

## **MINUTES OF THE MAY 17, 2018, FINANCE COMMITTEE MEETING**

The Finance Committee (“Committee”) of the Board of Regents (“Board”) of the Smithsonian Institution (“Smithsonian”) held a meeting on May 17, 2018, at the Smithsonian Castle in Washington, D.C. Participating were Committee Chair John Fahey and Committee members Roger W. Ferguson, Jr.\* and Timothy O’Neill.\*

Also present by invitation of the Committee were Secretary David Skorton; Chief of Staff to the Secretary Greg Bettwy; Associate General Counsel Craig Blackwell; Provost/Under Secretary for Museums and Research John Davis; Liaison to Representative Doris Matsui Julie Eddy;\* Deputy Chief of Staff to the Regents Kate Forester; Director of the Office of Finance and Accounting Jean Garvin; Liaison to Senator Perdue Lauren Hancock;\* Inspector General Cathy Helm;\* Under Secretary for Finance and Administration/Chief Operating Officer Albert Horvath; General Counsel Judith Leonard; 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 10:01 a.m.

### **APPROVAL OF THE JANUARY 18, 2018, COMMITTEE MEETING MINUTES**

Upon motion duly made and seconded, the minutes of the January 18, 2018, Committee meeting were approved without modification.

### **FISCAL YEAR 2018 FINANCIAL RESULTS TO DATE**

Under Secretary for Finance & Administration/Chief Operating Officer Albert Horvath reviewed the fiscal year 2018 financial results as of March 31, 2018. The Smithsonian began the fiscal year operating under a continuing resolution (“CR”) through March 23, 2018. The enacted appropriations for fiscal year 2018 are \$731.4 million for Salaries and Expenses and \$311.9 million for Facilities Capital, including \$198 million for the National Air and Space Museum (“NASM”) revitalization.

Mr. Horvath shared his evaluation of the quarterly financial dashboard, noting that overhead recovery and expenses for sponsored projects is tracking lower than prior years, due in large part to sponsored research grants, construction contracts, and retail activities impacted by major revitalization projects. He also conveyed that with respect to assets and liabilities, the Endowment’s total assets are valued at \$1.551 billion, representing a 10.0 percent increase since March 31, 2017. Mr. Horvath reported that Smithsonian Enterprise’s primary revenue is performing lower than expected for the year, while expenses remain within budgetary guidelines. Total revenue for the period totaled \$74.1 million, an eight percent decrease, due to restaurant closures and lower retail sales resulting from ongoing major capital projects.

*\*participated by telephone*

Next, Mr. Horvath highlighted several major capital projects, including projects at the National Museum of Natural History, the National Zoological Park (“NZN”), and the revitalization at the National Air and Space Museum (“NASM”). The NASM building envelope and infrastructure revitalization is currently behind schedule due to the impact on construction funding from the uncertainty with fiscal year 2018 funding. The final design was submitted on January 31, 2018, with a budget cap of \$650 million.

#### **FISCAL YEAR 2019 FEDERAL BUDGET UPDATE**

Mr. Horvath then updated the Committee on the fiscal year 2019 federal budget request to Congress. In January 2018, the Smithsonian requested a total of \$957.4 million for its fiscal year 2019 federal budget, which was inclusive of mandatory cost escalations and the facilities capital needed for the NASM revitalization and critical needs at the NZP, Hirshhorn Museum and Sculpture Garden (“HSMG”), Smithsonian Institution Building (“Castle”), and collections facilities.

Mr. Horvath pointed out that the President’s fiscal year 2019 budget submission was delivered to Congress on February 5, 2018. On April 12, Secretary David Skorton testified on the Smithsonian’s fiscal year 2019 federal budget request before the Subcommittee on Interior, Environment, and Related Agencies of the Committee on Appropriations, in the U.S. House of Representatives. The Committee discussed how the Institution can continue to work closely with the Administration and Congressional committees for the mission and priorities of the Smithsonian, amidst the challenging landscape of fundraising for facilities projects.

#### **FISCAL YEAR 2020 FEDERAL BUDGET PRIORITIES**

Mr. Horvath continued with an update on the fiscal year 2020 federal budget request to Congress. The fiscal year 2020 federal budget request is due to the Office of Management and Budget (“OMB”) on September 10, 2018. OMB has not released formal guidance on the budget, but Smithsonian leadership requested that the Committee review the initial budget priorities. The fiscal year 2020 priorities are consistent with past years and include salaries and expenses, with an anticipated 2.0% pay raise; research and museum program infrastructure, including collection care initiatives, collection digitization, collection scholarship, and research initiatives; and facilities maintenance, security, and support. The facilities capital priorities include the revitalization of NASM and additional projects at HSMG, NZP, the Castle, the Udvar-Hazy Center, and initial planning work for the South Mall Campus Master Plan.

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 approves the fiscal year 2020 federal budget priorities proposed by the Secretary.

## FISCAL YEAR 2019 ENDOWMENT PAYOUT

Mr. Horvath reviewed the fiscal year 2019 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 2012, an additional annual payout of up to one percent has been added to fund the costs of the National Campaign. Smithsonian management recommended the continuation of a five percent payout to support Trust programmatic activity, and a decreased annual payout of 0.75 percent to support advancement activity. Mr. Horvath reminded the Committee that a plan to wind down rather than abruptly eliminate the funding for advancement was discussed at the August 2017 Committee meeting, and a formal plan is expected to be presented to the Board in September. The projected payout to support programmatic activity for fiscal year 2019 is \$69.7 million and the advancement financing payout is projected at \$4.6 million.

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 approves a five percent payout from the Smithsonian Endowment in fiscal year 2019 to support programmatic activity. The Finance Committee further recommends up to an additional 0.75 percent payout from eligible Smithsonian Endowment funds in fiscal year 2019 to support advancement activity. The payout shall be calculated against the trailing five-year average market value of the Smithsonian Endowment.

## NEW QUASI-ENDOWMENT

The Board of Regents is responsible for approving the establishment of quasi-endowments. The source of the requested action is general working capital and not a donor contribution, and is therefore being presented to the Finance Committee for its consideration. 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 approves the creation of an unrestricted quasi-endowment in the amount of \$10,000,000 from non-endowed reserves to support core operations of the Institution.

## INITIAL STRATEGIC FINANCIAL ANALYSIS

Mr. Horvath then presented an initial overview of the Smithsonian's financial position, existing challenges, and a first set of potential actions to ensure stability and resources for the implementation of the Strategic Plan. The key strategies focused on the following principles: maintaining federal operating support and seeking increases for key priorities, creating a larger pool of flexible resources to support implementation of the Strategic Plan, growing net revenue from Smithsonian Enterprises activities, and continuing to grow fundraising results. The initial

analysis focused mainly on federal operating support, revenue enhancement, and Smithsonian Enterprises. A deeper analysis of advancement activities and sponsored projects revenues will be presented to the Committee at a future meeting.

#### **MOODY'S DEBT RATING UPDATE**

Mr. Horvath updated the Committee on the status of the Smithsonian's credit rating from Moody's Investors Service. The Smithsonian's Moody's rating was reaffirmed at an Aaa/Stable rating on February 28, 2018. Obligations rated Aaa are judged to be of the highest quality.

#### **ADJOURNMENT**

There being no request for an executive session, and with no further business to consider, the meeting was adjourned at 11:26 a.m.

Respectfully submitted,

John Fahey, Chair