

MINUTES OF THE AUGUST 26, 2020, FINANCE COMMITTEE MEETING

The Finance Committee (“Committee”) of the Board of Regents (“Board”) of the Smithsonian Institution (“Smithsonian”) held a videoconference meeting on August 26, 2020. Participating were Committee Chair Roger W. Ferguson, Jr. and Committee members Representative Doris Matsui, John Fahey, and Kathryn Hall. Members of the Executive Committee also participated in the meeting, including Board and Executive Committee Chair Steve Case, and Executive Committee member David M. Rubenstein.

Also present by invitation of the Committee were Counselor to the Chief Justice Jeffrey P. Minear; Chief of Staff to the Secretary Greg Bettwy; Associate General Counsel Craig Blackwell; Interim Director of the Office of Finance and Accounting Vincent DeVito; Deputy Chief of Staff to the Regents Kate Forester; Special Assistant to the Regents Mallory Gianola (recorder); 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; Assistant Secretary for Communications and External Affairs and Chief Marketing Officer Julissa Marengo; Under Secretary for Administration Mike McCarthy; Manager of General Accounting and Reporting Martha Newton; Deputy Secretary and Chief Operating Officer Meroë Park; 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 11:00 a.m. and reviewed the agenda.

APPROVAL OF THE MAY 11, 2020, COMMITTEE MEETING MINUTES

Upon motion duly made and seconded, the minutes of the May 11, 2020, Committee meeting were approved without modification.

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 performance with respect to the Charter. No modifications to the Charter were proposed.

CONSOLIDATED ADMINISTRATIVE HEADQUARTERS

Under Secretary for Administration Mike McCarthy updated the Committee on the purchase of the Capital Gallery Building for the Smithsonian’s Consolidated Administrative Headquarters. The Smithsonian closed on the purchase of the building on June 25, 2020, with a purchase price of \$253.75 million. The Committee discussed details of the transaction, including operational impact, tenant extension, and air rights. Administrative office moves into Capital Gallery are projected to begin in 2021.

FISCAL YEAR 2021 FEDERAL AND TRUST CONSOLIDATED BUDGET

Mr. McCarthy then updated the Committee on the fiscal year 2021 federal budget request to Congress. The Smithsonian requested a total of \$1,110.3 million for its fiscal year 2021 federal budget, which included \$820.3 million for Salaries and Expenses, and \$290 million for Facilities Capital. The House Interior Appropriations Committee passed the Smithsonian's spending bill with an appropriation of \$1,060 million and retained the \$35 million appropriated by Congress in fiscal year 2020 for facilities maintenance, as well as increases of \$2 million for the American Women's History Initiative and Latino Initiative. Fiscal year 2021 key revenue sources are down due to overall decreases in fundraising, business activities, and grants and contracts as a result of the impacts of the COVID-19 (Coronavirus) pandemic. Mr. McCarthy reported that the Senate delayed its fiscal year 2021 budget mark-up and the Institution will likely begin fiscal year 2021 operating under a Continuing Resolution.

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 2021 when signed into law by the President, the institutional budget for Trust funds for fiscal year 2021 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 2022 FEDERAL BUDGET REQUEST TO OMB

Next, Ken Johnson reviewed the timeline for the fiscal year 2022 federal budget request to the Office of Management and Budget ("OMB"). The request is due to OMB on September 14, 2020. The Institution expects to submit a total budget request for fiscal year 2022 of \$1,183.1 million, which includes \$893.1 million for Salaries and Expenses and \$290 million for Facilities Capital. This represents a \$135.8 million increase compared to the fiscal year 2020 enacted amount. The fiscal year 2022 budget request is based on funding for the Institution's COVID-19 response and operations under the Smithsonian's "new normal"; including maintaining and revitalizing the Smithsonian's aging physical plant; ensuring the safety and security of Smithsonian staff, visitors, and collections; and stewarding the Smithsonian's physical and digital collections to preserve and make accessible to visitors, researchers, educators, and the general public.

Mr. Johnson noted that Smithsonian leadership would have the opportunity to readdress strategic priorities prior to Congressional submission. 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 2022 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 TRUST FUNDING OVERVIEW

The Committee received a financial overview of the Central Trust, Smithsonian Enterprises, and the National Zoological Park, including an update on the Cares Act funding. Mr. McCarthy reviewed the funding sources for fiscal year 2020. He noted that the Smithsonian is better positioned than some of its peer organizations due to annual federal appropriations and lack of reliance on public admissions, however, it is still managing major financial implications from the Coronavirus pandemic. Senior leadership is currently projecting a loss of approximately \$60 million dollars from the beginning of the pandemic in March 2020 through the end of September 2021. The Committee discussed the Smithsonian's unrestricted funds and cash reserves, as well as further mitigation efforts under review to offset the budgetary impact.

President of Smithsonian Enterprises Carol LeBlanc updated the Committee on its business initiatives. Ms. LeBlanc explained that Smithsonian Enterprises ("SE") achieved record revenues and net gain in fiscal year 2017, largely driven by the opening of the National Museum of African American History and Culture, but COVID-19 has significantly impacted SE's fiscal year 2020 net gain and put the organization at a deficit. The shortfall is attributed to the lack of revenue from retail shops, theaters, and restaurants, all impacted by closures resulting from COVID-19. The Committee reviewed the efforts underway to support areas generating revenue, position SE for the return of core businesses, and re-envision business models without a strong future.

To conclude, Mr. McCarthy provided the Committee with an update on finances at the National Zoological Park and Smithsonian Conservation Biology Institute ("NZIP/SCBI"). NZP/SCBI manages its business operations with the Friends of the National Zoo, the nonprofit partner of the Smithsonian's National Zoo and Conservation Biology Institute. The National Zoo reopened to the public on Friday, July 24, however, the public closure occurred during the profitable peak period and directly impacted NZP's budget by an estimated \$6 million of revenue lost in fiscal year 2020 and \$3 million in fiscal year 2021. NZP/SCBI submitted a request to withdraw approximately \$6.8 million in funds from the NZP/SCBI unrestricted endowment to mitigate the financial impact of COVID-19 (Coronavirus). 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 withdrawal, if necessary, of up to \$6.8 million from the National Zoological Park's unrestricted Endowment to fund trust operations during the public closure related to COVID-19.

FISCAL YEAR 2020 FINANCIAL RESULTS

Under Secretary for Administration Mike McCarthy updated the Committee on the Smithsonian's fiscal year 2020 performance, based on financial data gathered through June 30, 2020. Mr. McCarthy reported that revenues for the period totaled 1,088.3 million. The Smithsonian's

primary revenue sources of Federal appropriations, philanthropic giving, sponsored projects, and investment income performed on or ahead of budget, while Smithsonian Enterprises saw the biggest impact on both total revenue and net revenue for the period. Expenses for the period totaled \$ 1,231.2 million, which reflects the spending of funds carried forward from fiscal year 2019. Expenses remained on or below budget, with the exception of the NASM revitalization, which continues to be impacted by the COVID-19 shutdown. Mr. McCarthy also reviewed the central trust fund balance and projected annual results for fiscal year 2020. The reduced revenues related to the COVID-19 lockdown will push the overall fund balance into a deficit. The conservative fiscal year 2020 budget reflected an estimated \$15.1 million loss.

ADJOURNMENT

There being no further business to consider, and with no request for an executive session, the meeting was adjourned at 12:11 p.m.

Respectfully submitted,

Roger W. Ferguson, Jr., Chair