

MINUTES OF THE MAY 16, 2023, FINANCE COMMITTEE MEETING

The Finance Committee (“Committee”) of the Board of Regents (“Board”) of the Smithsonian Institution (“Smithsonian”) held a videoconference meeting on May 16, 2023. Participating were Committee Chair Franklin Raines and Committee members John Fahey; Roger W. Ferguson, Jr.; and Kathryn Hall.

Also present by invitation of the Committee were Chief of Staff to the Secretary Greg Bettwy; Chief Investment Officer Amy Chen; Under Secretary for Administration Ronald Cortez; Acting General Counsel Farleigh Earhart; 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; Acting Controller Hareesh Vayal; Inspector General Cathy Helm; President of Smithsonian Enterprises Carol LeBlanc; Chief of Staff for Representative Matsui, Jeremy Marcus; Assistant Secretary for Communications and External Affairs and Chief Marketing Officer Julissa Marengo; Director of Federal Resources, Office of Planning, Management, and Budget Andrew Mosley; Deputy Secretary and Chief Operating Officer Meroë Park; Assistant Secretary for Advancement Robert Spiller; Chief of Staff to the Regents Porter Wilkinson; and Senior Advisor to the Chief Financial Officer Michael Witbeck.

CALL TO ORDER

Committee Chair Frank Raines called the meeting to order at 10:00 a.m. and reviewed the agenda. Mr. Raines informed the Committee of organizational changes within the Office of Finance and Accounting, including the departure of Controller Jennifer Case.

APPROVAL OF THE JANUARY 13, 2023, COMMITTEE MEETING MINUTES

Upon motion duly made and seconded, the draft minutes of the January 13, 2023, Committee meeting were approved.

FISCAL YEAR 2023 FINANCIAL RESULTS TO DATE

Under Secretary for Administration Ron Cortez reviewed the mid-year financial results for fiscal year 2023 as of March 31, 2023. Mr. Cortez reminded the Committee that the appropriations enacted in December 2022 for fiscal year 2023 were \$30 million less than the Smithsonian’s budget request to Congress, and financial revenue plans were adjusted to reflect the reduction to the fiscal year 2023 budget. The Committee received updates on the current status of revenues and expenses, as well as the projected budget outlook for the remainder of the fiscal year. Total revenues for the period totaled \$969.0 million, and total expenses for the period totaled \$1,089.0 million, which include the spending of funds carried forward from fiscal year 2022. Mr. Cortez noted there have been no material unanticipated expenses during the course of fiscal year 2023. The Central Trust surplus outlook for FY 2023 is forecasted at \$2.1 million, which is a \$14.6 million cumulative improvement from budget.

SMITHSONIAN ENTERPRISES UPDATE

President of Smithsonian Enterprises Carol LeBlanc reviewed the financial performance of Smithsonian Enterprises (“SE”) for fiscal year 2023. In the financial year to date, revenue performance has been stronger than expected, driven by increased store sales and the Smithsonian’s travel business. Ms. LeBlanc noted that e-commerce revenues performed on budget for fiscal year 2023 and saw an 85% improvement over the prior year. Revenue and net gain were above budget for the period by \$3.3 million and \$5.8 million, respectively. Total revenue and net gain for fiscal year 2023 is forecasted at \$150.7 million and \$35.6 million, respectively, and assumes that retail business will increase during the peak museum visitor season on the National Mall and travel will continue to increase in the last two quarters of the fiscal year. The Committee also received an update on the Smithsonian Journeys new travel provider, G Adventures, and discussed engaging a strategic consulting firm to help identify and prioritize new and enhanced revenue opportunities.

QUASI-ENDOWMENT DRAW UPDATE

The Committee received an update on the quasi-endowment draw. In August 2022, the Committee approved the Secretary’s request to withdraw up to \$30 million from the Central Trust Quasi-Endowment to be used to fund 11 Secretarial strategic priorities focused primarily in three categories: digital transformation, resourcing investment opportunities, and accelerating the Secretary’s strategic priorities. The discussion focused on the fiscal year 2023 status of each investment proposal and the current five-year spending plan. As of March 31, 2023, \$7.4 million has been approved for distribution for fiscal year 2023.

