African American History and Culture (“NMAAHC”). One exception to the well performing revenues related to grants and contracts. He reported that contract activities are behind plan due to the uncertainty of funding caused by the CR. Mr. Horvath also reported that the Smithsonian Campaign (“Campaign”) has raised \$1.72 billion towards the goal of \$1.5 billion, with 96 percent of the Campaign timeline complete. Expenses are tracking according to budget, and Mr. Horvath noted that there have been no material unanticipated expenses thus far during the fiscal year.

Next, Mr. Horvath highlighted a few of the major capital projects. First, the revitalization at the National Air and Space Museum (“NASM”), which is at nearly 100% design completion. Construction funding may be impacted in fiscal year 2018. Next, Mr. Horvath mentioned that the newly opened West Wing at the National Museum of American History (“NMAH”) is nearly complete. There are two projects at the National Museum of Natural History (“NMNH”),

including the ongoing renovation of the “Deep Time” hall and renovations to the south entrance stairs in order to create an ADA accessible entrance. The budget for this project is \$30 million in fiscal year 2018, and funding will be necessary to keep this project on schedule. The NASM collections and storage module at the Udvar Hazy Center is on target for completion in late 2018. Lastly, Mr. Horvath stated that the Freer-Sackler Galleries of Art are scheduled to reopen in October after renovations to the humidification system are complete.

Mr. Horvath reported that with respect to the assets and liabilities, the endowment’s total assets are valued at \$1.446 billion, representing a 7.0 percent increase since September 30, 2016. Additionally, both Moody’s and S&P have given the Smithsonian an Aaa/AAA credit rating.

FISCAL YEAR 2018 BUDGET UPDATE

Next, Mr. Horvath discussed the fiscal year 2018 budget request to the Office of Management and Budget (“OMB”). The Smithsonian’s fiscal year 2018 federal appropriations request of \$947 million is consistent with the President’s budget request submitted to Congress. Mr. Horvath explained that key revenue sources are up \$90.8 million over the prior fiscal year, with contributing factors including the NASM revitalization, fixed costs for a pay raise, maintenance and security, including NMAAHC facilities support. Mr. Horvath reported that the House Interior Appropriations Bill was submitted with a markup at \$885.1 million in July, indicating significantly lower levels of funding may be enacted. The Senate Interior Appropriation Committee markup is expected in September. It appears as though fiscal year 2018 will begin under a CR. Mr. Horvath further explained that although the appropriation request is higher than enacted level for fiscal year 2017, it actually reflects \$10 million less towards Salaries and Expenses, and there is hope that there will be an opportunity to submit an operating plan to allow flexibility to move funds from Facilities Capital to Salaries and Expenses if necessary. With the House markup in mind, Mr. Horvath’s team is working with the facilities team to determine the absolute lowest level of funding to begin the NASM revitalization. If the House markup were to be enacted it would not only impact the revitalization of NASM, but also other capital projects, such as the previously mentioned south entrance project at NMNH.

Director of Planning, Management and Budget David Voyles briefed the Committee on the meetings and updates that the Smithsonian has had with both the House and Senate appropriation subcommittees, both of which are willing to work with the Smithsonian, however are faced with numerous budget constraints. Committee member Roger Ferguson asked about fundraising efforts to help offset these budget shortfalls and Secretary Skorton assured Mr. Ferguson and the Committee that efforts are being made, but as everyone understands, fundraising for facilities projects is extremely challenging.

It was decided that the motion associated with the fiscal year 2018 budget would be brought to the full Board during its upcoming August 21 teleconference.

FISCAL YEAR 2019 FEDERAL BUDGET PRIORITIES

Mr. Horvath continued with an update on the fiscal year 2019 federal budget priorities due to OMB on September 11, 2017. OMB released guidance stating that the fiscal year 2019 will be at the same level of funding as fiscal year 2018, but that agencies may identify added investments in effective programs that is no more than five percent above the submission level (i.e., +\$47 million). The fiscal year 2019 priorities are consistent with past years and include salaries and expenses, with a pay raise of 1.9% consistent with fiscal year 2018; research and museum program infrastructure, including collection care initiatives, collection digitization, collection scholarship, and the Secretary's arts initiative; and facilities maintenance, security, and support. The facilities capital priorities include the \$125 million revitalization of NASM and additional projects including renovations at the Hirshhorn, National Zoo, Castle, Smithsonian wide collection storage spaces, and multiple site revitalization projects.

FUTURE FUNDING OF ADVANCEMENT ACTIVITIES, POST-CAMPAIGN

Mr. Fahey briefed the Committee on the funding needed to facilitate the Smithsonian's Campaign and increased Advancement operations. One contribution to the Campaign's funding source has been the utilization of a one percent payout of the Smithsonian endowment. As the Campaign draws to a close, the Advancement activities and related funding are being reviewed to determine the best approach moving forward. The Office of Advancement, the Advancement Committee, and Secretary Skorton have been working together with an outside consultant to develop the best approach. Mr. Horvath took a moment to discuss the variety of ways the Smithsonian has funded the Campaign outside of the endowment payout, including taxing expendable gifts, generating revenue by applying a charge to grants and contracts (previously done, however, now being directed towards Advancement activities), and assessing a tax on endowment spending. Mr. Horvath further explained that the Smithsonian has not taken the full one percent draw throughout the Campaign, but instead began at a lower rate and increased as the funding needs increased throughout the Campaign. Similarly, a plan to wind down rather than abruptly eliminate the funding seems prudent, with some of the taxes becoming permanent. Mr. Horvath noted, and Committee members and Secretary Skorton concurred, that the draw on the endowment is not the favored method of funding. Secretary Skorton reminded the Committee of the robust fundraising operations that have now been developed as a result of the Campaign, and the importance of maintaining this progress. The Committee will be updated as future funding plans for Advancement are refined.

POTENTIAL COLLABORATION WITH CARNEGIE LEARNING

Mr. Horvath briefed the Committee on the potential investment and collaboration opportunities with Carnegie Learning ("Carnegie"). Carnegie is interested in leveraging its existing digital platform to co-develop a science-based K-12 digital curriculum product. The Smithsonian Science Education Center's ("SSEC") current print-only product is poised to benefit from this opportunity. Additionally, many state education agencies currently are planning to adopt science-based digital programs for K-12, and this collaboration could be in the next 18-24

months. Carnegie was founded in 1992 at Carnegie Mellon University, located in Pittsburgh, Pennsylvania, it is currently a standalone private company.

EXECUTIVE SESSION

The Committee then conducted an executive session to discuss the status of the Smithsonian Channel Equity Put Option negotiations. The SNI/SI Network LLC (“Channel”) is a joint venture that was established in 2006 with Showtime Networks Inc. (“Showtime

ADJOURNMENT

There being no further business to consider, the meeting was adjourned at 11:20 p.m.

Respectfully submitted,

John Fahey, Chair