

MINUTES OF THE MAY 3, 2022, FINANCE COMMITTEE MEETING

The Finance Committee (“Committee”) of the Board of Regents (“Board”) of the Smithsonian Institution (“Smithsonian”) held a videoconference meeting on May 3, 2022. Participating were Committee Chair Roger W. Ferguson, Jr. and Committee members Representative Doris Matsui, John Fahey, Kathryn Hall, and Franklin Raines.

Also present by invitation of the Committee were Director of Smithsonian Facilities Nancy Bechtol; Chief of Staff to the Secretary Greg Bettwy; Associate General Counsel Craig Blackwell; Controller, Office of Finance and Accounting Jennifer Case; Chief Investment Officer Amy Chen; 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; Chief of Staff for Representative Matsui, Jeremy Marcus; Assistant Secretary for Communications and External Affairs and Chief Marketing Officer Julissa Marengo; Deputy Secretary and Chief Operating Officer Meroë Park; Deputy Director of Construction Division, Smithsonian Facilities Derek Ross; Director of the Office of Government Relations Vernon Simms; Assistant Secretary for Advancement Robert 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. Mr. Ferguson recognized the upcoming retirement and final Finance Committee meeting for Ken Johnson, who has served as the Smithsonian’s Federal Budget Director since 2004. The Committee thanked Ken for helping to secure significant annual increases in federal funding to support the Institution's core operations and strategic priorities over the last 18 years.

APPROVAL OF THE JANUARY 19, 2022, COMMITTEE MEETING MINUTES

Upon motion duly made and seconded, the draft minutes of the January 19, 2022, Committee meeting were approved without modification.

FISCAL YEAR 2022 FINANCIAL RESULTS TO DATE

Chief Financial Officer Janice Lambert reviewed the fiscal year 2022 financial data as of March 31, 2022. Ms. Lambert reminded the Committee that the enacted appropriations for fiscal year 2022 were \$39.8 million less than the Smithsonian’s budget request to Congress, and financial revenue plans were adjusted to reflect the reduction to the FY 2022 budget. The Committee received updates on the current status of revenues and expenses, as well as the projected Central Trust budget outlook for the remainder of the fiscal year. Total revenue for the period totaled \$768.0 million, and total expenses for the period totaled \$931.9 million, which include the spending of funds carried forward from fiscal year 2021. Ms. Lambert noted there have been no material unanticipated expenses during the course of fiscal year 2022. As anticipated, the revenue-generating business activities and overall Central Trust fund balance have been negatively affected

by the continued impacts of the COVID-19 pandemic. The Central Trust deficit outlook for FY 2022 is forecasted at (\$19.5) million, which is a \$3.6 million improvement from budget.

SMITHSONIAN ENTERPRISES UPDATE

President of Smithsonian Enterprises Carol LeBlanc reviewed the financial performance of Smithsonian Enterprises (“SE”) for fiscal year 2022. In the financial year to date, retail and e-commerce performance has been stronger than expected, driven by increased store sales and the Smithsonian’s new online platform. Ms. LeBlanc noted that, as of March 31, 2022, media and travel revenues performed below budget. Total revenue and net gain for the period totaled \$44.8 million and \$4.5 million, respectively. Total revenue and net gain for fiscal year 2022 is forecasted at \$109.7 million and \$18.0 million, respectively, assuming travel resumes to normal levels the last two quarters of the fiscal year, and the retail business continues to increase with the reopening of the Smithsonian museums. The Committee also discussed the Smithsonian Channel and received an update on the Smithsonian’s non-fungible token (“NFT”) commercial pilot.

FINANCIAL STRATEGY

The Committee received an update on the Central Trust and an overview of two strategies identified by Smithsonian leadership to reduce the ongoing Central Trust annual structural deficit, help address the Central Trust cumulative deficit, and fund strategic initiatives. The discussion focused on the history of the Central Trust funding sources and uses over the last five years and best practices for cash management and investing. The Office of the Under Secretary for Administration and Chief Financial Officer will provide additional information supporting the proposed strategy to implement an extraordinary draw against the Central Trust endowments to support Smithsonian strategic priorities for the Finance Committee’s consideration in August, before presentation to the full Board.

