

MINUTES OF THE AUGUST 25, 2022, FINANCE COMMITTEE MEETING

The Finance Committee (“Committee”) of the Board of Regents (“Board”) of the Smithsonian Institution (“Smithsonian”) held a videoconference meeting on August 25, 2022. Participating were Committee Chair Roger W. Ferguson, Jr. and Committee members Representative Doris Matsui, John Fahey, Kathryn Hall, and Franklin Raines. Members of the Executive Committee also participated in the meeting, including Board and Executive Committee Chair Steve Case and Vice Chair Risa J. Lavizzo-Mourey.

Also present by invitation of the Committee were Chief of Staff to the Secretary Greg Bettwy; Associate General Counsel Craig Blackwell; Controller in the Office of Finance and Accounting Jennifer Case; Chief Investment Officer Amy Chen; Under Secretary for Administration Ron Cortez; Deputy Chief of Staff to the Regents Kate Forester; Special Assistant to the Regents Mallory Gianola (recorder); Director (Trust) of the Office of Planning, Management, and Budget Rick Haas; Head of Digital Transformation Becky Kobberod; Chief Financial Officer Janice Lambert; President of Smithsonian Enterprises Carol LeBlanc; Assistant Secretary for Communications and External Affairs Julissa Marengo; Director (Federal) of the Office of Planning, Management, and Budget Andrew Mosley; Deputy Secretary and Chief Operating Officer Meroë Park; Assistant Secretary for Advancement Robert Spiller; Director of Operations for Representative Doris Matsui, Nora Taktajian; 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 also introduced Andrew Mosley, the Smithsonian’s new Budget Director of Federal Resources. Mr. Mosley began his role with the Office of Planning, Management, and Budget at the end of May 2022.

APPROVAL OF THE MAY 3, 2022, COMMITTEE MEETING MINUTES

Upon motion duly made and seconded, the minutes of the May 3, 2022, Committee meeting were approved without modification.

PROPOSED AMENDMENTS TO THE FINANCE COMMITTEE CHARTER

Mr. Ferguson then presented proposed amendments to the Finance Committee Charter. As part of its restructuring, the Strategy, Innovation, and Technology (“SIT”) Committee is modifying its responsibilities to focus on duties related to innovation and technology strategies and strategic collaborations and partnerships. The refocus includes reassigning some of the committee’s current duties to other Regent committees. It was proposed that one of the duties outlined in the Strategy, Innovation, and Technology Committee’s Charter be reassigned to the Finance Committee. The Committee reviewed the proposed amendments, to include assisting the Board of Regents in fulfilling its oversight responsibility of Smithsonian Enterprises. Mr. Ferguson noted that the Finance Committee Charter already includes oversight responsibilities related to non-endowed

strategic investments recommended by Smithsonian Enterprises and adding overall oversight of Smithsonian Enterprises to the Committee would streamline the responsibility.

Upon motion duly made and seconded, the following motion was approved:

VOTED that the Finance Committee recommends approval by the Governance and Nominating Committee of the proposed amendments to the Finance Committee Charter.

FISCAL YEAR 2022 FINANCIAL RESULTS

Chief Financial Officer Janice Lambert then briefed the Committee on the Smithsonian's fiscal year 2022 performance, based on financial data gathered through June 30, 2022. Ms. Lambert reported that revenues for the period totaled \$1,199.0 million. The Smithsonian's primary revenue sources of philanthropic giving and business enterprise activities performed ahead of budget, while increased special event and space rental income saw the biggest impact for the period. Expenses for the period totaled \$1,344.2 million, which reflects the spending of funds carried forward from fiscal year 2021. There have been no material unanticipated expenses during the course of fiscal year 2022. Expenses utilization in the first two quarters for the Office of Advancement, the Office of the Under Secretary for Science and Research, and the Office of the Under Secretary for Education were slightly higher than fiscal year 2021 due to historically higher contract obligation activity. Ms. Lambert noted this was primarily due to investments in the Smithsonian Campaign and strategic initiatives. The Committee also reviewed the Central Trust revenue and deficit for the period, which totaled \$55.8 million and (\$7.9) million, respectively. The Central Trust deficit for fiscal year 2022 is forecasted at a \$3.7 million improvement from budget.

SMITHSONIAN ENTERPRISES UPDATE

President of Smithsonian Enterprises Carol LeBlanc updated the Committee on Smithsonian Enterprises ("SE") operations. Ms. LeBlanc reviewed the total revenue and net gain outlook compared to the budget for fiscal year 2022. Revenue and net gain outlook were favorable versus budget by \$7.5 million and \$5.4 million, respectively, driven by strong retail sales. However, the deficit in media and travel offset gains due to lower traffic and high cancellations due to the COVID-19 pandemic. Ms. LeBlanc also presented the preliminary fiscal year 2023 budget totaling \$144.7 million revenue and \$29.1 million net gain, which reflects strong growth over the fiscal year 2022 outlook driven by full-year operations for retail, travel returning to more normal operations, and expected improved performance in E-Commerce. Ms. Leblanc also shared that the partial reopening of the National Air and Space Museum is expected to increase retail store revenue.

