

MINUTES OF THE MAY 11, 2020, FINANCE COMMITTEE VIDEOCONFERENCE MEETING

The Finance Committee (“Committee”) of the Board of Regents (“Board”) of the Smithsonian Institution (“Smithsonian”) held a videoconference meeting on May 11, 2020. Participating were Committee Chair Roger W. Ferguson, Jr. and Committee members Representative Doris Matsui, John Fahey, and Kathryn Hall.

Also present by invitation of the Committee were Chief of Staff to the Secretary Greg Bettwy; Associate General Counsel Craig Blackwell; Chief Investment Officer Amy Chen; Acting Director of the Office of Finance and Accounting Vincent DeVito; Deputy Chief of Staff to the Regents Kate Forester; Special Assistant to the Regents Mallory Gianola (recorder); Associate Director of the Office of Planning, Management, and Budget Rick Haas; Acting Deputy Under Secretary Finance and Administration Doug Hall; Inspector General Cathy Helm; Acting Director of the Office of Planning, Management, and Budget Ken Johnson; President of Smithsonian Enterprises Carol LeBlanc; Liaison to Senator David Perdue, Stephanie Lightfoot; General Counsel Judith Leonard; Assistant Secretary for Communications and External Affairs and Chief Marketing Officer Julissa Marengo; Under Secretary for Administration Mike McCarthy; Manager of General Accounting and Reporting Martha Newton; Deputy Secretary and Chief Operating Officer Meroë Park; Director of the Office of Government Relations Vernon Simms; Assistant Secretary for Advancement Rob Spiller; 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 Deputy Secretary and Chief Operating Officer Meroë Park and Director of the Office of Government Relations Vernon Simms to their first Finance Committee meeting.

APPROVAL OF THE JANUARY 9, 2020, MEETING MINUTES

Upon motion duly made and seconded, the minutes of the January 9, 2020, meeting were approved without modification.

FISCAL YEAR 2020 FINANCIAL RESULTS

Under Secretary for Administration Mike McCarthy reviewed the fiscal year 2020 financial results as of March 31, 2020. The enacted appropriations for fiscal year 2020 were passed in December 2019, providing \$1,047.4 million for the Smithsonian, including \$793.7 million for Salaries and Expenses and \$253.7 million for Facilities Capital.

The Committee reviewed the status of revenues and expenses, as well as the schedule and funding for major capital projects. Mr. McCarthy briefed the Committee on the current and projected financial impact resulting from the COVID-19 (Coronavirus) pandemic. As anticipated,

Smithsonian revenues are below budget due to suspended retail activities, restaurant closures, cancelled special events, and postponed public programs affected by the museum closures and efforts to prevent the spread of COVID-19. Congress appropriated an additional \$7.5 million in direct federal support to cover the purchase of personal protective equipment, critical supplies for increased cleaning protocols, IT infrastructure, and to bolster the rapid transition to an enhanced telework model.

Mr. McCarthy outlined the immediate mitigation efforts taken by the Institution, including a mandatory 10 percent one-year pay reduction for senior level Trust employees, elimination of year-end pay increases and cash awards for senior level Trust employees, a 10 percent reduction in central discretionary costs, and a hiring freeze for certain Trust positions. The Committee also discussed potential actions under review to further mitigate the financial impact of COVID-19 and the effects on the central Trust fund balance.

FISCAL YEAR 2021 FEDERAL APPROPRIATIONS

Acting Director of the Office of Planning, Management and Budget Ken Johnson then updated the Committee on the fiscal year 2021 federal budget request. The Institution submitted its fiscal year 2021 federal budget request to Congress on February 10, 2020. Mr. Johnson reported that the House Interior Appropriations Subcommittee hearing scheduled for March 3, 2020, was postponed due to the COVID-19 national health crisis. The Institution will continue to work with Congress to fully fund the \$1.110 billion request. The total funding request includes \$820.3 million for Salaries and Expenses and \$290 million for Facilities Capital. The Smithsonian's request represents an increase of \$62.9 million above the fiscal year 2020 enacted budget amount. This amount reflects increases for mandatory cost escalations; collection and exhibition support; education initiatives; collections management and animal care funding; facilities maintenance; and major capital projects at the National Air and Space Museum, Smithsonian Institution Building, National Zoological Park, Hirshhorn Museum and Sculpture Garden, National Museum of Natural History, National Museum of American History, and the Smithsonian's Museum Conservation Institute Suitland Collections Center.