FISCAL YEAR 2023 ENDOWMENT PAYOUT

Next, Controller for the Office of Finance and Accounting Jennifer Case presented the fiscal year 2023 Endowment payout recommendation. Historically, the Smithsonian’s policy has been to pay out 5 percent of the trailing 20-quarter average market value of the endowment to support programs and activities, and an additional annual payout to support advancement activity. Smithsonian management recommended the continuation of a 5 percent payout to support trust programmatic activity, and a payout of 0.5 percent to support advancement activity, with projected payouts of approximately \$93 million and \$4 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 2023 to support programmatic activity. The Finance Committee further recommends up to 0.5% payout from the Smithsonian Endowment in fiscal year 2023 to support advancement activity. The payout shall be calculated based on the trailing 20-quarter average market value of the Smithsonian Endowment Fund.

FISCAL YEAR 2022 AND 2023 FEDERAL APPROPRIATION UPDATE

Director of Federal Resources, Office of Planning, Management, and Budget Ken Johnson briefed the Committee on the fiscal year 2022 and 2023 federal appropriations. The final appropriation for the Smithsonian for fiscal year 2022, which began October 1, 2021, is \$1,062.2 million, which is 2.9% above the fiscal year 2021 enacted amount and includes \$852.2 million for Salaries and Expenses and \$210 million for Facilities Capital. The Smithsonian delivered its \$1,174.5 million fiscal year 2023 President's Budget to Congress on March 29, 2022. Mr. Johnson informed the Committee that staff of the House and Senate Appropriations and Authorizing committees had been briefed on the Smithsonian's fiscal year 2023 budget request to Congress, and the Secretary will testify at a budget hearing scheduled with the House Interior Appropriations Subcommittee on May 12, 2022.

SMITHSONIAN FEDERAL CAPITAL PROGRAM AND DEFERRED MAINTENANCE

Director of Smithsonian Facilities Nancy Bechtol and Deputy Director of Smithsonian Facilities Construction Division Derek Ross briefed the Committee on the Facilities Capital program and deferred maintenance costs. Ms. Bechtol reviewed the obligated and projected funds for the Smithsonian's Capital Program for fiscal years 2010 through 2025, as well as the costs of new construction and revitalization. Mr. Ross reviewed the Smithsonian's deferred maintenance status and stressed the impact of the funding gap between federal appropriations and the Institution's needs. The Committee reviewed the proposed funding goal to secure \$180 million of federal funds per year for maintenance and \$300 million per year for Facilities Capital to meet the future funding needs of both programs.

FISCAL YEAR 2024 FEDERAL BUDGET PRIORITIES

Mr. Johnson then gave an update on the fiscal year 2024 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 2024 federal budget that is due to the Office of Management and Budget ("OMB") in September 2022. The Committee reviewed the initial budget priorities for both Salaries and Expenses and Facilities Capital. Budget priorities include funding the federal pay raise and non-discretionary cost increases; major capital projects; facilities maintenance; and strategic priorities and program increases, including funding required for the

two new Smithsonian museums, collections stewardship, education and outreach initiatives, and digital transformation associated with creating a Virtual Smithsonian.

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 2024 federal budget priorities proposed by the Secretary.

UPDATE ON EXTERNAL DEBT

To conclude, the Committee performed its annual review of the status of the Institution's external debt and was briefed on plans to obtain a new unsecured revolving \$50.0 million line of credit through Northern Trust Corporation. The Smithsonian's current external debt is approximately \$377.6 million, which consists of a fixed-rate debt amount of \$12.9 million and a variable-rate debt of \$364.7 million, which is primarily due to the purchase of the Smithsonian's consolidated administrative headquarters ("Capital Gallery Building"). Ms. Case also updated the Committee on the Smithsonian's short-term cash holdings and long-term debt interest expense.

ADJOURNMENT

There being no further business to consider, and with no request for an executive session, the meeting was adjourned at 11:59 a.m.

Respectfully submitted,

Roger W. Ferguson, Jr., Chair

EMAIL BALLOT

By email ballot completed on February 17, 2022, the Finance Committee voted to approve the Fiscal Year 2023 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, authorizes the Secretary to submit to Congress a federal budget request for appropriated funds for fiscal year 2023 as part of the President's budget in the amount of \$1,174.5 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.