FISCAL YEAR 2024 ENDOWMENT PAYOUT

Next, Mr. Cortez presented the fiscal year 2024 Endowment payout recommendation. Historically, the Smithsonian’s policy has been to pay out five percent of the trailing 20-quarter average market value of the Endowment 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 \$103.8 million and \$4.2 million, respectively.

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 5.0% payout from the Smithsonian Endowment in fiscal year 2024 to support programmatic and administrative activity. The Finance Committee further recommends up to 0.5% payout from the Smithsonian Endowment in fiscal year 2024 to support advancement activity. The payout shall be calculated based on the trailing 20-quarter average market value of the Smithsonian Endowment Fund.

FINANCIAL STRATEGY AND CHIEF FINANCIAL OFFICER REPORT

The Committee received an update on the Central Trust financial strategy as well as other important topics, including five-year projections, an overview on the Capital Gallery debt, and an update on the Institution's external debt. Mr. Cortez noted that over the past year the financial strategy reports have focused on addressing the structural deficit, the cumulative deficit, and funding strategic initiatives. The Committee will work with management on debt management, developing a five-year financial plan, and prioritizing and reviewing financial controls, including the creation of a Financial Controls Internal Work Group.

The Committee also performed its annual review of the status of the Institution's external debt. The Smithsonian's current external debt is approximately \$378 million, which is primarily due to the purchase of the Smithsonian's consolidated administrative headquarters ("Capital Gallery Building").

REPAYMENT OF NASM BOND, 2033

Under Secretary for Administration Ron Cortez and Chief Investment Officer Amy Chen led a discussion on the potential creation of a quasi-endowment fund with the funds that were collected for the repayment of the debt for the National Air and Space Museum's Udvar-Hazy Center. The quasi-endowment fund would support Central Trust general operations with the annual payout proceeds, while the original principal will remain invested as a quasi-endowment. Beginning in 2031, approximately one-third of the balance will be withdrawn per year from the Endowment Fund before paying the entire debt in 2033.

Mr. Raines noted that in most circumstances, requests for the establishment of quasi-endowments are presented to the Advancement Committee. However, since the funding for the requested action is not related to donor funds, the request is 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 creates a quasi-endowment for the benefit of the OUSA to support general operations. Further, the Finance Committee recommends that the Board of Regents authorizes the transfer of the \$74,990,000 identified for this purpose.

FISCAL YEAR 2025 FEDERAL BUDGET PRIORITIES

Director (Federal) of the Office of Planning, Management, and Budget Andrew Mosley then gave an update on the fiscal year 2025 federal budget priorities. The budget priorities, which support the Smithsonian's strategic objectives, are used as the basis for formulating the Smithsonian's fiscal year 2025 federal budget that is due to the Office of Management and Budget ("OMB") in

September 2023. The Committee reviewed the initial budget priorities for both Salaries and Expenses and Facilities Capital. Budget priorities include non-discretionary cost increases; improving the facilities maintenance backlog; major capital projects; and strategic priorities and program increases, including funding required for the two new Smithsonian museums, expanding the digital transformation, supporting education outreach, advancing science by increasing research and scientific collaborations, reinforcing the Smithsonian’s status as a trusted source, and promoting nimble administration.

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 2025 federal budget priorities proposed by the Secretary.

ADJOURNMENT

There being no further business to consider, and with no request for an executive session, the meeting was adjourned at 11:51 a.m.

Respectfully submitted,

Franklin Raines, Chair

EMAIL BALLOT

By email ballot completed on February 13, 2023, the Finance Committee voted to approve the Fiscal Year 2024 Federal Budget Request to Congress, which required approval prior to the next scheduled Committee meeting.

VOTED that the Finance Committee recommends that the Executive Committee, on behalf of the Board of Regents pursuant to Board Bylaw 3.01, authorize the Secretary to submit to Congress a federal budget request for appropriated funds for fiscal year 2024 as part of the President’s budget in the amount of \$1,241.0 million, as negotiated with the Office of Management and Budget (OMB) 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.