

MINUTES OF THE AUGUST 21, 2019, FINANCE COMMITTEE MEETING

The Finance Committee (“Committee”) of the Board of Regents (“Board”) of the Smithsonian Institution (“Smithsonian”) held a meeting on August 21, 2019, at the Smithsonian Castle in Washington, D.C. 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 Secretary Lonnie Bunch; Chief of Staff to the Secretary Greg Bettwy; Associate General Counsel Craig Blackwell; Provost and Under Secretary for Museums, Education, and Research John Davis; Deputy Chief of Staff to the Regents Kate Forester; Associate Director of the Office of Planning, Management, and Budget Rick Haas;* Inspector General Cathy Helm; Acting Director of the Office of Planning, Management, and Budget Ken Johnson; President of Smithsonian Enterprises Carol LeBlanc; General Counsel Judith Leonard; Acting Under Secretary for Finance and Administration/Chief Operating Officer Mike McCarthy; Senior Government Relations Officer Maura Reidy; 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.

APPROVAL OF THE MAY 13, 2019, COMMITTEE MEETING MINUTES

Upon motion duly made and seconded, the minutes of the May 13, 2019, Committee meeting were approved without modification.

FISCAL YEAR 2019 FINANCIAL RESULTS

Acting Under Secretary for Finance and Administration/COO Mike McCarthy updated the Committee on the Smithsonian’s fiscal year 2019 performance, based on financial data gathered through June 30, 2019. Mr. McCarthy reported that the Smithsonian’s primary revenue sources of Federal appropriations, philanthropic giving, sponsored projects, and investment income are performing on or ahead of budget. The Institution began the fiscal year operating under a Continuing Resolution (“CR”) through February 15, 2019. The Smithsonian received \$1,043.5 million in Federal appropriations for fiscal year 2019, of which \$740 million was designated for Salaries and Expenses and \$303.5 million for Facilities Capital. Philanthropic giving remains consistent and fundraising progress continues towards the \$220 million annual goal. Sponsored projects are performing on budget for fiscal year 2019. Smithsonian Enterprises (“SE”) revenues continue to be below budget due to declining media business, restaurant closures, and lower retail sales resulting from revitalization at the National Air and Space Museum (“NASM”) and other capital projects. Expenses remain on or below budget, with the exception of the NASM revitalization, which was impacted by the government shutdown and the delayed enacted appropriations for fiscal year 2019. There have been no material, unanticipated expenses during the course of the fiscal year.

**Participated by telephone*

Mr. McCarthy also reviewed the central trust fund balance and projected annual results for fiscal year 2019. The Smithsonian strives to maintain a positive central unrestricted fund balance and end each fiscal year with a net surplus of revenues versus expenditures. The overall fund balance remains positive, but a net loss of \$12.5 million is projected for fiscal year 2019.

FISCAL YEAR 2020 FEDERAL AND TRUST CONSOLIDATED BUDGET

Mr. McCarthy then updated the Committee on the fiscal year 2020 federal budget request to Congress. The Smithsonian requested a total of \$978.3 million for its fiscal year 2020 federal budget, which included \$759.3 million for Salaries and Expenses, and \$219 million for Facilities Capital. The House Interior Appropriations Committee passed the Smithsonian's spending bill with an appropriation of \$1,071.3 million, prior to the President's approval of the spending caps. The Senate will begin its markup of the Smithsonian's spending bill after the summer recess. Mr. McCarthy reported that the Institution will most likely begin fiscal year 2020 operating under a CR.

The Committee discussed the ongoing Facilities Capital appropriation funding needs for major revitalization projects and planning and design for future projects. 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 budget of appropriated funds for fiscal year 2020 when signed into law by the President, the institutional budget for Trust funds for fiscal year 2020 reflected in this report, and authorizes expenditures by the Secretary in accordance therewith. Any material changes in program plans incorporated into this budget shall be made only with the approval of the Board of Regents or its Executive committee.

FISCAL YEAR 2021 FEDERAL BUDGET REQUEST TO OMB

Next, Mr. McCarthy reviewed the timeline for the fiscal year 2021 federal budget request to the Office of Management and Budget ("OMB"). The Committee was asked to recommend that the Board of Regents approve the Smithsonian's budget request for fiscal year 2021. The request is due to OMB on September 9, 2019. The Institution expects to submit to OMB a total budget request for fiscal year 2021 of \$1,154.5 million, which includes \$854.5 million for Salaries and Expenses and \$300 million for Facilities Capital. The fiscal year 2021 budget request is based on maintaining and revitalizing the Smithsonian's aging physical plant; ensuring the safety and security of Smithsonian staff, visitors, and collections; stewarding the collections to preserve and make accessible to visitors and researchers; and sustaining the scholarly workforce.

The Committee discussed potential assistance from Congressional Regents to garner support for the Smithsonian's request for funding and communicate critical themes and priorities. 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 Smithsonian Institution's budget request for appropriated funds for fiscal year 2021 for

presentation to the Office of Management and Budget. Any material changes in program plans incorporated into this budget shall be made only with the approval of the Board of Regents or its Executive Committee.

SMITHSONIAN CHANNEL UPDATE

President of Smithsonian Enterprises Carol LeBlanc updated the Committee on business initiatives for SE. On August 13, 2019, CBS and Viacom, two of the world's leading entertainment companies, announced a definitive agreement to combine in an all-stock merger, creating a combined company: ViacomCBS Inc. Ms. LeBlanc highlighted the potential impacts on the Smithsonian Channel. Ms. LeBlanc informed the Committee that the transaction is expected to close by the end of 2019, pending regulatory and shareholder approvals, including approval by the Federal Trade Commission.

SMITHSONIAN CONSOLIDATED ADMINISTRATIVE HEADQUARTERS

Mr. McCarthy then briefed the Committee on the progress of the consolidated administrative headquarters building. The Smithsonian has provided updates on the project and conducted site visits for its Congressional oversight committees. The Institution is requesting that language be added to the fiscal year 2020 appropriation bill to allow the Smithsonian to proceed with the purchase of the building. Mr. McCarthy also reviewed the Smithsonian's long-term debt issuances and the current rate environment. The Committee explored possible debt strategies for the Institution to accommodate the purchase of the Capital Gallery building.

COMMITTEE CHARTER REVIEW

The Committee performed a provision-by-provision review of its Charter per its mandate to annually review and assess the Charter and evaluate its own performance with respect to the Charter. No modifications to the Charter were proposed.

EXECUTIVE SESSION

The Committee then conducted an executive session to discuss a potential business opportunity to be discussed with the Board during the executive session of the October meeting.

ADJOURNMENT

There being no further business to consider, the meeting was adjourned at 11:50 a.m.

Respectfully submitted,

Roger W. Ferguson, Jr., Chair