

MINUTES OF THE JANUARY 19, 2022, FINANCE COMMITTEE MEETING

The Finance Committee (“Committee”) of the Board of Regents (“Board”) of the Smithsonian Institution (“Smithsonian”) held a videoconference meeting on January 19, 2022. Participating were Committee Chair Roger W. Ferguson, Jr. and Committee members Representative Doris Matsui, John Fahey, Franklin Raines, and Kathryn Hall.

Also present by invitation of the Committee were Chief of Staff to the Secretary Greg Bettwy; Associate General Counsel Craig Blackwell; Controller, Office of Finance and Accounting Jennifer Case; Under Secretary for Administration Ronald Cortez; Deputy Chief of Staff to the Regents Kate Forester; Special Assistant to the Regents Mallory Gianola (recorder); Director of Trust Resources, Office of Planning, Management, and Budget Rick Haas; Inspector General Cathy Helm; Director of Federal Resources, Office of Planning, Management, and Budget Ken Johnson; Chief Financial Officer Janice Lambert; President of Smithsonian Enterprises Carol LeBlanc; Assistant Secretary for Communications and External Affairs and Chief Marketing Officer Julissa Marengo; Deputy Secretary and Chief Operating Officer Meroë Park; Director of the Office of Government Relations Vernon Simms; Assistant Secretary for Advancement Robert Spiller; Director of Operations for Representative Matsui, Nora Taktajian; and Chief of Staff to the Regents Porter Wilkinson.

CALL TO ORDER

Committee Chair Roger Ferguson called the meeting to order at 10:00 a.m. and reviewed the agenda. He welcomed Ron Cortez to his first Committee meeting in his new role as Under Secretary for Administration. Mr. Ferguson also recognized Doug Hall, who served as Acting Under Secretary for Administration during the executive search period.

APPROVAL OF THE AUGUST 26, 2021, COMMITTEE MEETING MINUTES

Upon motion duly made and seconded, the minutes of the August 26, 2021, Committee meeting were approved without modification.

FISCAL YEAR 2021 YEAR-END FINANCIAL RESULTS

Chief Financial Officer Janice Lambert reviewed the fiscal year 2021 financial results, following the close of the fiscal year on September 30, 2021. The Smithsonian received \$1,750.7 million in total revenue for fiscal year 2021, which included \$1,032.7 million from federal appropriations. Total revenue was 10 percent above budget, which was driven primarily by a \$200 million donation from Jeff Bezos for the National Air and Space Museum. Operating obligations and expenses for the period totaled \$1,499.2 million and included the spending of \$159.3 million appropriated funds carried forward from fiscal year 2020. Total obligations and expenses were six (6) percent below budget due to reduced spending during COVID-19. Ms. Lambert also reported that both the total revenue of \$59.1 million and expenses of \$81.1 million for the Central Trust fund were favorable compared to the budget. Revenue exceeded the budget by three (3) percent and expenses were four (4) percent under budget due to lapsed salaries and reduced spending attributed to COVID-19. The Central Trust net loss was \$22.1 million, an 18 percent improvement over the budget. In addition, Ms. Lambert highlighted the schedule and funding of the

Smithsonian's ongoing major capital projects, noting the impact of the COVID-19 shutdown. Ms. Lambert concluded that the Smithsonian's net operating gain for the period totaled \$144.3 million. No material, unanticipated expenses were reported during the course of fiscal year 2021.

SMITHSONIAN ENTERPRISES UPDATE

President of Smithsonian Enterprises Carol LeBlanc reviewed the financial performance of Smithsonian Enterprises ("SE") and updated the Committee on the major financial impacts to SE business activities due to the COVID-19 pandemic. As anticipated, SE revenues performed below budget for fiscal year 2021. Museum closures and travel restrictions significantly impacted SE's retail and travel businesses in fiscal years 2020 and 2021. Total revenue and net gain for fiscal year 2021 totaled \$70.7 million and \$4.7 million, respectively. The SE net gain distribution to the Central Trust was unfavorable, consequently increasing the Central Trust Deficit by \$4.5 million. Total revenue and net gain for fiscal year 2022 is forecasted at \$105.6 million and \$14.4 million, respectively, and assumes that travel restrictions will be lifted, and retail business will increase as museums reopen. SE will continue to invest in ecommerce and online point-of-sale fundraising in fiscal year 2022.

CENTRAL TRUST DEFICIT REDUCTION

The Committee discussed the Central Trust deficit and provided an update on the mitigation strategies identified by Smithsonian leadership to address the financial impact of the COVID-19 pandemic on the Institution's Trust budget and the underlying Central Trust annual operating deficit. Ms. Lambert noted that the deficits are not sustainable and represent a risk to the future operations of the Smithsonian. The Institution is moving forward with several deficit reduction strategies and has formed a working group to further evaluate additional reduction strategies. Immediate next steps include reducing Central Trust spending and expenses and enhancing revenue generating opportunities to increase revenue.

FISCAL YEAR 2022 FEDERAL APPROPRIATION UPDATE

Director of Federal Resources, Office of Planning, Management, and Budget Ken Johnson briefed the Committee on the fiscal year 2022 federal appropriation. Mr. Johnson informed the Committee that the Smithsonian is operating under a Continuing Resolution ("CR") until February 18, 2022. The CR provides funding for Smithsonian operations and facilities projects at the same rate as the prior year through the same period. The Smithsonian requested \$1,102.0 million in fiscal year 2022, which is \$69.3 million above the fiscal year 2021 enacted amount, and includes \$872.0 million for Salaries and Expenses, and \$230.0 million for Facilities Capital. The fiscal year 2022 request also included a total of \$7.5 million to support the two new Smithsonian museums: \$4.0 million in Salaries and Expenses for administration and other staff support and \$3.5 million in Facilities Capital to support site selection and environmental impact studies. The House completed floor action on the fiscal year 2022 spending bill on July 29, 2021. The Senate Appropriations Committee completed its markup on October 18, 2021, with no changes to the Smithsonian's request, but had not taken the measure for Senate floor action.

FISCAL YEAR 2023 FEDERAL BUDGET REQUEST TO CONGRESS

Mr. Johnson also reviewed the fiscal year 2023 federal budget request to Congress. The federal budget is normally due to Congress in early February, however, due to the delayed appropriations for fiscal year 2022, the Office of Management and Budget (“OMB”) deferred the “Passback” for fiscal year 2023. The fiscal year 2023 budget request pending OMB Passback will enable the Institution to provide innovative and important research; expand digital support and education programs; strengthen collections stewardship; improve security and overall infrastructure; and provide the required funding for two new museums. Once the OMB “Passback” process is complete, the Finance Committee will review the final fiscal year 2023 budget request for recommendation to the Board of Regents for approval.

ADJOURNMENT

There being no further business to consider, and with no request for an executive session, the meeting was adjourned at 11:16 a.m.

Respectfully submitted,

Roger W. Ferguson, Jr., Chair