FISCAL YEAR 2023 FEDERAL AND TRUST CONSOLIDATED BUDGET

The Committee then reviewed the fiscal year 2023 federal budget request to Congress. The Smithsonian requested a total of \$1,174.5 million for its fiscal year 2023 federal budget, which included \$909.5 million for Salaries and Expenses, and \$265.0 million for Facilities Capital. The House Interior Appropriations Committee approved the Smithsonian's spending bill with the

requested appropriation of \$1,174.5 million, with no changes to the Smithsonian’s budget as submitted. Ms. Lambert reported that the Senate has not completed action on the fiscal year 2023 appropriations bill for the Department of Interior, Environment, and Related Agencies. As a result, the Institution is preparing to begin fiscal year 2023 operating under a Continuing Resolution (“CR”). Ms. Lambert also noted that approval of the motion would be required prior to the October Board meeting, therefore following the Finance Committee’s approval, the Executive Committee would be asked to approve the budget on behalf of the full Board.

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

VOTED that the Finance Committee recommends that the Executive Committee, on behalf of the Board of Regents pursuant to Board Bylaw 3.01, (1), approves the budget of appropriated funds for fiscal year 2023 when signed into law by the President, and the Institutional budget totaling \$679.9 million for Trust funds for fiscal year 2023 as reflected in this report, and (2) 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 2024 FEDERAL BUDGET REQUEST TO OMB

Director (Federal) of the Office of Planning, Management, and Budget Andrew Mosley reviewed the fiscal year 2024 federal budget request to the Office of Management and Budget (“OMB”). The Institution expects to submit a total budget request for fiscal year 2024 of \$1,293.5 million, which includes \$990.5 million for Salaries and Expenses and \$303.0 million for Facilities Capital. This represents a \$231.3 million increase compared to the fiscal year 2022 enacted amount. The fiscal year 2024 budget request is based on the funding priorities approved by the Finance Committee and the Board of Regents in May 2022 and June 2022, respectively. 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. Mr. Mosley informed the Committee that OMB also requested the Smithsonian prepare additional budget scenarios that include a 2.3 percent increase and a 2.8 percent reduction from the fiscal year 2023 Congressional request level, noting that Smithsonian leadership would have the opportunity to readdress strategic priorities prior to Congressional submission. Mr. Mosley also explained that the budget request is due to OMB by September 12, 2022, prior to the October Board meeting, and therefore after the approval of the Finance Committee, the Executive Committee would be asked to approve the request on behalf of the full Board.

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

VOTED that the Finance Committee recommends that the Executive Committee, on behalf of the Board of Regents pursuant to Board Bylaw 3.01, approves the Smithsonian

Institution's \$1,293.5 million appropriation budget request to the Office of Management and Budget for fiscal year 2024. 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.

WITHDRAWAL FROM THE CENTRAL TRUST UNRESTRICTED QUASI-ENDOWMENT

Next, the Committee reviewed a proposal to make withdrawals totaling up to \$30 million from the Central Trust unrestricted quasi-endowment. Mr. Ferguson reminded the Committee that payout recommendations must consider the current needs of the Institution and balance them against the need to protect the value of the endowment over the long-term. Details of the recommended withdrawal from the unrestricted endowment are as follows: total withdrawals are not to exceed \$30 million over a five-year period; withdrawals will take place only as needed, generally on a semi-annual basis; and funds will support 11 secretarial priorities focused primarily in three categories: digital transformation, resourcing investment opportunities, and accelerating the Secretary's strategic 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 a withdrawal not to exceed \$30.0 million from the Smithsonian's unrestricted Central Trust quasi-endowment over five years, beginning October 2022, to fund 11 Secretarial priorities in the areas of digital transformation, resourcing opportunities, and accelerating strategic priorities. The individual payouts to be made over the five years will be approved by the Under Secretary for Administration.

ENDOWMENT PAYMENT METHODOLOGY

Chief Investment Officer Amy Chen then presented alternative endowment payout methodologies for the Committee's consideration. The Smithsonian's current 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 of up to 1 percent to support advancement activity. The Office of Investments recommended updating the endowment payout calculation to potentially increase stability in the event of a sudden decrease or increase in value and to provide greater visibility and lower variability for the Smithsonian budget items dependent upon endowment spending. Ms. Chen proposed two alternative approaches, the Collar Rule and the Hybrid Rule. The Collar Rule, which is a payout of a specific percentage of the endowment's average market value over a trailing timeframe but limits the increase in payout to 107 percent of the prior payout (cap) or decrease to 90 percent of the prior payout (floor). Alternatively, the Hybrid Rule combines a percentage of the previous years' payout plus expected inflation and a percentage of market value. After discussion, the Committee and management agreed not to change the endowment payout methodology at this time.

MID-TERM INVESTMENT STRATEGY UPDATE

To conclude, Under Secretary for Administration Ron Cortez updated the Committee on the strategy to move a portion of Smithsonian's funds invested in short-term securities to an intermediate investment pool. After reserving enough cash to cover 180 days of expenditures, the remaining funds will be invested in mid-term 3-to-5-year investments such as certificates of deposit and treasury bills. The possibility of utilizing the earnings to cover a portion of the Central Trust cumulative deficit is being explored. The Office of the Under Secretary for Administration will continue to research the intermediate investment strategy and report to the Committee on working capital and cash management performance.

EXECUTIVE SESSION

The Committee then entered into an executive session at approximately 11:57 a.m. to discuss business and financial matters.

ADJOURNMENT

There being no further business to consider, the meeting was adjourned at 11:58 a.m.

Respectfully submitted,

Roger W. Ferguson, Jr., Chair