FISCAL YEAR 2022 FEDERAL BUDGET REQUEST PRIORITIES

Mr. Johnson continued with an update on the fiscal year 2022 federal budget request to Congress. The fiscal year 2022 federal budget request is due to the Office of Management and Budget ("OMB") on September 9, 2020. Mr. Johnson informed the Committee that OMB has not yet released formal guidance on the fiscal year 2022 budget, and due to 2020 being an election year, the timeline may change for Passback decisions. The fiscal year 2022 budget priorities include Salaries and Expenses, with an anticipated 2.0% pay raise; research and museum program infrastructure, including post COVID-19 requirements, virtual education initiatives, collection digitization and scholarship, and research initiatives; and facilities maintenance, security, and support. The Facilities Capital priorities include the continued rebuilding of the National Air and Space Museum and additional projects at the Smithsonian Castle, Arts and Industries Building, Hirshhorn Museum and Sculpture Garden, National

Museum of Natural History, National Zoological Park, and the Pod 6 collections storage collaboration with the National Gallery of Art at the Smithsonian's Museum Conservation Institute Collections Center in Suitland, Maryland.

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

VOTED that the Finance Committee recommends that the Board of Regents approves the fiscal year 2022 federal budget priorities proposed by the Secretary.

FISCAL YEAR 2021 ENDOWMENT PAYOUT

Next, Mr. McCarthy reviewed the fiscal year 2021 Endowment payout recommendation. Historically, the Smithsonian's policy has been to pay out five percent of the average market value of the endowment for the last five calendar years to support programs and activities, and an additional annual payout of up to one percent to support advancement activity. Smithsonian management recommended the continuation of a five percent payout to support trust programmatic activity, and a payout of 0.5 percent to support advancement activity, with projected payouts of approximately \$78.1 million and \$3.3 million, respectively.

Upon motion duly made and seconded, the Committee unanimously approved the following motion:

VOTED that the Finance Committee recommends that the Board of Regents approves a five percent payout from the Smithsonian Endowment in fiscal year 2021 to support programmatic activity. The Finance Committee further recommends a 0.5 percent payout from the Smithsonian Endowment in fiscal year 2021 to support advancement activity. The payout shall be calculated against the trailing five-year average market value of the Smithsonian Endowment.

UPDATE ON EXTERNAL DEBT

Mr. McCarthy then reviewed the status of the Smithsonian's external debt. The Smithsonian's current external debt is at approximately \$93.9 million, which consists of a fixed-rate debt amount of \$16.4 million and a variable-rate debt of \$77.5 million. Mr. McCarthy also updated the Committee on the Smithsonian's line of credit, cash holdings, money market holdings, agency bonds, investment earnings, and long-term debt interest expense.

Mr. McCarthy briefed the Committee on the status of the Smithsonian's credit rating from both Moody's Investor Services and Standard & Poor's Financial Services. The Smithsonian's Moody's rating was reaffirmed at an Aaa/Stable rating on March 19, 2020. The Smithsonian's S&P's

rating was reaffirmed at an AAA/Stable rating on March 20, 2020. Obligations rated Aaa or higher are judged to be of the highest quality.

SMITHSONIAN CONSOLIDATED ADMINISTRATIVE HEADQUARTERS

Mr. McCarthy then led the Committee’s discussion on the purchase of the proposed Smithsonian consolidated administrative headquarters. In December 2019, the President signed the Further Consolidated Appropriations Act 2020 (HR 1865), which included language allowing for financing the purchase of the Capital Gallery Building for the Smithsonian’s Consolidated Administrative Headquarters. Mr. McCarthy reported that no significant issues were identified through the environmental and due diligence processes. The Committee was briefed on the final negotiated terms and the financing and bond options available to the Smithsonian for the purchase of the Capital Gallery building.

Upon motion duly made and seconded, the Committee unanimously approved the following motion:

VOTED that the Finance Committee, having been consulted by the Secretary regarding the principal final terms negotiated for the purchase of a portion of Capital Gallery (“Building”), and in accordance with the Action of the Board of Regents on June 10, 2019, approves the Secretary or his designee to secure financing up to \$300M for the purchase of the Building, inclusive of the costs of moving to, and building out, the newly acquired space.

EXECUTIVE SESSION

The Committee entered an executive session at approximately 11:14 a.m. to discuss a business matter.

ADJOURNMENT

With no further business to discuss, the meeting was adjourned at approximately 11:20 a.m.

Respectfully submitted,

Roger W. Ferguson, Jr., Chair